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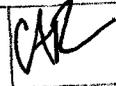
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Arizona Corporation Commission
DOCKETED

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November 4, 2004

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

RE: WITNESS SUMMARIES OF DIRECT AND REBUTTAL SETTLEMENT TESTIMONY UNDER DOCKET
NO. E-01345A-04-0437

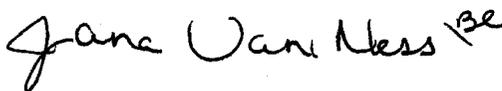
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Dear Sir or Madam:

Pursuant to the Procedural Order dated August 20, 2004, in the above referenced Docket, Arizona Public Service Company ("APS") is hereby filing written summaries of the Direct Settlement Testimony for Steven M. Wheeler, Donald G. Robinson and Steven Fetter. APS is also submitting written summary of the Settlement Rebuttal Testimony for Steven M. Wheeler. Summaries of the Testimony of David J. Rumolo and Stephen M. Bischoff will be submitted at a later date pursuant to the August 20 Procedural Order.

If you or your staff have any questions, please feel free to call me.

Sincerely,



Jana Van Ness
Manager
Regulatory Compliance

JVN/bec

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Summary of Settlement Direct Testimony of Steven M. Wheeler

APS has reduced its prices nine times since 1991. These decreases took place during a period of unprecedented industry turmoil resulting in double digit increases by utilities throughout the country, and particularly here in the West. Unfortunately, we can no longer successfully continue to perform our mission without a price adjustment.

Our rapidly deteriorating financial position and our inability under current rates to earn a reasonable return that would attract and retain capital have left us with perilously low credit metrics. We also have "negative" outlooks from all major credit rating agencies. All this comes at a time when APS will need to invest hundreds of millions of new dollars in the next several years to provide critical infrastructure to serve our rapidly growing customer base. Existing debt from previous investments in plant and equipment will also have to be refinanced on a regular basis. Thus, we were compelled to seek what by all accounts should be perceived as a very modest rate increase – one that even if it had been granted in full would have set rates at the same level they were in the mid-1980s.

And just as our customers expect to receive value for what they pay for electric service, they expect that service to be reliable. They also expect APS to act in an environmentally responsible manner when conducting its business and to have programs in place for its economically disadvantaged customers. I believe customers understand that this will, from time to time, require higher prices.

As I indicated in my Rebuttal Testimony, regulation need not be seen as, and most often is not a "zero sum game," where every utility "gain" must be viewed as a customer "loss." The proposed Settlement is precisely such an example of a "win-win" outcome that meets the needs of customers (both residential and commercial), environmental groups, competitive wholesale and retail market participants, APS workers, low-income customer advocates, and, yes, the Company's investors.

APS had three primary goals going into this rate proceeding and in settlement discussions. In a nutshell, these goals were:

- (1) FINANCIAL – We needed to preserve our financial integrity so that we could continue to attract upon reasonable terms the very substantial capital investment necessary to serve the second fastest growing service area in America;

(2) RELIABILITY– We needed to receive clarification on fundamental regulatory issues affecting resource acquisition and system planning that had become increasingly uncertain in the years since the 1999 APS Settlement was approved by Decision No. 61973 (October 6, 1999); and

(3) UNIFICATION AND EQUITY – We had to address the consequences of the Commission’s “Track A” order in Decision No. 65154 (September 10, 2002), which halted the divestiture of APS generation to Pinnacle West Energy Corporation (“PWEC”), thus bifurcating the generation used to serve APS into two entities subject to differing regulatory regimes.

The settlement agreement filed by Commission Staff on August 18, 2004, was responsive to each of these goals to one degree or another.

The settlement also provides for numerous benefits to APS customers and to the people of Arizona. These include:

