ORIGINAL

OPEN MEETING

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MEMORANDUM

Arizona Corporation Commission
DOCKETED
FEB 07 2013
DOCKETED BY

RECEIVED
2013 FEB -1 P 12:24
AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: February 7, 2013

RE: ARIZONA PUBLIC SERVICE COMPANY - APPLICATION FOR APPROVAL OF ANNUAL LOST FIXED COST RECOVERY MECHANISM ADJUSTMENT (DOCKET NO. E-01345A-11-0224)

Introduction

On January 15, 2013, Arizona Public Service Company ("APS" or "Company) filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery Mechanism ("LFCR") adjustment effective March 1, 2013. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per kWh, associated with the amount of energy efficiency ("EE") savings and distributed generation ("DG") that is authorized by the Commission and determined to have occurred. APS is requesting that the LFCR charge be set to 0.2892 percent of the customer's bill, this would result in an increase of 38 cents per month for a residential customer using the annual average of 1,100 kWh per month. The impact on retail revenues from the new LFCR charge is an overall estimated revenue recovery of approximately $7.3 million for the 12-month collection period beginning in March 2013.

Description of the LFCR

In Decision No. 73183, the Commission approved the LFCR which provides for the recovery of lost fixed costs associated with EE savings and DG. Costs to be recovered through the LFCR include the portion of transmission costs included in base rates and a portion of the distribution costs not recovered by (1) the Basic Service Charge and (2) 50 percent of demand revenues associated with distribution and the base rate portion of transmission.

The LFCR also includes an annual 1 percent year over year cap based on Applicable Company Revenues. If the annual LFCR Adjustment results in a surcharge and the annual incremental increase exceeds 1 percent of Applicable Company Revenues, any amount in excess of the 1 percent cap will be deferred for collection until the first future adjustment period in which including such costs would not cause the annual increase to exceed the 1 percent cap. The one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H- 15 or its successor publication will be applied annually to any deferred balance. The interest rate will be adjusted annually and will be the annual rate applicable to the first business day of the calendar year.

The Plan of Administration ("POA") describes how the LFCR works. By January 15 of each year, APS will file its calculation of the annual LFCR adjustment, based on the EE savings and DG from the preceding calendar year. APS will use actual data through September and forecast data for October through December. Each year, a true-up mechanism reconciles the three months of forecasted data of EE and DG sales reductions to verified EE and DG sales reductions in those months. There is also a balancing account that tracks the difference between allowed Lost Fixed Cost Revenue and actual amounts billed by the Company through the LFCR adjustment. The balancing account is reflected in Schedule 2 of the LFCR Compliance Report.

General Service customers taking service under rate schedules E-32 L, E-32 L TOU, E-34, E-35 and E-36 XL, and metered General Service customers under E-30 and lighting schedules are excluded from the LFCR. These customers are not subject to the LFCR mechanism because other rate designs are in place to address lost fixed costs. Decision No. 73183 approved changes to the rate designs including increased distribution demand and Basic Service Charge ("BSC") charges and a corresponding decreased adjustment to energy charges. Residential customers can opt out of the LFCR adjustment by choosing an optional BSC, which is graduated by kWh monthly usage and is designed to replicate the effects of the LFCR. The number of Opt-Out customers will be expressed as the annual average number of customers "Opting-Out" over the Current Period. The LFCR mechanism will not be applied to residential customers who choose the Opt-Out provision. The optional opt-out rate will be made available to customers at the time of the first LFCR adjustment. The LFCR is subject to Commission review at any time but no later than APS's next rate case and if the Commission were to suspend, terminate, or materially modify the LFCR mechanism prior to then without addressing fixed cost erosion, the moratorium for filing a rate case terminates.

Staff Analysis

Staff has reviewed APS's projections used in the calculation of the LFCR adjustment. Staff finds that the LFCR Annual Adjustment Percentage is calculated in accordance with the POA for the Lost Fixed Cost Recovery Mechanism as approved by the Commission. This calculation is shown in Schedules 1 through 6 of the application. According to the calculations, in accordance with the POA, the LFCR charge would be 0.2892 percent, which would result in recovery of approximately $7.3 million for the 12-month collection period beginning in March 2013.

