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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- MARC SPITZER, Chairman
- WILLIAM A. MUNDELL
- JEFF HATCH-MILLER
- MIKE GLEASON
- KRISTIN K. MAYES

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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, AND FOR APPROVAL OF PURCHASED POWER CONTRACT

DOCKET NO. E-01345A-03-0437

**NOTICE OF FILING
 REBUTTAL TESTIMONY
 ERRATA**

Arizona Public Service Company ("APS" or "Company") hereby files seven replacement pages to its rebuttal testimony submitted on March 30, 2004. The replacement pages are attached, along with an index, in Attachment A. The replacement pages to Ms. Rockenberger's and Mr. Wiedmayer's rebuttal testimony correct an error in the calculated averages shown in the comparison table. The five replacement pages to Mr. Wheeler's rebuttal testimony slightly revise an ambiguous citation to and discussion of one of the Electric Competition Rules (pages 55 and 56) and correct typographical errors in several references to Staff witness Linda Jaress (pages 64, 67 and 74).

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Arizona Corporation Commission

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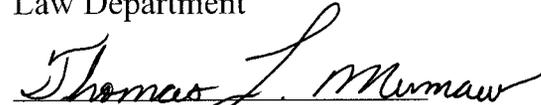
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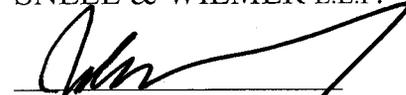
RESPECTFULLY SUBMITTED this 13th day of April 2004.

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ORIGINAL AND 13 COPIES OF THE FOREGOING
filed this 13th day of April 2004, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
PHOENIX, AZ 85007;

Copies of the foregoing mailed, faxed or
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April 2004 to:

All Parties of Record


Birdie Cobb

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Index of Corrected Pages

April 13, 2004

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1 depreciation by proposing only a current period recognition of removal costs.
 2 Additionally, for AROs addressed in SFAS No. 143, Mr. Majoros's
 3 recommendation could result in excess removal costs being collected over the life
 4 of an asset and returned to customers only after the actual removal is completed.
 5 In both cases, the result is that costs are not distributed in a rational manner over
 6 the life of an asset.

7 I also believe that Mr. Majoros's recommendations are unreasonable because APS'
 8 depreciation rates are already among the lowest and most conservative of any
 9 utility in the Western United States. The following table shows the composite
 10 depreciation rates for categories of plant accounts for which Mr. Majoros is
 11 recommending changes from APS' existing and proposed depreciation rates:

COMPARISON OF DEPRECIATION RATES ON TRANSMISSION, DISTRIBUTION AND GENERAL PLANT BY VARIOUS UTILITY COMPANIES IN SOUTHWEST UNITED STATES			
Company	Transmission	Distribution	General
APS Existing Rates	2.26%	3.41%	4.93%
SRP (1)	2.20%	4.61%	6.46%
Tucson Electric Power(1)	3.34%	3.40%	8.88%
UNS Electric(1)	3.61%	4.48%	5.34%
Nevada Power(2)	2.48%	2.71%	6.61%
Public Service of New Mexico(2)	2.59%	3.36%	4.96%
SCE (2)	2.25%	3.92%	9.38%
SDGE (2)	2.73%	4.61%	5.80%
PG&E (2)	3.24%	2.86%	11.20%
Average Rates	2.74%	3.71%	7.06%
APS-Proposed Rates	2.24%	2.80%	6.18%
Majoros Proposed rates(3)	2.02%	2.43%	4.59%
Majoros Proposed rates(4)	1.59%	2.25%	4.44%

(1) Rates provided by company
 (2) Information from FERC Web site-FERC Form 1 data
 (3) Without Normalized Net Salvage Proposal
 (4) With Normalized Net Salvage Proposal

1 Number 02-0391). I would also note that on a composite basis, APS already has
 2 some of the lowest depreciation rates in the Western United States. This is shown
 3 on the following table, which shows composite rates for transmission, distribution
 4 and general plant for APS and other western utilities, and which shows the
 5 unreasonable results of Mr. Majoros' recommendations:

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6
 7 **Q. HOW DOES MR. MAJOROS CONCLUDE THAT LONGER SERVICE LIVES**
 8 **SHOULD APPLY TO THESE ACCOUNTS?**

9 **A.** Mr. Majoros proposes that radically different survivor curves from those presented
 10 in the Company's depreciation study be used. Survivor curves are used to
 11 describe the survivor characteristics of electric plant, and I will describe them in
 12 more detail later in my rebuttal testimony. The depreciation rate is a function of the

1 other electricity suppliers are unwilling or unable to
2 supply electric generation service and whose
3 electric generation service has been discontinued
through no fault of the retail electric customer.

