



**To: Editors, News Directors
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**COMMISSIONERS RULE ON APS RATE CASE
Decision Caps Historic Process Involving More than 20 Intervenors and 30
Advocate Groups**

PHOENIX – The Arizona Corporation Commission yesterday approved with a 4-1 vote Arizona Public Service’s first full rate case in 14 years. A 1999 settlement continued several years of steadily declining electric rates. The Commissioners began debating various issues in this rate case on March 24 and reconvened Monday for a marathon session that spanned nearly 10 hours and discussion of more than 25 proposed amendments.

“Our decision caps almost two years of intense study and negotiations aimed at giving the company the finances it needs to continue providing reliable, affordable electric service,” Commission Chairman Jeff Hatch-Miller said. “There were several facts that added up to a rate increase – since 1991 the cost of fuel used to generate power has gone up dramatically. Also, the state’s record growth requires the utility to spend more on infrastructure to meet demand.”

The Commission approved a rate case that results in a 4.21 percent increase in base rates for the typical residential customer using 738 kilowatt hours of electricity – taking a yearly average \$72 bill to around \$75. Additionally, the decision introduces a bill component that is designed to recognize the effects of constantly changing fuel prices.

Once a year, beginning in April 2006, a Power Supply Adjustor (PSA) will be set to collect fuel and purchased power costs that are above the costs reflected in the existing rate formula. The mechanism can

also work in reverse if these costs are below those in the base test year calculations.

Because natural gas prices are at historic highs and because natural gas is widely used to generate electricity, experts are predicting that the PSA will result in a second small increase in April 2006. The PSA is capped at four-tenths of a cent per kilowatt hour and if the PSA reaches the cap, bills could increase \$2.95 in April 2006.

“We took steps to protect our state’s neediest APS customers. Nearly all eligible low-income customers will see a net reduction in base rates because we adopted the recommendations in the settlement to give a larger rate discount for low-income customers,” Commissioner Kris Mayes said.

An amendment sponsored by Mayes also exempts qualifying low-income customers from the PSA component. The Commission decision also requires APS to spend more money on weatherization programs for low-income customers.

“Even though natural gas prices have skyrocketed, APS rates resulting from our decision are still lower than rates were in the late 1980s. APS rates have gone down approximately 16 percent since 1991,” Commissioner Bill Mundell said. “It certainly was much easier for me to vote for a 7.5 percent rate decrease in 1999 than it is to vote for this increase. Having weighed all the facts, specifically the escalating cost of gas and explosive growth, I find it difficult but necessary to vote in favor.”

Commissioner Marc Spitzer is interested in demand response programs that provide an incentive for consumers to conserve energy.

“Time of use rates, where rates are significantly lower during off peak hours and higher during peak demand, provide a powerful economic incentive for people to change their usage behavior,” Spitzer said. “APS currently has a ‘time of use’ plan that gives customers lower rates if they shift their energy intensive activity like drying clothes to the hours between 9 p.m. and 9 a.m.”

Citing the fact that many working families find the 9 p.m. start for off-peak rates to be inconvenient, Spitzer sponsored an amendment that requires APS to develop a plan to implement other time of use options without affecting the overall rate and revenue calculations.

Commissioner Mike Gleason voted against the revised decision saying that he believes that specific renewable energy and demand side management mandates – while noble goals – in effect subsidize these

more costly programs, leading to higher and unlimited costs in the future.

“Several things that went into this order could end up costing ratepayers a whole lot of money. There’s a lot of good stuff in this but we could have done better,” Gleason said as he cast the only vote against the amended order.

Major components of the rate case decision include:

- Transferring five new state-of-the-art natural gas power plants built by APS’ parent company, Pinnacle West Energy Corporation, to APS. APS originally applied to have these plants rolled into its rate base at a transfer price of \$882 million. The Commissioners approved a transfer at \$700 million recommended by the settlement parties. The company successfully argued that these power plants have been serving ratepayers since they began operations.
- An agreement that APS would not build any new power plants before 2015 as a way to ensure that consumers benefit from wholesale electric competition and a new competitive bidding process. APS can apply to the Commission for a special exemption if the company can prove that it is imperative to buy or build a power plant prior to 2015 to maintain reliable service.
- Increased commitments to renewable energy and the introduction of new energy efficiency programs. The order requires a large increase in money spent on energy-efficiency demand side management (DSM) programs. DSM programs reduce demand on the customer side of the meter through energy efficient construction or by replacing high-energy use products with newer, more efficient models.
- A requirement to provide data and recommendations on ways APS can boost electric reliability on Native American tribal lands.
- New consumer education programs designed to help customers find ways to save energy – and money – by modifying their home or office energy use.

Important modifications to the ALJ Recommendation:

Power Supply Adjustor – The Commissioners modified an earlier recommendation by the Commission’s Administrative Law Judge to cap the total fuel and purchased power costs to encourage APS to manage its costs and help prevent large account balances from occurring in one year. The annual net fuel and purchased power costs that can be used to calculate the annual PSA will be capped at \$776.2 million. Any fuel or purchased power costs above that threshold would not be recovered from ratepayers.

The judge’s earlier recommendation set a \$500 million cap but included only gas costs. Administrative Law Judge Lyn Farmer explained the change in her recommendation saying that capping only the cost of natural gas could create an incentive for APS to make resource acquisition decisions based on cost recovery, instead of efficiency and economy.

RFP for Renewable Energy – The settlement required staff to convene workshops on resource planning, focusing on developing needed infrastructure and a flexible, timely and fair competitive procurement process. The amendment directs workshop participants to consider expanded use of utility-scale solar electric integrated with existing coal-fired plants. The Commissioners passed it recognizing that existing coal plants face increasingly more stringent environmental regulations and a solar component could help mitigate the impact of coal-fired generation. Transmission infrastructure already exists to the coal-fired plants.

Another amendment moves up the date of the competitive RFP to May 15, 2005 in order to take advantage of any federal tax credits for renewable energy production.

How can I learn more about this case?

The complete amended order will be posted on the Commission website once all the amendments are incorporated, all conforming changes are made and the Commissioners sign the order. This process could take a week or more. Please check the website at <http://www.cc.state.az.us/utility/electric/arc-index.htm> periodically.

For more information about this case or the steps leading up to this decision, visit the Commission’s webpage at <http://www.cc.state.az.us/utility/electric/arc-index.htm>.