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BEFORE THE ARIZONA CORPORATION COMMISSION

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SUSAN BITTER SMITH
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
DOUG LITTLE
Commissioner
TOM FORESE
Commissioner

Arizona Corporation Commission
DOCKETED

NOV 25 2015

DOCKETED BY *[Signature]*

IN THE MATTER OF THE APPLICATION)
OF ARIZONA PUBLIC SERVICE)
COMPANY FOR A HEARING TO)
DETERMINE THE FAIR VALUE OF THE)
UTILITY PROPERTY OF THE COMPANY)
FOR RATEMAKING PURPOSES, TO FIX A)
JUST AND REASONABLE RATE OF)
RETURN THEREON, TO APPROVE RATE)
SCHEDULES DESIGNED TO DEVELOP)
SUCH RETURN.)

DOCKET NO. E-01345A-11-0224
DECISION NO. 75322
ORDER

Open Meeting
October 20 and 21, 2015
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 24, 2012, the Commission approved a 2011 Settlement Agreement in Decision No. 73183 which, among other provisions, includes an Experimental Rate Rider, Schedule AG-1 ("AG-1"). AG-1 is a buy-through rate for select industrial and large commercial customers intended to resemble a competitive-type rate. The program was capped at 200 megawatts, with participants subsequently chosen through a lottery process. The lottery was made available to applicants with an aggregated load of 10 megawatts or more. Thirteen applicants participated in the lottery and eight were chosen to be on the Rate.

1 3. The eight participants who are now currently taking service under AG-1 are: Walmart,
2 Honeywell, Safeway, Home Depot, City of Phoenix, Marriott, Freeport McMoRan, and Kroger
3 (collectively the “AG-1 Customers”).

4 4. Under the terms of the Settlement Agreement approved by Decision No. 73183,
5 Schedule AG-1 will expire on July 1, 2016, unless extended by the Commission. Additionally, under
6 the terms of the Settlement Agreement, APS agreed not to file its next general rate case prior to May
7 31, 2015. APS will not be filing its next general rate case until June, 2016.

8 5. As new rates will likely not be implemented until the summer of 2017, absent action by
9 the Commission to extend AG-1, it will expire on July 1, 2016. Existing industrial or commercial rates
10 for the AG-1 Customers would be higher.

11 6. AG-1 Customers assert that the AG-1 program should not expire on July 1, 2016, but
12 rather, should be extended until new rates are effective in APS’ next rate case. It is likely that AG-1
13 Customers will seek to continue AG-1’s favorable pricing and terms in the Company’s next rate case.

14 7. Although APS agreed to AG-1, APS contends that it does not recover or defer costs
15 associated with AG-1. APS has indicated that the net impact to it is in the range of \$10 million
16 annually and it does not wish to continue absorbing that negative impact beyond the expiration date.

17 **Background**

18 8. On November 20, 2014, Wal-Mart Stores, Inc. and Sam’s West, Inc. (collectively
19 “Walmart”); Freeport Minerals Corporation (“Freeport”); Safeway Inc. (“Safeway”); The Kroger Co.
20 (“Kroger”); Nobel Americas Energy Solutions LLC (“Noble Solutions”); Constellation NewEnergy,
21 Inc./an Exelon Company (“Constellation”); Shell Energy North America (US), L.P. (“Shell”); and
22 Direct Energy Business, LLC (“Direct”) (collectively, the “AG-Generation Service Providers”) filed as
23 (“Joint Movants” or “Movants”), a request that AG-1 be extended until such time as new rates go into
24 effect for APS.

25 9. On November 24, 2014, the Residential Utility Consumer Office (“RUCO”)
26 responded to the Joint Movants request to extend AG-1. RUCO had no objection as long as the
27 extension did not have an effect on the residential ratepayers’ rates.

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1 10. On December 1, 2014, APS responded in opposition to the Joint Movants' request.
2 APS maintains that the AG-1 rate was designed as an experimental rate and points to the Settlement
3 Agreement which calls for a careful review of the AG-1 program before any Commission decision to
4 continue it beyond July 1, 2016. Further, APS suggests that any review should encompass an
5 examination of the selection process; to determine if there is a better method for selecting the
6 customers that ultimately participate in the program.

7 11. On December 8, 2014, the Arizona Investment Council ("AIC") filed in opposition to
8 the Joint Movants' request and asked that the Commission deny it. AIC maintains that the term of
9 the experimental AG-1 rate has another year and a half to run as outlined in the Settlement Agreement
10 and Decision No. 73183 and that it is not necessary to extend it now. Further, there has been no
11 study of the experimental AG-1 rate, which was agreed to be provided in the next APS rate case.