Staff notes that in Decision No. 73183 on page 26, lines 19-20, it states "When the first LFCR adjustment is approved by the Commission, a 0.2 percent adjustment to bills would occur on March 1, 2013." APS cites a footnote on line 25, which says "Staff Opening Brief at 31-32. These are estimates and not rates adopted in this Decision", APS believes that this also applies to lines 19-20. Staff reviewed pages 31-32 in the Opening Brief and found identical language to what was in Decision No. 73183 on page 26, lines 19-20. There was also a footnote which references "APS Late filed Ex. 17 at 2."

APS Exhibit 17 contains two pages: (1) a chart identifying each of the rate events that may impact customer bills during the Settlement's proposed rate moratorium (2012-2016), both those that are specifically related to the Settlement and those that would occur irrespective of the Settlement; and (2) a timeline showing the estimated bill impacts related to the Settlement

Agreement through 2013. These two pages are affixed hereto as Attachment 1. Staff reviewed both pages of Exhibit 17. On page two, Staff notes that the words "average" and "estimated" are used when referring to potential bill impacts. However, regarding the LFCR it clearly states "First LFCR adjustment: 0.2 percent".

Staff believes that there was an expectation set forth by Decision No. 73183 and the supporting documents that the first LFCR adjustment be 0.2 percent. Due to this expectation, Staff recommends a rate of 0.2 percent. Staff also recommends that APS be allowed to collect the Total Lost Fixed Cost Revenue as detailed on Schedule 3 of Attachment 1 and shown in the table below, after a true-up for actual EE and DG sales reductions occurs in 2014.

	APS Proposed	Staff Proposed
LFCR Rate	0.2892%	0.2%
Estimated Revenue Recovery	$7.345 million	$5.079 million
Total Lost Fixed Cost Revenue[1]	$7.345 million	$7.345 million
Average rate for residential customers	$0.38	$0.27

[1] Based on compliance reports filed by APS on January 15, 2013. Subject to change when APS trues-up their losses from DG and EE

Staffs proposed rate of 0.2 percent provides for an estimated revenue recovery of $5.079 million, $2.265 million short from what is required by APS's current estimated sales reductions from EE and DG. APS will be allowed to collect this shortfall in subsequent years (i.e., true-up) as long as the increase is not more than the 1 percent cap. The average impact on a residential bill drops from $0.38 to $0.27, under Staff's recommendation.

Staff Recommendations

Staff recommends that a LFCR rate of 0.2 percent be approved and become effective March 1, 2013.

Steven M. Olea
Director
Utilities Division

SMO:PML:lhm\MAS

ORIGINATOR: Patrick Lowe

Timeline of APS Rate Adjustments
For the Average Residential Customer Using 1,100 kWh per Month
2012 - 2016

	January	February	March	April	May	June	July	August	September	October	November	December
2012	**RES**[1]	**PSA**[1]	**DSMAC**[2]				*New Rates Effective -1%* **TCA**[3,4]					
2013	**RES**[3]	PSA With Four Corners 3.5% **Without Four Corners 5.7%**	**DSMAC**[3] *LFCR 0.2%*	*EIS*[3,5]		**TCA**[3]	*Four Corners Rate Rider 3.2%*					
2014	**RES**[3]	**PSA**[3]	**DSMAC**[3] *LFCR 0.5%*	*EIS*[3,5]		**TCA**[3]				**No Changes to Rates During this Period**		
2015	**RES**[3]	**PSA**[3]	**DSMAC**[3] *LFCR 0.5%*	*EIS*[3,5]		**TCA**[3]						
2016	**RES**[3] *SBC Reduction -0.5%*	**PSA**[3]	**DSMAC**[3] *LFCR 0.6%*	*EIS*[3,5]		**TCA**[3]	*New Rates Effective (Property Tax Deferral Included)*[3]					

Legend
Settlement-Related Adjustments
Adjustments that occur irrespective of the Settlement

Footnotes:
1. Already in effect.
2. Pending before the ACC.
3. Bill impact unknown at this time.
4. The TCA bill impact will not be known until FERC Form 1 is filed, but the TCA is currently estimated to be between 0.5% and 1.5%.
5. The EIS is set to zero on 7/1/2012 and is capped at the 2/1/2012 level.

