

ORIGINAL

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

TO: THE COMMISSION

DOCKETED 7/2/12 JUL -2 10 3: 45

FROM: Utilities Division

JUL 02 2012

DATE: July 2, 2012

DOCKETED BY [Signature]

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

RE: ARIZONA PUBLIC SERVICE COMPANY – APPLICATION FOR APPROVAL OF TRANSMISSION COST ADJUSTMENT CHARGES (DOCKET NO. E-01345A-12-0175)

On May 15, 2012, Arizona Public Service Company (“APS” or “Company”) filed for Arizona Corporation Commission (“ACC” or “Commission”) approval of changes to the Transmission Cost Adjustment (“TCA”) charges reflected in Adjustment Schedule TCA-1 (“TCA-1”), which is updated annually to reflect changes to the transmission rates authorized by the Federal Energy Regulatory Commission (“FERC”). APS’ current TCA-1 was approved by the Commission in Decision No. 72430 (June 27, 2011).

While to date APS has made annual filings for Commission approval of TCA-1 changes, Decision No. 72430 contemplated the possibility in the future of no longer requiring an ACC order approving the TCA rate change, unless Staff were to request Commission review. Decision No. 72430 also required APS, in its rate proceeding in Docket No. E-01345A-11-0224, to propose a modification to its TCA to reflect this new way of processing the annual TCA filings at the Commission. That rate proceeding involved a settlement agreement and concluded in Decision No. 73183 (May 24, 2012). Section 13 of the approved settlement agreement addressed the revision to TCA-1 to no longer require a Commission order on the new TCA rates unless Staff requested a review. However, given that APS’ filing in this case came prior to the Commission’s decision in the rate proceeding approving the new TCA process, Staff is bringing this matter before the Commission for approval. Staff’s understanding is that in future years the new process would be followed to only bring this matter before the Commission for action if Staff makes such a request.

APS’ application broaches the issue, indicating that it is requesting Commission approval of the TCA charges or in the alternative, consistent with Section 13 of the rate case settlement agreement, APS was providing notice of the TCA charges. On June 6, 2012, Staff made a filing in the docket, indicating that Staff believes that this year’s TCA filing should go before the Commission for consideration. Staff’s June 6th filing further formally requested Commission review of the application.

Given that this filing may not come before the Commission for action in future years, Staff believes that the information filed by APS documenting TCA filings in future years should

provide a summary of the primary numerical inputs to the TCA calculations as an attachment to APS' annual TCA filing with the Commission to update Adjustment Schedule TCA-1. These numerical inputs would include the information contained in the tables in this order as well as the revenue requirement and billing determinant information for the four customer groupings shown on TCA-1. This information should be provided in each year's filing for the currently effective TCA rate and the proposed new TCA rate. Thus, Staff recommends that in APS' annual filing to update Adjustment Schedule TCA-1 in future years, APS should include a summary sheet containing the numerical inputs to the new TCA-1 rates as discussed herein.

APS recovers its transmission costs, reflected by the FERC-approved Open Access Transmission Tariff ("OATT") rate, through the sum of two distinct rate components. One of the two rate components is a transmission charge embedded in base rates established in APS' last rate case. In APS' recently concluded rate case, the transmission charge embedded in base rates was not changed.

The second of the two rate components is the TCA charge which accounts for changes in the OATT rate between APS rate cases. The transmission costs contained in the OATT rates are an expense directly related to the provision of electricity to APS customers.

The OATT rates are approved by FERC and designed to recover transmission costs from users of APS transmission facilities. APS charges these rates to users of its transmission facilities such as other utilities and to APS itself. The OATT rates are recalculated and reset annually through use of a FERC-approved formula. The formula makes use of an equation that is annually populated with data contained in APS' annual FERC Form 1 filing.

The new Transmission Cost Adjustor ("TCA") rates proposed by APS would result in an overall rate increase of approximately \$18 million annually. The table below shows the transmission cost embedded in base rates, the current and proposed TCA rates, and the difference in the two TCA rates.

