

Arizona Public Service Company's Regulatory Interaction

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May 4, 2009

Agenda

- Open Access Transmission Tariff Overview
- Interconnection Queue Issues
- Transmission Formula Rate
- Arizona Corporation Commission Tariff Issues
- Questions

Order No. 888

- Created a “*pro forma*” tariff, which contains standardized terms and conditions.
- Each transmission owner must file a pro forma tariff with the FERC that offers both network and point-to-point service to provide transmission of wholesale power. (also known as the OATT)

What is Network Service?

- Costs based on TP Network
- Billing based on Customer's Load
- Allows TC to use TP's lines to serve designated loads from designated resources without having to pay a separate charge for each pairing of resource to load.

What is Point-to-Point (PTP) Service?

- Billing based on capacity reservations
- TC designates point(s) of delivery (POD) and point(s) of receipt (POR) and makes a capacity reservation for each.
- Long Term versus Short Term
- Firm versus Non-Firm

Basic Elements of APS' OATT

- PTP Service
- Network Service
- Retail Network Service
- Schedules
- Attachments
 - Service Agreements
 - ATC Methodology
 - Transmission Planning Process
 - Network Operating Agreement
 - Annual Transmission Revenue Requirement
 - Creditworthiness Procedure
 - AZ ISA Protocols
 - NAESB Practices
 - LGIP and LGIA
 - SGIP and SGIA

Interconnection Queue Issues

- Overall queue management
 - Phantom projects
 - Queue Hedging
 - Changes in queue affects schedules and costs
- Imbalance between requests and the capability of the transmission system

Interconnection Queue Issues – Possible Solutions

- Increase the initial deposit requirement
- Increase deposit requirements if a project does not have site control
- Biannual Interconnection Request Application Windows
- Close interconnection queue, file at FERC a modified LGIA and then reopen the queue

Transmission Formula Rate - Background

- Serves over 1,100,000 customers in 11 of 15 counties in state
- Peak Load of over 7100MW
- Growing at over 4% per year (280-300MW)
 - Equates to a new large power plant every two years or
 - A new 500kv transmission line every 3 or 4 years
- Unbundled service territory

Transmission Formula Rate - Background

- APS' Last FERC Transmission Rate Case
 - Filed in 1995
 - Revenue Requirement = \$86.5 million
 - Stated Rate
 - Number of Customers = 610,505
 - Point-To-Point Rate = \$1.43
 - Black box Settlement

Transmission Formula Rate - Background

- APS' Transmission Rate Case - Settlement
 - Filed July 10, 2007 (effective March 1, 2008, subject to refund)
 - Revenue Requirement = \$180 million
 - Formula Rate
 - Number of Customers = 1,100,000
 - Point-To-Point Rate = \$1.73
 - ROE = 10.75%

Formula Rate Methodology

- Five month lag (based on previous year's FERC Form 1 data)
- Prior year costs plus current year 13 month weighted Capital Additions
- Rates based on:
 - Historical costs based on FERC Form 1
 - Capital additions based on investment for current year (actual to date and projected through year end)
- True-up occurs annually in May
- New rates become effective in June

Arizona Corporation

Commission Tariff Issues

- Dealing with regulatory lag - recovery on new investment does not occur until up to 2 years after investment is made
- Impact of new programs on revenue - Increased spending on Energy Efficiency and Renewable Energy results in lower energy sales volume and potential for significant impact on future rates because of unrecovered fixed costs



Questions?