12 12. On December 17, 2014, the Joint Movants replied to APS' December 1, 2014
13 response, arguing that the Settlement Agreement language contemplated that AG-1 service would
14 continue to be available until the conclusion of APS' next general rate case. Further, the Joint
15 Movants noted that issues concerning the continuation of AG-1 were to be considered in that case.
16 According to the Joint Movants, the language does not call for a separate report to be filed by APS to
17 continue, modify, or terminate the program, and it does not specify that such a report must be
18 prepared in advance and outside of the Company's next general rate case.

19 13. On March 10, 2015, Commissioner Doug Little wrote a letter to the Docket urging the
20 parties to discuss whether mutually agreeable changes could be made to Schedule AG-1 that would
21 allow a modified AG-1 rate to extend beyond July 1, 2016. Commissioner Little further requested that
22 APS file a report and supporting testimony regarding the merits of extending Schedule AG-1.
23 Additionally, the Commissioner invited other interested parties to submit their own studies on the
24 topic.

25 14. On June 19, 2015, APS withdrew its opposition to the Joint Movant's request to
26 extend AG-1, conditioned upon Commission approval of a Deferral Order to recoup unrecovered
27 costs as discussed below for the extension of AG-1 beyond July 1, 2016. APS proposed to defer for
28 possible future recovery 90 percent of the first \$10 million in unmitigated unrecovered costs in each

1 12 month period following June 30, 2016 and 100 percent of such unmitigated unrecovered costs over
2 \$10 million in each similar period. The proposed deferral period would end with the conclusion of
3 APS' next general rate case and be addressed by the Commission in that rate case.

4 15. On June 22, 2015, RUCO filed a supplemental response indicating that it did not
5 oppose the Joint Movants' request or the Company's proposed Deferral Order as long as it had no
6 effect, either immediate or in the long run, on the rates of the residential class.

7 16. On August 19, 2015, and again on September 4, 2015, representatives for the AG-1
8 Customers, APS, Joint Movant's and Staff met to discuss the matter.

9 17. On June 29, 2015, the Joint Movants replied to APS's withdrawal of opposition and
10 request for a Deferral Order. The Joint Movants confirmed recent discussions with APS and
11 requested that, in light of the withdrawal of opposition, the Commission proceed expeditiously to
12 approve the Joint Motion and extension of AG-1.

13 **Analysis**

14 18. Staff believes the Settlement Agreement and Decision No. 73183 give the parties clear
15 direction as to how the AG-1 rate was to operate. The experimental rate was to sunset after four years
16 at which time APS was to provide the Commission with a report and supporting testimony as to
17 whether the rate should be continued, modified, or terminated in the next rate case.

18 19. Staff believes that the language pertaining to APS' next rate case is clear. "APS will not
19 file its next general rate case before May 31, 2015." AG-1 customers should have been well aware that
20 APS could file *any time* after May 31, 2015.

21 20. APS has alleged that there has been significant under-recovery of its costs since the
22 implementation of AG-1 and that an extension of AG-1 would increase the under-recovery beyond
23 what it had anticipated in the Settlement Agreement.

24 21. Staff was initially inclined to recommend that the AG-1 rate be allowed to expire on
25 July 1, 2016 as provided in the Settlement Agreement, and address its continuance, modification or
26 termination in APS' next rate case. However, considering the willingness and the efforts of the
27 parties' to-date to discuss an extension of AG-1, Staff recommends the extension of AG-1 as long as
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1 no other rate payers are adversely affected as a result. To that end, Staff recommends a 50/50 sharing
2 of the unmitigated unrecovered costs between the existing AG-1 customers and APS.

3 22. Among Staff's concerns that the long-term future prospects of AG-1 may be in
4 jeopardy in APS' next rate case if the Commission approves a large deferral while leaving the
5 responsibility for its future recovery uncertain. Non AG-1 customers may, as a result of a deferral not
6 contemplated in the Settlement Agreement, oppose AG-1 in the Company's next rate case. Even
7 though Staff may support the extension of AG-1 in the next rate case with modifications that
8 eliminate future unmitigated unrecovered costs, customers may fear creation of yet another deferral in
9 the future for which they may be responsible.

10 23. Further, with the absence of a second lottery and considering there are only eight
11 customers who have been allowed to participate in the experimental AG-1 rate; Staff, like RUCO
12 (with respect to residential customers), does not believe it is fair to impose the deferral costs onto non
13 AG-1 customers, likely including even those who wanted to participate in AG-1, but were not selected
14 in the lottery. Even future customers desirable for economic development may be burdened with
15 paying a portion of the deferral.

16 24. Thus, Staff can support an extension of AG-1 and a Deferral Order for possible future
17 recovery with the modifications proposed by Staff herein. Staff believes the deferred costs should be
18 subject to 50/50 sharing among existing AG-1 customers and APS; and any costs that are deferred
19 should be collected solely from existing AG-1 customers who have benefited from the rate. As a
20 result, AG-1 customers would continue to benefit from AG-1 at approximately one-half of its current
21 benefits, APS would recover approximately one-half of its unmitigated costs and non-AG-1
22 participants would not become responsible for a new deferral.

