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**BEFORE THE ARIZONA CORPORATION COMMISSION**

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

Arizona Corporation Commission

**DOCKETED**

FEB 20 2013

DOCKETED BY	NR
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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. 73732  
ORDER

Open Meeting  
February 12, 2013  
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.

1 **Description of the LFCR**

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

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

16           5.       The Plan of Administration ("POA") describes how the LFCR works. By January  
17 15 of each year, APS will file its calculation of the annual LFCR adjustment, based on the EE  
18 savings and DG from the preceding calendar year. APS will use actual data through September  
19 and forecast data for October through December. Each year, a true-up mechanism reconciles the  
20 three months of forecasted data of EE and DG sales reductions to verified EE and DG sales  
21 reductions in those months. There is also a balancing account that tracks the difference between  
22 allowed Lost Fixed Cost Revenue and actual amounts billed by the Company through the LFCR  
23 adjustment. The balancing account is reflected in Schedule 2 of the LFCR Compliance Report.

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

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

#### 11 Staff Analysis

12 7. Staff has reviewed APS’s projections used in the calculation of the LFCR  
13 adjustment. Staff finds that the LFCR Annual Adjustment Percentage is calculated in accordance  
14 with the POA for the Lost Fixed Cost Recovery Mechanism as approved by the Commission. This  
15 calculation is shown in Schedules 1 through 6 of the application. According to the calculations, in  
16 accordance with the POA, the LFCR charge would be 0.2892 percent, which would result in  
17 recovery of approximately \$7.3 million for the 12-month collection period beginning in March  
18 2013.

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

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

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

6 10. Staff believes that there was an expectation set forth by Decision No. 73183 and the  
 7 supporting documents that the first LFCR adjustment be 0.2 percent. Due to this expectation, Staff  
 8 recommends a rate of 0.2 percent. Staff also recommends that APS be allowed to collect the Total  
 9 Lost Fixed Cost Revenue as detailed on Schedule 3 of Attachment 1 and shown in the table below,  
 10 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 <sup>1</sup>	\$7.345 million	\$7.345 million
Average rate for residential customers	\$0.38	\$0.27

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<sup>1</sup> Based on compliance reports filed by APS on January 15, 2013. Subject to change when APS true-ups their losses from DG and EE

18 11. Staffs proposed rate of 0.2 percent provides for an estimated revenue recovery of  
 19 \$5.079 million, \$2.265 million short from what is required by APS’s current estimated sales  
 20 reductions from EE and DG. APS will be allowed to collect this shortfall in subsequent years (i.e.,  
 21 true-up) as long as the increase is not more than the 1 percent cap. The average impact on a  
 22 residential bill drops from \$0.38 to \$0.27, under Staff’s recommendations.

### 23 **Staff Recommendations**

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

### 26 **CONCLUSIONS OF LAW**

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



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

3 Meghan H. Grabel  
 4 Thomas L. Mumaw  
 5 PINNACLE WEST CAPITAL CORPORATION  
 6 P.O. Box 53999, MS 8695  
 7 Phoenix, AZ 85072-3999

8 C. Webb Crockett  
 9 Patrick J. Black  
 10 FENNEMORE CRAIG  
 11 3003 North Central Ave., Suite 2600  
 12 Phoenix, AZ 85012-2913  
 13 Attorneys for Freeport-McMoRan and AECC

14 Daniel Pozefsky, Chief Counsel  
 15 RESIDENTIAL UTILITY CONSUMER  
 16 OFFICE  
 17 1110 West Washington Street, Suite 220  
 18 Phoenix, AZ 85007-2958

19 Michael A. Curtis  
 20 William P. Sullivan  
 21 CURTIS, GOODWIN, SULLIVAN  
 22 UDALL & SCHWAB, P.L.C.  
 23 501 East Thomas Road  
 24 Phoenix, AZ 85012-3205  
 25 Attorneys for the Town of Wickenburg and  
 26 Town of Gilbert

27 Barbara Wyllie-Pecora  
 28 14410 West Gunsight Drive  
 Sun City West, AZ 85375

Timothy M. Hogan  
 ARIZONA CENTER FOR LAW IN  
 THE PUBLIC INTEREST  
 202 East McDowell Road, Suite 153  
 Phoenix, AZ 85004  
 Attorney for Western Resource Advocates,  
 Southwest Energy Efficiency Project,  
 ASBA/AASBO

David Berry  
 WESTERN RESOURCE ADVOCATES  
 P.O. Box 1064  
 Scottsdale, AZ 85252-1064

Jeff Schlegel  
 SWEEP Arizona Representative  
 1167 W. Samalayuca Dr.  
 Tucson, AZ 85704-3224

Kurt J. Boehm  
 Jody Kyler  
 BOEHM, KURTZ & LOWRY  
 36 East 7<sup>th</sup> Street, Suite 1510  
 Cincinnati, OH 45202  
 Attorneys for Kroger Co.

