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BEFORE THE ARIZONA CORPORATION COMM.

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AZ CORP COMMISSION
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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

Arizona Corporation Commission
DOCKETED

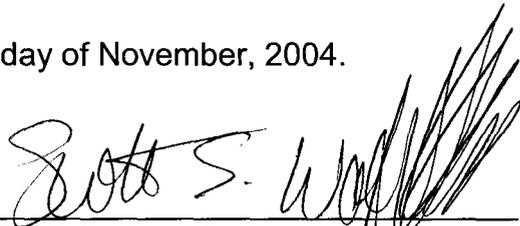
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NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Settlement Testimony Summaries of Marylee Diaz Cortez and Stephen Ahearn in the above-referenced matter.

RESPECTFULLY SUBMITTED this 4th day of November, 2004.



Scott S. Wakefield
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 4th day
3 of November, 2004 with:

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By 
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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

SETTLEMENT TESTIMONY SUMMARY

OF

STEPHEN AHEARN

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 4, 2004

ARIZONA PUBLIC SERVICE
DOCKET NO. E-01345A-03-0437
SUMMARY OF SETTLEMENT TESTIMONY OF STEPHEN AHEARN

The settlement testimony of Stephen Ahearn addresses the following aspects of the case:

1. The Public Interest /Public Policy;
2. Competitive Issues; and,
3. Renewable Energy and Energy Efficiency

The following summary seeks to reconcile the settlement's disposition of these issues with RUCO's original filed case.

Public Interest

As distinct from previous APS rate cases, this case provided the opportunity for RUCO and the Commission Staff sufficient time to conduct a full audit of the Company's cost-of-service study and to develop litigation positions and supporting testimony without hurry. It was only after the respective parties' cases were filed that settlement negotiations began.

One measure of the process having met a public interest threshold for appropriateness is the completely inclusive nature of the negotiations themselves. An additional measure of success in meeting public policy objectives is the very substantial, nearly universal consensus ultimately reached on the final settlement agreement itself. That so many parties with conflicting interests could embrace a single result bespeaks a successful process and final product.

The ultimate expression of the agreement having met the Public Interest is the degree to which rate increases have been minimized without jeopardizing the financial integrity of the applicant.

Competitive Issues

Summary of Positions:

The settlement provides for the ratebasing of the PWEC generation assets at the end of this year, keeps alive the possibility of developing successful wholesale and retail electricity markets and provides competitive generators the opportunity to compete for much of the Company's future capacity needs . RUCO's original recommendations contemplated a multi-year phase-in of additional capacity and a termination of retail competition in the state.

Reconciliation of Positions:

RUCO originally suggested a multi-year approach to resolving the PWEC-related issues in this case. Essentially, RUCO argued that the Company's need for the PWEC capacity was not immediate, that all non-ratebase elements of the instant case could be resolved

in this docket, that the PWEC asset-related issues could be put off to another day and that, in any event, the question of the value of the PWEC assets should be subject to a market mechanism such as an auction. The Company made a fair showing through its rebuttal testimony and throughout the settlement negotiations of a need to secure additional capacity sooner rather than later, and the settlement accomplished the asset valuation concern by requiring a heavily discounted transfer price. RUCO's concern about competitive retail markets was heightened by the perception of a transmission-related power grab by the FERC wherever retail markets exist. That and other retail market-related issues raised by RUCO are addressed in the settlement by referring them to the Electric Competition Advisory Group for further evaluation. The settlement tempers a potential over-reliance on wholesale markets with the Company's continued ability to self-build generation under conditions of market failure. In short, the settlement adequately balances the Company's needs with those of its competitors, and minimizes the risks to consumers of exposure to the volatility of pure markets.

Efficiency and Renewables

Summary of Positions:

The settlement funds efficiency demand-side management programs at an average of \$16 MM over each of the next three years, funded both through base rates and a one-year lagged surcharge mechanism. Funding for renewables and the EPS remains at current levels, with a provision to adjust upward if the Commission acts to increase the standard and funding needed to meet its goals successfully. RUCO's litigation position sought to fund the EPS entirely through the surcharge, re-assign the existing EPS funding to DSM, to fund DSM entirely through base rates and to increase overall DSM spending to approximately \$35 MM annually.

Reconciliation of Positions:

The settlement's final funding level for efficiency DSM of \$48 MM over three years is thought by RUCO to be both a reasonable negotiated result of the different parties' beginning litigation positions and a sufficient funding level to adequately underwrite a range of programs that will deliver consequential benefits for all consumers. Finding a way to fund this greatly increased level of efficiency DSM expenditures through a combination of base rates and a lagged surcharge is a creative means to achieve the desirable end. As for the renewables/EPS elements of the settlement, a mechanism to increase funding levels is made available should the Commission determine that additional monies are needed to meet EPS program goals.