23 **Recommendations**

24 25. Staff recommends the continuation of the AG-1 rate for existing AG-1 customers
25 until new rates become effective in APS' next general rate case, subject to the following conditions:

26 a. APS will be permitted to defer for possible future recovery 50 percent in
27 unmitigated unrecovered costs after June 30, 2016 and until new rates become
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1 effective, with the deferrals subject to review and approval in the Company's
2 next rate case.

3 b. Amounts deferred shall be recovered only from the eight existing AG-1
4 customers in accordance with a methodology developed in the Company's next
5 rate case. Recovery shall not be avoided by termination of AG-1 in the next
6 rate case or avoided by dropping off AG-1 or its follow-on equivalent after
7 new rates are effective.

8 c. As a result, APS will absorb the remaining 50 percent in unmitigated
9 unrecovered costs after June 30, 2016 and shall not defer nor seek future
10 recovery of its 50 percent share.

11 d. The one-year notice period set forth in Rate Rider AG-1 shall be replaced by a
12 six-month period.

13 e. APS shall file an AG-1 plan of administration, for Commission approval,
14 within 30 days of the effective date of a Commission decision to extend the
15 AG-1 rate.

16 f. The plan of administration shall set forth the proposed calculation method of
17 unmitigated unrecovered cost, the deferral (including proposed calculation of
18 amounts deferred and allocable to each existing AG-1 customer).

19 g. In determining the proposed unmitigated unrecovered cost calculation, APS
20 shall include all relevant factors, including the revenue differentials between the
21 amounts actually billed under AG-1 and the amounts that would have been
22 billed absent the availability of the AG-1 rate, APS' avoided fuel costs, the
23 impact of off system sales enabled by the availability of 200 MW that would
24 have been needed to serve customers presently receiving service under AG-1,
25 and any impacts for amounts that have been recovered or subject to recovery
26 under the PSA.

27 26. Staff further recommends that APS file its report on the experimental AG-1 rate in its
28 2016 rate case.

1 the next rate case or avoided by dropping of AG-1 or its follow-on equivalent after new rates are
2 effective.

3 IT IS FURTHER ORDERED that the one-year notice period set forth in Rate Rider AG-1
4 shall be replaced by a six-month period.

5 IT IS FURTHER ORDERED that Arizona Public Service Company will absorb 10 percent of
6 the first \$10,000,000 in unmitigated unrecovered costs after June 30, 2016 and shall not defer nor seek
7 future recovery of that 10 percent share.

8 IT IS FURTHER ORDERED that Arizona Public Service Company shall file an AG-1 plan
9 of administration, for Commission approval, within 30 days of the effective date of a Commission
10 decision to extend the AG-1 rate.

11 IT IS FURTHER ORDERED that Arizona Public Service Company's Plan of Administration
12 shall set forth the proposed calculation method of unmitigated unrecovered cost, the deferral
13 (including proposed calculation of amounts deferred and allocable to each existing AG-1 customer).

14 IT IS FURTHER ORDERED that Arizona Public Service Company, in determining the
15 unmitigated unrecovered cost proposed calculation, APS shall include all relevant factors, including
16 the revenue differentials between the amounts actually billed under AG-1 and the amounts that would
17 have been billed absent the availability of the AG-1 rate, APS' avoided fuel costs, the impact of off
18 system sales enabled by the availability of 200 MW that would have been needed to serve customers
19 presently receiving service under AG-1, and any impacts for amounts that have been recovered or
20 subject to recovery under the PSA.

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1 IT IS FURTHER ORDERED that Arizona Public Service Company file a report on the
2 experimental AG-1 rate in its 2016 rate case.

3 IT IS FURTHER ORDERED that Arizona Public Service Company file, as a compliance
4 item in this docket, an updated AG-1 tariff consistent with the aforementioned ordering language,
5 within 15 days of the effective date of the Decision in this case.

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

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

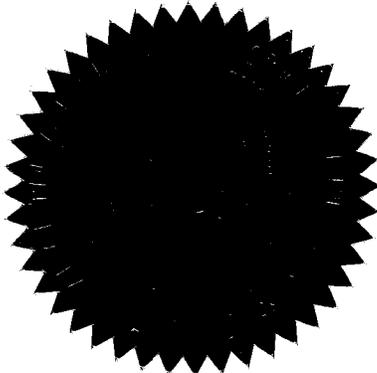
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CHAIRMAN

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COMMISSIONER

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COMMISSIONER

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COMMISSIONER

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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 25th day of November, 2015.

19 
20 JODI JERICH
21 EXECUTIVE DIRECTOR

22 DISSENT: _____

23 DISSENT: _____

24 TMB:EMV :nr /MAS
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