Jeffrey W. Crockett  
 BROWNSTEIN, HYATT, FARBER SCHRECK, LLP  
 1 E. Washington St., Suite 2400  
 Phoenix, AZ 85004  
 Attorney for Arizona Association of Realtors

John William Moore, Jr.  
 7321 North 16<sup>th</sup> Street  
 Phoenix, AZ 85020

Cynthia Zwick  
 1940 East Luke Avenue  
 Phoenix, AZ 85016

Michael W. Patten  
 ROSHKA DEWULF & PATTEN PLC  
 One Arizona Center  
 400 East Van Buren Street, Suite 800  
 Phoenix, AZ 85004  
 Attorney for TEP

Bradley Carroll  
 TUCSON ELECTRIC POWER CO.  
 One South Church Avenue, Suite UE 201  
 Tucson, AZ 85701

Michael M. Grant  
 GALLAGHER & KENNEDY  
 2575 East Camelback Road  
 Phoenix, AZ 85016-9225  
 Attorneys for AIC

Gary Yaquinto  
 ARIZONA INVESTMENT COUNCIL  
 2100 North Central Avenue, Suite 210  
 Phoenix, AZ 85004

Karen S. White  
 Air Force Utility Law Field Support Center  
 AFLOA/JACL-ULFSC  
 139 Barnes Drive  
 Tyndall AFB, FL 32403  
 Attorney for FEA

1 Greg Patterson  
MUNGER CHADWICK  
2 2398 East Camelback Road, Suite 240  
Phoenix, AZ 85016  
3 Attorney for ACPA

4 Nicholas J. Enoch  
LUBIN & ENOCH, P.C.  
5 349 N. 4<sup>th</sup> Avenue  
Phoenix, AZ 85003  
6 Attorney for IBEW Locals 387, 640 and 769

7 Lawrence V. Robertson, Jr.  
ATTORNEY AT LAW  
8 P.O. Box 1448  
Tubac, AZ 85646  
9 Attorney for SWPG/Bowie and  
Noble/Constellation/Direct/Shell

10 Laura E. Sanchez  
11 NRDC  
P.O. Box 287  
12 Albuquerque, NM 87103

13 Jay Moyes  
Steve Wene  
14 MOYES SELLERS & HENDRICKS, LTD  
1850 N. Central Ave., Suite 1100  
15 Phoenix, AZ 85004-4527  
Attorney for AzAg

16 Jeffrey J. Woner  
17 K.R. SALINE & ASSOC., PLC  
160 N. Pasadena, Suite 101  
18 Mesa, AZ 85201

19 Scott S. Wakefield  
RIDENOUR, HIENTON & LEWIS, P.L.L.C.  
20 201 N. Central Ave., Suite 3300  
Phoenix, AZ 85004-1052  
21 Attorney for Wal-Mart

22 Steve W. Chriss  
WAL-MART STORES, INC.  
23 2011 S.E. 10<sup>th</sup> Street  
Bentonville, AR 72716-0500

24 Craig A. Marks  
25 CRAIG A. MARKS, PLC  
10645 N. Tatum Blvd., Suite 200-676  
26 Phoenix, AZ 85028  
Attorney for AARP

27  
28

Samuel T. Miller  
USAF Utility Law Field Support Center  
139 Barnes Ave., Suite 1  
Tyndall AFB, FL 32403

Douglas V. Fant  
LAW OFFICES OF DOUGLAS V. FANT  
3655 W. Anthem Way, Suite A-109, PMB 411  
Anthem, AZ 85086  
Attorney for Interwest Energy Alliance

Janice Alward, Chief Counsel  
Legal Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007-2927

Steven M. Olea, Director  
Utilities Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007-2927