Customer Group	Embedded Base Rate Transmission Cost	Current TCA Rate	Proposed TCA Rate	Difference	Percentage Difference
Residential	\$0.00520/kWh	\$0.004211/kWh	\$0.005403/kWh	\$0.001192/kWh	+28.31%
General Service, 20 kW or less	\$0.00424/kWh	\$0.002464/kWh	\$0.002550/kWh	\$0.000086/kWh	+3.49%
General Service, over 20 kW and under 3,000 kW	\$1.585/kW	\$0.837/kW	\$0.812/kW	-\$0.025/kW	-2.99%
General Service 3,000 kW and over	\$1.776/kW	\$0.615/kW	\$0.748/kW	\$0.133/kW	+21.63%

In Attachment E to APS' application, the Company estimates that for a typical residential customer consuming 1,100 kWh per month, the TCA charge on the customer's bill would increase from \$4.63 under the current TCA rate to \$5.94 under the proposed TCA rate, an increase of \$1.31 per month.

APS explains in the application that changes in revenue allocation among the customer classes are a result of the FERC cost allocation method and changes to the load information used in the rate formula. The FERC cost allocation method assigns transmission costs based on customer class load during the four summer peak months, June through September.

The formula method used to calculate the OATT rate apportions the transmission revenue requirement among the rate classes based on each class's share of the transmission revenue requirement measured in megawatts. Each class's percentage share of the transmission revenue requirement is determined by dividing the class's coincident peak megawatt count by total coincident peak megawatts ("MW") so that apportionment of the revenue requirement is equitable and calculated based solely on demand. The distribution of revenue requirement is determined simply by the class's percentage contribution to demand without regard to which class it is. Megawatts used in this calculation are a monthly average of peak demand from the months of June through September.

The percentage demand of each of the classes for the 2011 OATT and 2012 OATT are shown in the table below.

	2011		2012	
	MW	% of coincident demand	MW	% of coincident demand
Residential	3,221.8	57.34%	3646.2	60.56%
General Services < 3 MW	2,026.3	36.07%	1996.3	33.16%
General Services > 3 MW	370.1	6.59%	378.5	6.29%
Total	5,618.3		6021.0	

Note that in this calculation the General Service 20 kW or less and General Service over 20 kW and under 3,000 kW are combined and shown in the table as the < 3 MW class. The formula calculation subsequently apportions the transmission revenue requirement between these two rate classes. This is because demand (kW) is not measured for the General Service 20 kW or less class while demand is measured for the General Service over 20 kW and under 3,000 kW.

The percentages for the 2011 OATT in Table II are multiplied by the calculated transmission revenue requirement to determine the revenue requirement of each class. OATT rates for each class are then determined by simply dividing the class's revenue requirement by either total annual kW or kWh, depending on the class. In the case of the Residential class and

the General Service 20 kW or less class, kWh is used. The other General Service classes make use of kW to calculate the OATT rate.

The residential class contributed significantly more of the peak load, while consuming slightly fewer billing determinants (kWh) than in 2011, thus leading to an increase in the allocation of costs to residential customers and the estimated bill increase of \$1.31 per month for a typical residential customer consuming 1,100 kWh. The general service class of 3,000 kW and over also sees a significant increase in its TCA rate, resulting from a slightly lower share of the coincident peak, but a substantive decrease of its billing determinants from 2011.

APS has communicated to Staff that it has provided notice of this application to ratepayers by means of a bill insert.

Staff recommends approval of Revision No. 7 of Adjustment Schedule TCA-1.

Staff further recommends that APS provide notice to customers of the new TCA rate in a bill insert in a form acceptable to Staff at the time the new TCA rate first appears in the bill.

Staff further recommends that in APS' annual filing to update Adjustment Schedule TCA-1 in future years, APS should include a summary sheet containing the numerical inputs to the new TCA-1 rates as discussed herein.

Staff further recommends that APS file in Docket Control Adjustment Schedule TCA-1 consistent with the Decision in this case within 15 days of the effective date of the Decision



Steven M. Olea
Director
Utilities Division

SMO:RGG:sms/CHH

ORIGINATOR: Robert Gray

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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
TRANSMISSION COST ADJUSTMENT
CHARGES.