4 Read literally, the provision could be construed as attempting to limit APS'
5 PLR responsibility to only those customers using 100,000 kWh or less per
6 year, and only to even these smaller customers under very specific
7 circumstances. As such, it would not only conflict with the service
8 obligation described above, but with that set forth in A.A.C. R14-2-1606
9 (A) ["Rule 1606 (A)"]. As originally passed in 1996, Rule 1606 (A) stated:

10 Until the Commission determines that competition has been
11 substantially implemented for a particular class of consumers
12 (residential, commercial industrial) so that all consumers in
13 that class have an opportunity to participate in the
14 competitive market, and until all Stranded Costs pertaining
15 to that class of customers have been recovered, each
Affected Utility shall make available to all the consumers in
that class in its service area, as defined on the date indicated
in R14-2-1602, Standard Offer bundled generation,
transmission, ancillary, distribution, and other necessary
services at regulated rates.[Emphasis supplied.]

16 Later, the Commission deleted even the conditional elimination of Standard
17 Offer service described above.

18 Customers using more than 100,000 kWh per year accounted for some 36%
19 of the Company's 2003 peak demand and 50% of annual energy sales.
20 From a planning perspective, it is critical for APS to know whether it does
21 or does not need to plan new resources to meet this significant customer
22 demand in its service area. To not know risks either an unnecessary over-
23 commitment by the Company to new resources that may well impose future
24 costs on the Company's smaller customers, or alternatively, the possibility
25 of crippling shortages and curtailments, with resultant loss of employment
and general economic activity within much of Arizona.

1 As was seen back in 1999-2000, ESPs can disappear as quickly as they
2 arrive, especially when market conditions are bad. If there is no existing
3 infrastructure investment by the incumbent utility to provide substitute
4 service, APS customers may find themselves "high and dry" with few if
5 any options to simply foundering on their own in what is then likely to be
6 another chaotic power market.

7
8 *A. APS Authority to Join an RTO*

9 **Q. RUCO WITNESS DR. RICHARD ROSEN SUGGESTS THAT APS
10 NOT BE PERMITTED TO JOIN A FERC-APPROVED RTO. WHAT
11 IS YOUR RESPONSE?**

12 **A.** The Electric Competition Rules have long supported the concept of a
13 regional transmission organization under FERC jurisdiction. Specifically,
14 A.A.C. R14-2-1609 (C) states:

15 The Commission supports the development of [a] Federal
16 Energy Regulatory Commission-approved Regional
17 Transmission Organization (RTO) . . . The Commission
18 believes such organizations are necessary in order to provide
19 non-discriminatory retail access and facilitate a robust and
20 efficient electricity market.

21 Later, in subsection (F) of that same Rule, the Commission directs
22 that:

23 Each of the Affected Utilities shall make good faith efforts to
24 develop a regional, multi-state Independent System Operator
25 or Regional Transmission Organization.

In addition, Section 7.6 of the 1999 APS Settlement, which this
Commission approved and adopted in Decision No. 61973, requires the
Company to support and join an RTO.

APS has, in fact, made more than a good faith effort to develop this
region's FERC-approved RTO, WestConnect, and has been a leader in

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Q. DID THE TWO FINANCING ORDERS REFERENCED IN MS. JARESS AND STAFF'S SEEMING WILLINGNESS TO ALLOW ALL OF THE COMPANY'S DIVESTITURE-RELATED COSTS IN RATES COMPENSATE APS FOR THE REVERSAL OF COURSE ON DIVESTITURE?

A. Far from it, although we certainly needed both of the financing approvals and are thankful that Staff and the Commission agreed. But, these approvals provided only temporary relief from the predicament caused by the Track A Order and actually added to the damages incurred by the Company and its affiliates associated with that policy reversal.