- a rate increase that, although significantly less than half of what the Company believes it could demonstrate through its testimony, moves each customer class closer to rates based on cost of service principles
- acquisition for the benefit of APS customers of some 1700 MW of PWEC generation at significantly less than cost and over half a BILLION dollars below its long-term economic value to customers
- implementation of rate adjustment mechanisms, several of which had been approved previously, in whole or in part, in Decision No. 66567 (November 18, 2003), to smooth out changes in rates over time, provide proper price signals, and reduce earnings volatility
- an over 14-fold increase in the level of investment in Commission-approved energy efficiency and conservation, programs, including expansion of the existing low-income weatherization program, and a mechanism for funding even greater amounts of these types of programs, as well as demand-response

programs, if the Commission finds them cost-effective and appropriate

- an RFP in 2005 that could increase APS renewable capacity and energy by approximately 1100%
- a mechanism to fund additional renewable energy commitments ordered by the Commission as a result of its ongoing review of the Environmental Portfolio Standard (“EPS”)
- an expansion in the APS low-income rate discount and bill assistance programs to insulate the Company’s eligible low-income customers from the proposed increase
- to further promote the competitive wholesale market in the near term, a 1000 MW or greater competitive power solicitation will be held during 2005 in which no APS affiliate will be permitted to bid
- a “self-build” moratorium until 2015 and a prohibition on the ability of an APS affiliate to bid in any subsequent solicitation for long-term APS resources without the participation of an independent monitor selected by the Commission
- complete unbundling of rates to facilitate retail competition along with setting of rates for competitive electric services based on APS’ cost of service so that competition will be based on the relative efficiency of the competitors and not on the arbitrage of an inefficient rate structure
- an opportunity for competitive retail electric service providers (“ESPs”) to participate or for their customers to participate in the energy efficiency, conservation and renewable energy programs called for under either the agreement or the existing EPS
- to address long term development of the market and APS resource needs for the future, a series of

workshops and, if appropriate, formal Commission rulemaking on competitive procurement processes, resource planning and infrastructure development

- confirmation that APS has clear authority to join a regional transmission organization (“RTO”) or similar entity to facilitate more efficient wholesale competition
- implementation of a special rate structure recognizing the unique circumstances surrounding the receipt of electric service by Luke Air Force Base (“Luke”), which should also assist the ongoing efforts to prevent closure of Luke
- continued funding of nuclear decommissioning using a “greenfield” methodology in which the Palo Verde plant site is to be restored to its natural condition to the extent possible once the Palo Verde units are retired and dismantled
- an accounting mechanism that will allow for future funding of ongoing efforts by APS at bark beetle remediation, thus promoting system reliability, forest health and community fire safety
- a dismissal of all pending litigation by APS against the Commission and release of all claims as a result of the Track A Order, including but not limited to the \$234 million write-off taken by the Company under terms of the 1999 APS Settlement

The process utilized during the nearly four months of intense settlement negotiations was the most open, transparent and inclusive I have seen in my nearly thirty years of practice and appearances before this and other regulatory agencies, both in and outside of Arizona. It also fully complied with both the letter and spirit of this Commission’s current, if informal, settlement policy. Every view received fair and deliberate consideration in these negotiations. No doubt as a result of these unprecedented efforts at inclusion and good faith negotiation, we ended up with an agreement that covers the broadest possible range of issues, some of which were wholly outside the scope of any of the litigation positions taken by the parties or which presented entirely new solutions to known issues. I also dare say that

the breadth of support evidenced for this agreement is unheard of in this jurisdiction, and to my knowledge, anywhere in the country. Staff, RUCO, consumer groups (large and small, residential and commercial, as well as low-income), APS' competitors (both wholesale and retail), and environmental advocates (both proponents of increased energy efficiency/conservation and renewable resources) all have united in support of the proposed settlement – not because any of them received all that they pursued in litigation, but because all of them believe this agreement is a fair resolution of complicated issues by parties having often conflicting goals and interests and, perhaps more to the point, a better overall resolution of such issues than would likely be achieved through continued litigation.

As I discuss, however briefly, each of the Sections of the Settlement in the body of my Direct Settlement Testimony, both the vast scope of the agreement and the delicate balance of compromises made to achieve it will become all the more evident. APS believes that each provision of the agreement serves an important purpose in the overall context of this Settlement and is presenting witnesses who can respond to questions on such provisions.

Arizona law is full of repeated statements supporting the use of negotiated settlement rather than litigation to resolve disputes. The more complex the dispute, the more likely it is that the parties most affected can better negotiate than litigate a resolution having broad acceptance as being a fair solution to difficult problems. Indeed, the entire legislative process, with which several of the Commissioners are quite familiar, is essentially one of negotiation, debate and compromise.

In making these observations about the role of negotiation and settlement in shaping public policy, I am in no way suggesting that the Commission should not satisfy itself and independently confirm that the public interest benefits promised by the parties to this Settlement actually exist and that there is nothing in the Settlement that harms the public interest. We recognize that this is not only the Commission's right, but also its obligation under our Constitution.

