

ORIGINAL

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ARIZONA CORPORATION COMMISSION

2013 FEB -8 A 9:50

AZ CORP COMMISSION
DOCKET CONTROL

February 8, 2013

TO: ALL PARTIES OF RECORD

RE: IN THE MATTER OF THE APPLICATION OF MORENCI WATER AND ELECTRIC COMPANY
DOCKET NOS. E-01049A-11-0300 AND W-01049A-11-0311

The Recommended Order in the above captioned matter that was mailed to you on January 28, 2013, was missing Exhibit A. Please find Exhibit A attached. The original recommended Opinion and Order will reflect this change.

The deadline for filing exceptions is unchanged.

Sincerely Yours,

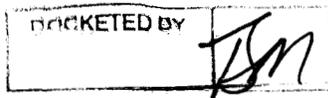
A handwritten signature in cursive script that reads "J Rodda for".

Jane L. Rodda
Administrative Law Judge

Arizona Corporation Commission

DOCKETED

FEB 08 2013



***Morenci Water and Electric Company ("MWE")
Purchased Power and Fuel Adjustment Clause
Plan of Administration***

1. General description.

This document describes the plan for administering the Purchased Power and Fuel Adjustment Clause ("PPFAC") the Arizona Corporation Commission ("Commission") approved for Morenci Water and Electric Company, Inc. ("MWE") in Decision No. XXXXX dated February XX, 2013. The PPFAC provides for the recovery of purchased power costs from the effective date of that decision forward.

The PPFAC described in this Plan of Administration ("POA") uses a forward-looking estimate of purchased power costs to set a rate that is then reconciled to actual costs. This POA describes the application of the PPFAC.

The PPFAC only applies to non-mining customers in MWE's service territory. It does not apply to MWE special contract sales to mining operations in Morenci or Safford.

2. Definitions.

Base Cost of Purchased Power - An amount generally expressed as a rate per kWh, which reflects the purchased power cost embedded in the base rates as approved by the Commission in MWE's most recent rate case. Decision No. XXXXX set the Base Cost of Purchased Power at \$0.05000 per kWh effective on XXXXX.

Forward Component - An amount expressed as a rate per kWh charge that is updated semi-annually on June 1 and December 1 of each year and effective with the first billing cycles in June and December respectively. The Forward Component for the PPFAC Period equals the forecasted purchased power costs (expressed as a rate per kWh), less the Base Cost of Purchased Power (expressed as a rate per kWh). The difference between the forecasted purchased power costs and the Base Cost of Purchased Power will be the Forward Component.

PPFAC - The Purchased Power and Fuel Adjustment Clause approved by the Commission in Decision No. XXXXX is a combination of two rate components, the Forward and True-Up Components, which track changes in the cost of obtaining power supplies. The PPFAC is based upon forward-looking estimates of purchased power costs adjusted to reflect the true-up of estimated and actual purchased power costs from previous PPFAC Periods.

PPFAC Period - A consecutive six-month period beginning: (1) each June 1 and lasting through November 30 in the same year; and (2) each December 1 and lasting through May 31 of the following year.

Purchased Power Costs - The costs recorded for purchased power used by MWE to serve its non-mining customers within its service territory after adjusting for the purchased power costs needed to serve special contract customers.

True-Up Component - An amount expressed as a rate per kWh charge that is updated semi-annually on: (1) June 1 of each year and effective with the first billing cycle in June; and (2) December 1 of each year and effective with the first billing cycle in December. The purpose of this charge is to reconcile any over- or under-recovered amounts from the preceding PPFAC Period.

3. PPFAC Components.

The PPFAC Rate will consist of the sum of two components designed to provide for the recovery of actual and prudently incurred purchased power costs. Those components are:

- The Forward Component, which recovers or refunds the difference between forecasted purchased power costs and the power cost embedded in base rates for the upcoming PPFAC Period (either June 1 through November 30 of the same year; or December 1 through May 31 of the following year).
- The True-Up Component, which tracks the difference between the preceding PPFAC Period's actual purchased power costs and those costs recovered through the combination of base rates and the Forward Component. The True-Up Component provides for recovery of under-collections and return of over-collections.