DOCKET NO. E-01345A-12-0175
DECISION NO. _____

ORDER

Open Meeting
July 18 and 19, 2012
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company (“APS” or “Company”) is certificated to provide electric service as a public service corporation in the state of Arizona.
2. On May 15, 2012, APS filed for Arizona Corporation Commission (“ACC” or “Commission”) approval of changes to the Transmission Cost Adjustment (“TCA”) charges reflected in Adjustment Schedule TCA-1 (“TCA-1”), which is updated annually to reflect changes to the transmission rates authorized by the Federal Energy Regulatory Commission (“FERC”). APS’ current TCA-1 was approved by the Commission in Decision No. 72430 (June 27, 2011).
3. While to date APS has made annual filings for Commission approval of TCA-1 changes, Decision No. 72430 contemplated the possibility in the future of no longer requiring an ACC order approving the TCA rate change, unless Staff were to request Commission review. Decision No. 72430 also required APS, in its rate proceeding in Docket No. E-01345A-11-0224, to

1 propose a modification to its TCA to reflect this new way of processing the annual TCA filings at
2 the Commission. That rate proceeding involved a settlement agreement and concluded in Decision
3 No. 73183 (May 24, 2012). Section 13 of the approved settlement agreement addressed the
4 revision to TCA-1 to no longer require a Commission order on the new TCA rates unless Staff
5 requested a review. However, given that APS' filing in this case came prior to the Commission's
6 decision in the rate proceeding approving the new TCA process, Staff is bringing this matter
7 before the Commission for approval. Staff's understanding is that in future years the new process
8 would be followed to only bring this matter before the Commission for action if Staff makes such
9 a request.

10 4. APS' application broaches the issue, indicating that it is requesting Commission
11 approval of the TCA charges or in the alternative, consistent with Section 13 of the rate case
12 settlement agreement, APS was providing notice of the TCA charges. On June 6, 2012, Staff
13 made a filing in the docket, indicating that Staff believes that this year's TCA filing should go
14 before the Commission for consideration. Staff's June 6th filing further formally requested
15 Commission review of the application.

16 5. Given that this filing may not come before the Commission for action in future
17 years, Staff believes that the information filed by APS documenting TCA filings in future years
18 should provide a summary of the primary numerical inputs to the TCA calculations as an
19 attachment to APS' annual TCA filing with the Commission to update Adjustment Schedule TCA-
20 1. These numerical inputs would include the information contained in the tables in this order as
21 well as the revenue requirement and billing determinant information for the four customer
22 groupings shown on TCA-1. This information should be provided in each year's filing for the
23 currently effective TCA rate and the proposed new TCA rate. Thus, Staff recommends that in
24 APS' annual filing to update Adjustment Schedule TCA-1 in future years, APS should include a
25 summary sheet containing the numerical inputs to the new TCA-1 rates as discussed herein.

26 6. APS recovers its transmission costs, reflected by the FERC-approved Open
27 Access Transmission Tariff ("OATT") rate, through the sum of two distinct rate components. One
28 of the two rate components is a transmission charge embedded in base rates established in APS'

1 last rate case. In APS' recently concluded rate case, the transmission charge embedded in base
2 rates was not changed.

3 7. The second of the two rate components is the TCA charge which accounts for
4 changes in the OATT rate between APS rate cases. The transmission costs contained in the OATT
5 rates are an expense directly related to the provision of electricity to APS customers.

6 8. The OATT rates are approved by FERC and designed to recover transmission
7 costs from users of APS transmission facilities. APS charges these rates to users of its transmission
8 facilities such as other utilities and to APS itself. The OATT rates are recalculated and reset
9 annually through use of a FERC-approved formula. The formula makes use of an equation that is
10 annually populated with data contained in APS' annual FERC Form 1 filing.

11 9. The new Transmission Cost Adjustor ("TCA") rates proposed by APS would
12 result in an overall rate increase of approximately \$18 million annually. The table below shows
13 the transmission cost embedded in base rates, the current and proposed TCA rates, and the
14 difference in the two TCA rates.

Customer Group	Embedded Base Rate Transmission Cost	Current TCA Rate	Proposed TCA Rate	Difference	Percentage Difference
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General Service 3,000 kW and over	\$1.776/kW	\$0.615/kW	\$0.748/kW	\$0.133/kW	+21.63%

25
26 10. In Attachment E to APS' application, the Company estimates that for a typical
27 residential customer consuming 1,100 kWh per month, the TCA charge on the customer's bill
28

1 would increase from \$4.63 under the current TCA rate to \$5.94 under the proposed TCA rate, an
2 increase of \$1.31 per month.

3 11. APS explains in the application that changes in revenue allocation among the
4 customer classes are a result of the FERC cost allocation method and changes to the load
5 information used in the rate formula. The FERC cost allocation method assigns transmission costs
6 based on customer class load during the four summer peak months, June through September.