Q. HOW CAN THAT BE?

A. The first financing order provided Pinnacle West with a backup credit line that will expire before rates become effective in this case. The second of the financing orders resulted in: (1) a lower return to APS and a lower revenue requirement in this proceeding (substantially lower under the recommendations of Staff and intervenors) because of the additional debt APS needed to incur in anticipation of receiving the PWEC assets; (2) the loss of the affiliate rule waivers granted under the Settlement; (3) the imposition of new affiliate restrictions (concerning the acquisition or disposition of property by non-APS affiliates Pinnacle West and PWEC) that did not exist even prior to the Settlement (4) the loss of additional millions to PWEC every year in the form of the interest premium paid to APS customers; (5) the imposition of a dividend limitation that may be triggered by adoption of Staff's recommendation in this case; and (6) the opportunity to have its integrity questioned in the "preliminary inquiry." APS sought the latter financing and agreed to these conditions simply because there was no other way to survive until this rate case gave the Commission its opportunity to address the aftermath of the Track A Order.

1 for less or as a result of APS deciding to litigate the matter rather than
2 settling, that figure would be even lower. APS is collecting no "stranded
3 costs" today and can not even potentially collect any more after the end of
4 this year. Thus, even if the Commission had found back in 1999 that the
5 Company had "zero" potentially "stranded costs," there would have been
6 little if any impact on the actual level of "stranded costs" incurred by APS.
7 And such impact would not have triggered a write-off in any event, but
8 rather would have caused a *de minimis* impact on annual earnings during
9 1999 and 2000, the only two years in which the Company had any direct
access customers.

10 **Q. ARE YOU SAYING THAT BUT FOR THE SETTLEMENT, APS**
11 **WOULD NOT HAVE INCURRED ANY WRITE-OFF?**

12 **A.** I am saying exactly that. Thus, the present circumstances are even more
13 ironic that posited by Mr. Higgins when he speculates that if APS had
14 sought a smaller level of potentially "stranded costs" it would have had a
15 smaller write-off. In fact, if APS had simply refused to settle at all on the
16 "stranded cost" issue and instead fully litigated the matter before the
17 Commission, it would not have suffered a write-off irrespective of the
18 outcome of such litigation.

19 **VII. THE PRELIMINARY INQUIRY**

20 **Q. ARE YOU THE COMPANY'S PRIMARY WITNESS ON THE**
21 **"PRELIMINARY INQUIRY" ORDERED BY DECISION NO. 65796?**

22 **A.** No. Mr. Jack Davis also discusses the major conclusions of Ms. Jaress,
23 while APS witnesses Ed Fox and Mr. Robinson address the more narrow
24 issues of environmental permitting and general inter-affiliate accounting
25 requirements.
26

1 A. No, although I do not know what this issue has to do with the "Preliminary
2 Inquiry" unless APS' strict adherence to the "spirit" and "letter" of its Code
3 of Conduct and Rule 1615 (A) is itself somehow believed improper by
4 Staff. However, the answer to this question is significant for another reason,
5 which I explain later in this portion of my Rebuttal Testimony.

6 **Q. MS. JARESS APPEARS TO DISPUTE THIS CONCLUSION
7 (JARESS TESTIMONY AT 26, LINE 20 THROUGH 27, LINE 7).
8 WOULD YOU RESPOND?**

9 A. Of course, and I must add that not only is this the first time a Staff witness
10 has disputed the Company's interpretation of A.A.C. R14-2-1615 (A)
11 ["Rule 1615 (A)"] and the APS Code of Conduct's definition of "Interim
12 Competitive Services," but Ms. Jaress seems to be at odds with Mr. Salgo,
13 who asks the Commission for "clarity" of the issue of utility-owned
14 generation (Salgo Testimony at 12 and 25). I find Ms. Jaress' position
15 especially ironic in that both Rule 1615 (A) and the specific provision of
16 the APS Code of Conduct in question (Section X) were proposed by Staff in
17 the first instance. In any event, Ms. Jaress' testimony does not provide any
18 analysis of the provisions in question to justify her opinion, which is also
19 inconsistent with at least two prior Commission decisions and a previous
20 Staff Report on the APS Code of Conduct.

21 **Q. PLEASE CONTINUE.**

22 A. I will begin with Decision No. 63354 (February 8, 2001). This Decision
23 granted APS "a waiver of R14-2-1615 (A) [Rule 1615 (A)] as needed to
24 allow the applicant [APS] to own 'solar resources' and 'environmentally-
25 friendly' renewable electricity technologies . . ." (Decision No. 63354 at 4.)
26 Why would APS need a waiver of Rule 1615 (A) to own, build and buy
renewable generation resources if it were not otherwise prohibited from