The first full PPFAC Period in which the PPFAC rate shall apply will begin on June 1, 2013. Succeeding PPFAC Periods will begin on each June 1 and December 1 thereafter.

Each April 15 (for the PPFAC Period from June 1 through November 30) and October 15 (for the PPFAC Period from December 1 through the following May 31), MWE will submit to Docket Control a PPFAC Rate filing, which shall include a proposed calculation of the components for the PPFAC Rate. This filing shall be accompanied by supporting information as Staff determines to be required.

A. Forward Component description.

The Forward Component is intended to refund or recover the difference between: (1) the forecasted purchased power costs over the PPFAC Period; and (2) the purchased power costs embedded in base rates. MWE will submit, at least 45 days before the new PPFAC Rate is implemented (on June 1 or December 1 of each year), a forecast of its purchased power costs for the upcoming six-month PPFAC Period. It will also submit a forecast of kWh sales for the same PPFAC Period, and divide the forecasted costs by the forecasted sales to produce the rate per kWh required to collect those costs over the six-month period. This result less the Base Cost of Purchased Power will be the Forward Component.

Monthly variances from forecasted power costs will be tracked on Schedule PPFAC 5 appended to the semi-annual filings.

B. True-Up Component description.

The True-Up Component in any current PPFAC Period is intended to refund or recover the balance shown on the Bank Balance Report FA-1.¹

- For the PPFAC Period from June 1 through November 30 of the same year, the FA-1 balance at April 1 would roll over into the True-Up Component for the PPFAC period starting December 1.
- For the PPFAC Period from December 1 through the following May 31, the FA-1 balance at October 1 would roll over into the True-Up Component for the coming PPFAC period starting June 1.

As previously mentioned, the semi-annual PPFAC adjustor reports will provide detail on Schedule PPFAC-5 that tracks monthly variances between actual and forecasted purchased power costs.

Calculation of the PPFAC Rate.

The PPFAC rate is the sum of the two components – the Forward Component and True-Up Component. The PPFAC rate shall be applied to customer bills. Unless the Commission has otherwise acted on a new PPFAC rate by May 31 (for the April 15 filing covering the June 1 through November 30 PPFAC Period) and November 30 (for the October 15 covering the December 1 to the following May 31 PPFAC Period), the proposed PPFAC rate shall go into

¹ The Bank Balance Report FA-1 is included in the monthly Purchased Power and Fuel Adjustor reports

effect on June 1 and December 1, respectively. The PPFAC rate shall apply to MWE's residential and other non-mining retail electric customers and is adjusted semi-annually. The PPFAC Rate shall be applied to the customer's bill as a monthly kilowatt-hour ("kWh") charge that is the same for all non-mining customer classes. The PPFAC does not apply to MWE sales to mining operations at Morenci and Safford, as those are covered by special contracts approved by the Commission in Decision Nos. 66937 (April 21, 2004) and 69200 (December 21, 2006).

In accordance with Decision No. XXXXX, the revised PPFAC rate for any semi-annual period cannot be increased by an amount exceeding \$0.00400 per kWh. There are no restrictions on semi-annual PPFAC decreases.

The PPFAC rate shall be reset twice per year: on June 1 and December 1, and shall be effective with the first June billing cycle and December billing cycle respectively, unless otherwise ordered by the Commission. It is not prorated.

