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BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
TOM FORESE
Commissioner
ANDY TOBIN
Commissioner

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.)

APPLICATION FOR THE APPROVAL OF)
THE COMPANY'S PLAN OF)
ADMINISTRATION FOR THE AG-1)
DEFERRAL APPROVED IN DECISION)
NO. 75322)

DOCKET NO. E-01345A-11-0224
DECISION NO. 75748
ORDER

Arizona Corporation Commission
DOCKETED
SEP 19 2016

DOCKETED BY

Open Meeting
September 7 and 8, 2016
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 December 23, 2015, APS filed for Commission approval, in compliance with Decision No. 75322, its Plan of Administration ("POA") for the AG-1 Deferral approved in the aforementioned Decision.
- ...
- ...

Background

3. On May 24, 2012, the Commission approved a 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 have features of 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.

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

5. Under the terms of the Settlement Agreement, Schedule AG-1 would have expired on July 1, 2016, unless extended by the Commission. On November 20, 2014, a subsection of the AG-1 participants filed with the Commission a Joint Motion to Extend Experimental Rate Rider Schedule AG-1. This motion concluded with Commission Decision No. 75322, in which the Commission ordered that Schedule AG-1 be continued for existing AG-1 customers until rates become effective in APS’s next general rate case. Further, the Commission ordered that APS shall be permitted to defer for possible future recovery 90 percent of the first \$10,000,000 and 100 percent of any amount above \$10,000,000 in unmitigated unrecovered costs associated with the AG-1 customers after June 30, 2016, until new rates become effective.

6. As a compliance item in Decision No. 75322, APS was ordered to file an AG-1 Plan of Administration for Commission approval, within 30 days of the effective date of the Commission Decision to extend the AG-1 rate. The Plan of Administration sets forth the proposed calculation method of unmitigated unrecovered costs to be used in the deferral.

Analysis

7. Staff has reviewed the proposed Plan of Administration for the AG-1 deferral and found that it complies with the ordering language outlined in Decision No. 75322. Attached as Exhibit 1 is Staff’s revised Plan of Administration that addresses some grammatical changes as well as

1 the inclusion of Section 5 which addresses documentation to be maintained in support of the deferral
2 calculation.

3 8. The Company has indicated to Staff that it supports Staff's changes to the original
4 POA filed on December 23, 2015.

5 **Recommendations**

6 9. Staff has recommended that the AG-1 Plan of Administration, attached as Exhibit 1,
7 be approved as discussed herein.

8 CONCLUSIONS OF LAW

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

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

13 3. The Commission, having reviewed the application and Staff's Memorandum dated
14 August 18, 2016, concludes that it is in the public interest to approve the AG-1 Plan of
15 Administration attached as Exhibit 1, as discussed herein.

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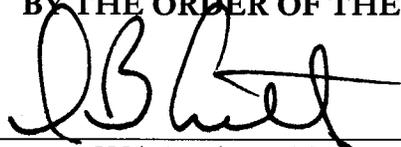
ORDER

IT IS THEREFORE ORDERED that Arizona Public Service Company's AG-1 Plan of Administration, attached as Exhibit 1, is approved as discussed herein.

IT IS FURTHER ORDERED that Arizona Public Service Company file, as a compliance item in this docket, an updated AG-1 Plan of Administration consistent with the Decision in this case within 15 days of the effective date of the Decision.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

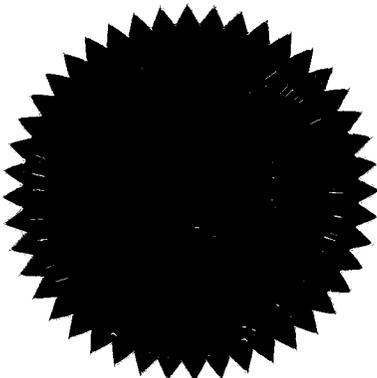

CHAIRMAN LITTLE


COMMISSIONER STUMP


COMMISSIONER FORESE


COMMISSIONER TOBIN


COMMISSIONER BURNS



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 19th day of September, 2016.


JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

TMB:EMV:red/MAS

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DOCKET NO. E-01345A-11-0224

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EXHIBIT 1



**PLAN OF ADMINISTRATION
ALTERNATIVE GENERATION DEFERRAL**

**Alternative Generation (“AG-1”) Deferral
Plan of Administration**

1. General Description

This document describes the plan of administration of the deferral for the AG-1 rate rider approved for Arizona Public Service Company (“APS” or “Company”) by the Arizona Corporation Commission (“ACC”) on November 25, 2015 in Decision No. 75322. The AG-1 rate rider is a buy-through rate that provides an opportunity for a limited number of industrial and large commercial customers to arrange for an alternate source of generation in lieu of APS’s standard bundled generation service.

2. Deferral Description

APS is permitted to defer for possible future recovery 90 percent up to \$10,000,000 and 100 percent above \$10,000,000 in unmitigated unrecovered costs for every 12 month period after June 30, 2016 until new rates become effective. The deferrals shall be subject to review in the Company’s next rate case. No amount of the deferral shall be recovered from residential customers.

3. Deferral Components

APS Generation Retail Unrecovered Costs – Revenue from unbundled retail generation rate that APS would have recovered absent the AG-1 program.

Avoided Fuel Costs – Base cost of fuel and purchased power as recorded in Schedule 2 of APS’s monthly Power Supply Adjustor (“PSA”) compliance filing.

AG-1 Specific Charges – Monthly management fee and reserve capacity charge applied to participating customers’ bills.

Wholesale Margins – Off-system margin attributable to the AG-1 program as recorded in Schedule 3 of APS’s monthly PSA compliance filing.

Unmitigated Unrecovered Costs – APS Generation Retail Unrecovered Costs minus Avoided Fuel Costs, AG-1 Specific Charges and Wholesale Margins.



**PLAN OF ADMINISTRATION
ALTERNATIVE GENERATION DEFERRAL**

4. Deferral Calculation

Calculation for the APS Generation Retail Unrecovered Costs, Avoided Fuel Costs and AG-1 Specific Charges will be calculated specific to each service account enrolled in the AG-1 program. APS Generation Retail Unrecovered Costs for each customer will be calculated according to their monthly billing determinants and the unbundled generation charges on their retail rate. Avoided Fuel Costs will be calculated based on each customer's monthly kWh and the base fuel rate found in Schedule 2 of APS's monthly PSA compliance filing. The lost revenue and fuel costs associated with the PSA fuel adjustor rate are not specifically included as they net out to zero. AG-1 Specific Charges will be obtained from each specific customer's monthly bills. Wholesale Margins will be applied to each service account enrolled in the AG-1 program by pro rata MWh share.

Example deferral calculation:

	(\$000)
(a) APS Generation Retail Unrecovered Costs	15,000
(b) Avoided Fuel Costs	4,000
(c) AG-1 Specific Charges	1,000
(d) Wholesale Margins	4,000
(e) Unmitigated Unrecovered Costs (a-b-c-d)	<u>6,000</u>
(f) Deferred amount (e x 90%)	<u>5,400</u>

Deferred amount is \$5,400 (90% of unmitigated unrecovered costs if (e) above is \$10,000,000 or less in any 12 month period following June 30, 2016).

5. Documentation to be maintained in support of the Deferral Calculation:

For any Alternative Generation deferral amount calculated and recorded in the Company's books during any period, the Company shall maintain and provide to Commission Staff the following:

- i. A schedule showing how each of the following amounts used in the Deferral Calculation was calculated:
 - a. APS Generation Retail Unrecovered Costs
 - b. Avoided Fuel Costs,
 - c. AG-1 Specific Charges, and
 - d. Wholesale Margins
- ii. Documentation that supports and is cross-referenced to each amount in the schedule (e.g. each service account in the AG-1 program, monthly billing determinants, etc.).
- iii. The Company shall maintain and provide to Commission Staff upon request monthly balances applicable to each AG-1 customer.