Timeline of Residential Bill Impacts as Proposed in the 2012 Rate Case Settlement

This timeline explains the potential average residential bill impacts (1,100 kWh per month) that could result from the Commission's resolution of the proposed 2012 Rate Case Settlement. As noted, some of those impacts vary depending on the pending Four Corners transaction. This timeline does not reflect the impact of other adjustment mechanisms or future changes in fuel costs that are unrelated to the proposed Settlement Agreement.

2/1/2012
Existing PSA credit:
-$0.004178/kWh

7/1/2012
New rates implemented, average 1% decrease when base rates reset but 2012 PSA credit continues

2/1/2013
With Four Corners:
Annual PSA reset estimated bill impact of 3.5% or $(0.000026)/kWh

Without Four Corners:
Annual PSA reset estimated bill impact of 6.4% or $0.003416/kWh

3/1/2013
First LFCR adjustment:
0.2%

7/1/2013
Potential Four Corners Rate Rider, estimated 3.2% bill impact, if approved

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ANNUAL LOST FIXED COST RECOVERY MECHANISM ADJUSTMENT (DOCKET NO. E-01345A-11-0224)	DOCKET NO. E-01345A-11-0224 DECISION NO. __________ ORDER

Open Meeting
To Be Determined
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service ("APS" or "Company") is certificated to provide electric service as public service corporations in the state of Arizona.

Introduction

2. On January 15, 2013, Arizona Public Service Company ("APS" or "Company) filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery Mechanism ("LFCR") adjustment effective March 1, 2013. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per kWh, associated with the amount of energy efficiency ("EE") savings and distributed generation ("DG") that is authorized by the Commission and determined to have occurred. APS is requesting that the LFCR charge be set to 0.2892 percent of the customer's bill, this would result in an increase of 38 cents per month for residential customer using the annual average of 1,100 kWh per month. The impact on retail revenues from the new LFCR charge is an overall estimated revenue recovery of approximately $7.3 million for the 12-month collection period beginning in March 2013.

Description of the LFCR

3. In Decision No. 73183, the Commission approved the LFCR which provides for the recovery of lost fixed costs associated with EE savings and DG. Costs to be recovered through the LFCR include the portion of transmission costs included in base rates and a portion of the distribution costs not recovered by (1) the Basic Service Charge and (2) 50 percent of demand revenues associated with distribution and the base rate portion of transmission.

4. The LFCR also includes an annual 1 percent year over year cap based on Applicable Company Revenues. If the annual LFCR Adjustment results in a surcharge and the annual incremental increase exceeds 1 percent of Applicable Company Revenues, any amount in excess of the 1 percent cap will be deferred for collection until the first future adjustment period in which including such costs would not cause the annual increase to exceed the 1 percent cap. The one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H- 15 or its successor publication will be applied annually to any deferred balance. The interest rate will be adjusted annually and will be the annual rate applicable to the first business day of the calendar year.

5. The Plan of Administration ("POA") describes how the LFCR works. By January 15 of each year, APS will file its calculation of the annual LFCR adjustment, based on the EE savings and DG from the preceding calendar year. APS will use actual data through September and forecast data for October through December. Each year, a true-up mechanism reconciles the three months of forecasted data of EE and DG sales reductions to verified EE and DG sales reductions in those months. There is also a balancing account that tracks the difference between allowed Lost Fixed Cost Revenue and actual amounts billed by the Company through the LFCR adjustment. The balancing account is reflected in Schedule 2 of the LFCR Compliance Report.

6. General Service customers taking service under rate schedules E-32 L, E-32 L TOU, E-34, E-35 and E-36 XL, and metered General Service customers under E-30 and lighting schedules are excluded from the LFCR. These customers are not subject to the LFCR mechanism because other rate designs are in place to address lost fixed costs. Decision No. 73183 approved changes to the rate designs including increased distribution demand and Basic Service Charge

("BSC") charges and a corresponding decreased adjustment to energy charges. Residential customers can opt out of the LFCR adjustment by choosing an optional BSC, which is graduated by kWh monthly usage and is designed to replicate the effects of the LFCR. The number of Opt-Out customers will be expressed as the annual average number of customers "Opting-Out" over the Current Period. The LFCR mechanism will not be applied to residential customers who choose the Opt-Out provision. The optional opt-out rate will be made available to customers at the time of the first LFCR adjustment. The LFCR is subject to Commission review at any time but no later than APS's next rate case and if the Commission were to suspend, terminate, or materially modify the LFCR mechanism prior to then without addressing fixed cost erosion, the moratorium for filing a rate case terminates.