Summary

RUCO believes the settlement agreement is a result of informed give-and-take, effective facilitation of a difficult multi-party forum and the recognition of the parties of a fair outcome. As a result, RUCO urges its acceptance.

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR A
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DOCKET NO. E-01345A-03-0437

SETTLEMENT TESTIMONY SUMMARY

OF

MARYLEE DIAZ CORTEZ

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 4, 2004

ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-03-0437
SUMMARY OF THE SETTLEMENT TESTIMONY OF MARYLEE DIAZ CORTEZ

The settlement testimony of Ms. Diaz Cortez addresses the following issues:

- 1) Revenue Requirement
- 2) Rate Adjustor Mechanisms
- 3) Rate Design

In the following, Ms. Diaz Cortez summarizes the settlement's position on these issues and reconciles the settlement with RUCO's original litigation positions on these issues.

Revenue Requirements

Summary of Positions:

The settlement agreement provides for a \$1,867,084,000 revenue requirement which represents a 3.77% increase over 2002 test year adjusted revenues. This compares with a 9.77% increase as originally requested by APS and a 2.84% decrease originally recommended by RUCO.

Reconciliation of Positions:

While RUCO originally recommended a rate decrease for APS, it must be remembered that RUCO had recommended a two phase process for determining APS's revenue requirement: Phase I addressed all rate case elements except the PWEC asset and Phase II would address the PWEC assets. RUCO's 2.84% decrease recommendation was applicable to Phase I, and thus by definition did not consider the PWEC assets. Had Phase II ever happened, RUCO fully anticipated its Phase I recommendation would incrementally increase proportionate to the amount of PWEC to be included in rate base. Thus, the 2.84% decrease was applicable merely to Phase I and was not representative of RUCO's final recommendation as it would relate to both the Phase I and Phase II issues. RUCO believes the settlement revenue requirement is a reasonable approximation of a revenue requirement that might have come out of a Phase II litigation of the PWEC issue.

Rate Adjustment Mechanisms

Summary of Positions:

The settlement agreement includes two surcharges; a continuation of the existing EPS surcharge and a new Competitive Rules Compliance Charge (CRCC) designed to recover competitive transition costs over a five-year period. The agreement includes the implementation of three new rate adjustor mechanisms: a Power Supply Adjustor (PSA), a Transmission Cost adjustor, and a DSM adjustor. APS's original application requested the two surcharges included in the settlement as well as the PSA and Transmission Adjustors.

APS did not originally request a DSM adjustor. RUCO originally supported the two surcharge charges and opposed the PSA and Transmission Adjustors. While RUCO's original position recommended an increased level of DSM spending, it recommended funding of DSM through base rates, rather than an adjustor.

Reconciliation of Positions:

RUCO did not support the PSA in its original Phase I position because absent the PWEC generation plants, APS's fuel mix was more heavily comprised of coal and nuclear, the cost of which is not currently volatile or widely fluctuating. Under RUCO's Phase I recommendation the proposed PSA did not fit the criteria for a rate adjustor. However, with the settlement's inclusion of the PWEC assets in rate base, the fuel mix becomes more heavily weighted with gas, which would meet the volatility test for a rate adjustor mechanism.

Rate Design

Summary of Positions:

Under the terms of the settlement agreement, the 3.77% rate increase will be allocated among the customer classes as follows:

| | | |
|---|-----------------|-------|
| * | Residential | 3.94% |
| * | General Service | 3.50% |
| * | Irrigation | 5.00% |
| * | Lighting | 5.00% |

RUCO's original testimony recommended an even allocation of the required increase (or decrease) across all customer classes. APS also originally proposed an even allocation of the rate increase across all customer classes.

Reconciliation of Positions:

While the settlement rate design does not result in an even allocation of the increase across all customer classes, RUCO was ultimately able to accept the settlement rate design allocation for four reasons:

- 1) The disparity among the increase allocated to the various rate classes is not material;
- 2) In return for RUCO's compromise on the rate increase allocation position, it gained acceptance of some of its other rate design goals. This included the preservation of Schedule E-10 and EC-1 residential rates (which APS proposed to eliminate). The elimination of these rates would have had disproportional impacts on the residential customers on these rate schedules.

- 3) Preservation of time-of-use on-peak and off-peak periods, as well as preservation the existing ratio between on-peak vs. off-peak rates. APS's proposed rates would have modified peak times and materially altered the ratio between on and off-peak rates. This would have dampened any existing incentive to shift on-peak load to off-peak periods.
- 4) It was very unlikely that a near global settlement would be reached without this rate design compromise. RUCO believed this to be a small concession relative to the beneficial results achieved on the other issues in this case through settlement.

Summary

RUCO believes the settlement reaches a fair and reasonable result for all parties and urges its acceptance.