7 12. The formula method used to calculate the OATT rate apportions the
8 transmission revenue requirement among the rate classes based on each class's share of the
9 transmission revenue requirement measured in megawatts. Each class's percentage share of the
10 transmission revenue requirement is determined by dividing the class's coincident peak megawatt
11 count by total coincident peak megawatts ("MW") so that apportionment of the revenue
12 requirement is equitable and calculated based solely on demand. The distribution of revenue
13 requirement is determined simply by the class's percentage contribution to demand without regard
14 to which class it is. Megawatts used in this calculation are a monthly average of peak demand
15 from the months of June through September.

16 13. The percentage demand of each of the classes for the 2011 OATT and 2012
17 OATT are shown in the table below.

	2011		2012	
	MW	% of coincident demand	MW	% of coincident demand
Residential	3,221.8	57.34%	3646.2	60.56%
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Total	5,618.3		6021.0	

26 14. Note that in this calculation the General Service 20 kW or less and General
27 Service over 20 kW and under 3,000 kW are combined and shown in the table as the < 3 MW
28

1 class. The formula calculation subsequently apportions the transmission revenue requirement
2 between these two rate classes. This is because demand (kW) is not measured for the General
3 Service 20 kW or less class while demand is measured for the General Service over 20 kW and
4 under 3,000 kW.

5 15. The percentages for the 2011 OATT in Table II are multiplied by the calculated
6 transmission revenue requirement to determine the revenue requirement of each class. OATT rates
7 for each class are then determined by simply dividing the class's revenue requirement by either
8 total annual kW or kWh, depending on the class. In the case of the Residential class and the
9 General Service 20 kW or less class, kWh is used. The other General Service classes make use of
10 kW to calculate the OATT rate.

11 16. The residential class contributed significantly more of the peak load, while
12 consuming slightly fewer billing determinants (kWh) than in 2011, thus leading to an increase in
13 the allocation of costs to residential customers and the estimated bill increase of \$1.31 per month
14 for a typical residential customer consuming 1,100 kWh. The general service class of 3,000 kW
15 and over also sees a significant increase in its TCA rate, resulting from a slightly lower share of
16 the coincident peak, but a substantive decrease of its billing determinants from 2011.

17 17. APS has communicated to Staff that it has provided notice of this application to
18 ratepayers by means of a bill insert.

19 18. Staff has recommended approval of Revision No. 7 of Adjustment Schedule
20 TCA-1.

21 19. Staff has further recommended that APS provide notice to customers of the new
22 TCA rate in a bill insert in a form acceptable to Staff at the time the new TCA rate first appears in
23 the bill.

24 20. Staff has further recommended that in APS' annual filing to update Adjustment
25 Schedule TCA-1 in future years, APS should include a summary sheet containing the numerical
26 inputs to the new TCA-1 rates as discussed herein.

27 ...

28 ...

1 IT IS FURTHER ORDERED that Arizona Public Service shall provide notice to customers
2 of the new TCA rate in a bill insert in a form acceptable to Staff at the time the new TCA rate first
3 appears in the bill.

4 IT IS FURTHER ORDERED that in Arizona Public Service's annual filing to update
5 Adjustment Schedule TCA-1 in future years, Arizona Public Service should include a summary
6 sheet containing the numerical inputs to the new TCA-1 rates as listed in Finding of Fact No. 5.

7 IT IS FURTHER ORDERED that Arizona Public Service shall file with Docket Control, as
8 a compliance item in this matter, Schedule TCA-1 consistent with the terms of this Decision within
9 15 days of the effective date of this Decision.

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

11
12 _____
CHAIRMAN

COMMISSIONER

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15 _____
COMMISSIONER

COMMISSIONER

COMMISSIONER

16
17 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
18 Executive Director of the Arizona Corporation Commission,
19 have hereunto, set my hand and caused the official seal of
20 this Commission to be affixed at the Capitol, in the City of
Phoenix, this _____ day of _____, 2012.

21
22 _____
ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

23
24 DISSENT: _____

25
26 DISSENT: _____

27 SMO:RGG:sms/CHH

28

1 SERVICE LIST FOR: ARIZONA PUBLIC SERVICE COMPANY
2 DOCKET NO. E-01345A-12-0175

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9 Director, Utilities Division
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