Staff Analysis

7. Staff has reviewed APS's projections used in the calculation of the LFCR adjustment. Staff finds that the LFCR Annual Adjustment Percentage is calculated in accordance with the POA for the Lost Fixed Cost Recovery Mechanism as approved by the Commission. This calculation is shown in Schedules 1 through 6 of the application. According to the calculations, in accordance with the POA, the LFCR charge would be 0.2892 percent, which would result in recovery of approximately $7.3 million for the 12-month collection period beginning in March 2013.

8. Staff notes that in Decision No. 73183 on page 26, lines 19-20, it states "When the first LFCR adjustment is approved by the Commission, a 0.2 percent adjustment to bills would occur on March 1, 2013." APS cites a footnote on line 25, which says "Staff Opening Brief at 31-32. These are estimates and not rates adopted in this Decision", APS believes that this also applies to lines 19-20. Staff reviewed pages 31-32 in the Opening Brief and found identical language to what was in Decision No. 73183 on page 26, lines 19-20. There was also a footnote which references "APS Late filed Ex. 17 at 2."

9. APS Exhibit 17 contains two pages: (1) a chart identifying each of the rate events that may impact customer bills during the Settlement's proposed rate moratorium (2012-2016), both those that are specifically related to the Settlement and those that would occur irrespective of

the Settlement; and (2) a timeline showing the estimated bill impacts related to the Settlement Agreement through 2013. These two pages are affixed hereto as Attachment 1. Staff reviewed both pages of Exhibit 17. On page two, Staff notes that the words "average" and "estimated" are used when referring to potential bill impacts. However, regarding the LFCR it clearly states "First LFCR adjustment: 0.2%".

10. Staff believes that there was an expectation set forth by Decision No. 73183 and the supporting documents that the first LFCR adjustment be 0.2 percent. Due to this expectation, Staff recommends a rate of 0.2 percent. Staff also recommends that APS be allowed to collect the Total Lost Fixed Cost Revenue as detailed on Schedule 3 of Attachment 1 and shown in the table below, after a true-up for actual EE and DG sales reductions occurs in 2014.

	APS Proposed	Staff Proposed
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11. Staffs proposed rate of 0.2 percent provides for an estimated revenue recovery of $5.079 million, $2.265 million short from what is required by APS's current estimated sales reductions from EE and DG. APS will be allowed to collect this shortfall in subsequent years (i.e., true-up) as long as the increase is not more than the 1 percent cap. The average impact on a residential bill drops from $0.38 to $0.27, under Staff's recommendations.

Staff Recommendations

12. Staff has recommended that a LFCR rate of 0.2 percent be and be effective March 1, 2013.

CONCLUSIONS OF LAW

1. Arizona Public Service is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Arizona Public Service and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's memorandum dated February 7, 2013, concludes that it is in the public interest to approve a LFCR rate of 0.2 percent.

ORDER

IT IS THEREFORE ORDERED that a LFCR rate of 0.2 percent be approved effective March 1, 2013.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, 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 __________________, 2013.

____
JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: ___________________________

DISSENT: ___________________________

SMO:PML:lhm\MAS

SERVICE LIST FOR: Arizona Public Service Company
DOCKET NO. E-01345A-11-0224

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DOCKET NO. E-01345A-11-0224

Timeline of APS Rate Adjustments
For the Average Residential Customer Using 1,100 kWh per Month
2012 - 2016

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Legend
Settlement-Related Adjustments
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5. The EIS is set to zero on 7/1/2012 and is capped at the 2/1/2012 level.

Decision No.____________

Timeline of Residential Bill Impacts as Proposed in the 2012 Rate Case Settlement

This timeline explains the potential average residential bill impacts (1,100 kWh per month) that could result from the Commission's resolution of the proposed 2012 Rate Case Settlement. As noted, some of those impacts vary depending on the pending Four Corners transaction. This timeline does not reflect the impact of other adjustment mechanisms or future changes in fuel costs that are unrelated to the proposed Settlement Agreement.