5. Filing and procedural deadlines.

A. April 15 and October 15 Filings.

MWE shall file the PPFAC rate with all component calculations for each upcoming PPFAC Period on April 15 and October 15 of each year, and include supporting data. That calculation shall use a forecast of kWh sales and purchased power costs for the upcoming six-month period, with inputs and assumptions being the most current available for the Forward Component. The filing will also include the True-Up Component calculation for upcoming six-month period, with supporting data. Such True-Up Component calculation will use the same forecast of sales used for the Forward Component calculation. These filings will include bill impacts on residential customers of any proposed increase or decrease in the PPFAC Rate.

B. Additional Filings.

The MWE will continue to file with the Compliance Section its Purchased Power and Fuel Adjustor reports each month. If requested by Staff, MWE will update its April 15 and October 15 filings with revised forecasts and calculations. These updates may replace estimated Forward Component Tracking Account balances, and the True-Up Component Tracking Account balances, with actual balances and with more current estimates for those months for which actual data are not available. The new PPFAC rate will go into effect each June 1 and December 1 unless otherwise ordered by the Commission. MWE will also file with the Commission any additional information that the Staff determines it requires to verify the component calculations, account balances, and any other matter pertinent to the PPFAC.

C. Review Process.

The Commission Staff and interested parties will have an opportunity to review the MWE filings submitted April 15 and October 15, including the forecasts, balances, and supporting data on which the calculations of the two PPFAC components have been based. Any objections to the calculations must be filed within 30 days of the MWE filing.

D. Extraordinary Circumstances.

Should an unusual event occur that causes a drastic change in forecasted energy prices – such as a hurricane or other calamity – MWE will have the ability to request an adjustment to the forward component reflecting such a change, subject to Commission approval. The Commission may provide for the change over such period as the Commission determines appropriate.

E. An Under-collected Balance Not Resolved Through PPFAC Period Resets.

If MWE develops an under-collection that is not resolved through the PPFAC Period Resets MWE will have the ability to file for an increase greater than that allowed by the cap. Such an increase would become effective after Commission review and approval.

6. Verification and audit.

The amounts charged through the PPFAC will be subject to periodic audit to assure its completeness and accuracy, and to assure that all purchased power costs were incurred reasonably and prudently. The Commission may, after notice and opportunity for hearing, make such adjustments to existing balances or to already recovered amounts as it finds necessary to correct any accounting or calculation errors, or to address any costs found to be unreasonable or imprudent. Such adjustments, with appropriate interest, shall be recovered or refunded in the True-Up Component for the following PPFAC Period.

7. Schedules.

The following schedules are attached to this Plan of Administration:

Schedule PPFAC 1 PPFAC Rate Calculation

Schedule PPFAC 2 PPFAC True-Up Component Calculation

Schedule PPFAC 3 PPFAC Forward Component Calculation

Schedule PPFAC 4 Forward Component Worksheet

Schedule PPFAC 5 Actual vs. Projected Purchased Power Cost

Schedule PPFAC 6 Frozen Bank Account Recovery Worksheet

8. Allowable costs.

A. Accounts.

The allowable PPFAC costs are those purchased power costs recorded in FERC Account No. 555. The accounting for purchased power costs is subject to change if FERC alters its accounting requirements or definitions.

B. Other Allowable Costs.

There are no other allowable costs without approval by order of the Commission.

9. Initial PPFAC Rate.

The initial PPFAC rate (from the effective date of Decision No. XXXXX until June 1, 2013) will be \$(0.00927) based on a Forecast Cost of Purchased Power equaling \$0.04073 and a Base Cost of Fuel and Purchased Power equaling \$0.05000. The True-Up Component will be set at \$0.00000 per kWh for this initial period.

10. Under-collected balance accrued through the effective date of Decision No. XXXXX.

For the under-collected Purchased Power and Fuel Adjustor Clause bank balance accrued through the effective date of Decision No. XXXXX (DATE), MWE will collect that amount through a separate Frozen Bank Surcharge, in effect for 24 months or until such time as the under-collected

bank balance is recovered. That Surcharge will equal \$0.00451 per kWh. Once that under-collected bank balance is fully recovered, this surcharge will no longer be in effect.