Response to Letter from Commissioner Mayes

On October 29, 2004, Commissioner Mayes filed a letter asking the parties to provide a comparison between their original "litigation" position and the position adopted by the parties in the Settlement. I have attached to my Summary an issue matrix doing just that. As is shown by that issue matrix,

many of the Settlement provisions represented very significant concessions by the Company. In other instances, because the parties were fairly close to each other in the first instance, the Settlement's treatment of those issues is similar to the original APS request. And as I noted earlier in my Summary, the Settlement also addressed issues not raised by APS (or in some cases, not by the testimony of any party).

In the remainder of this Summary, I will discuss some of the major differences and similarities between the Company's original request and the Settlement. However, most of these matters are more appropriately a part of Mr. Robinson's Summary and that of Mr. Rumolo. Yet others are either sufficiently explained by the issue matrix itself or are not, in the Company's view, major substantive issues. Mr. Robinson's Summary is being submitted concurrently with my own. Mr. Rumolo's will be filed later in accordance with the Procedural Order of August 20, 2004. The issue matrix referenced above indicates the appropriate APS witness to respond to detailed inquiries concerning either the Company's original request (as it relates to the issue in question) or the corresponding provision of the Settlement.

To understand how we got to where we are in the proposed Settlement, one must first recognize that the Company and its affiliates were severely and negatively impacted by the "Track A" Order. The "Track B" process, which was a direct result of the "Track A" Order, also resulted in significant unrecovered costs for APS. As a result, APS had previously asserted a number of potential claims against the Commission and the State in the manner prescribed by Arizona law.

The Principles of Resolution entered into by APS and Commission Staff as part of the financing approved in Decision No. 65796 (April 4, 2003), required APS and its affiliates to forego all legal and equitable claims resulting from the unilateral modification by the "Track A" Order of the 1999 APS Settlement Agreement excepting: (1) APS' request to acquire and rate base at net book value the PWEC generation constructed to serve APS; (2) restoration of the \$234 million write-off of prudently-incurred generation costs required by the 1999 APS Settlement Agreement; and (3) recovery of the costs incurred by APS to implement the Commission's Retail Electric Competition Rules and related orders. Each of these remaining APS claims was presented in the Company's original rate filing, and each is addressed in the proposed Settlement.

The first, acquiring and rate-basing the PWEC generation, was achieved in the Settlement only at great cost to APS and with significant restrictions on

the Company's future resource procurement activities. Mr. Robinson discusses why APS could agree to these modifications of its request despite the existence of unequivocal evidence that acquiring the PWEC generation at its June 30, 2004 book value, as was originally proposed by the Company, was the best long-term resource option for APS customers.

Restoration of the \$234 million write-off resulting from the 1999 APS Settlement Agreement is permanently denied in the proposed Settlement. At the time of that 1999 agreement, APS had only agreed to this write-off of costs already previously allowed by the Commission as fully recoverable in rates in exchange for certain other provisions of that 1999 agreement – provisions unilaterally modified by the “Track A” Order. Although it was both logical and equitable for that write-off to be restored under the circumstances, APS was willing to agree to this aspect of the proposed Settlement because of the parts of the proposed Settlement that provide some regulatory certainty both as to the PWEC assets and the future resource procurement efforts of APS. This latter point was critical to better defining the Company's ongoing obligation for its customers' future generation needs and the regulatory “rules of the road” regarding the efforts of APS to discharge that obligation.

There was virtually no disagreement over the recovery of costs related to the implementation of the Retail Electric Competition Rules and related orders. The proposed Settlement reflects the general consensus on this issue.

Although the proposed Settlement fell far short of satisfying even these few remaining claims for relief, APS has agreed in the proposed Settlement to dismiss with prejudice all “Track A” litigation – litigation seeking very significant damages. The Company and its affiliates also surrender any potential but presently unasserted damage claims arising from the “Track A”.

Commissioner Mayes' October 29th letter also asks the parties to explain how the concessions made to achieve this proposed Settlement are “in the public interest.” To that I would first note that the many parties to the proposed Settlement represent literally all segments of the affected public, thus providing the strongest possible evidence that this Settlement is in the public interest. Second, it is the Settlement as a whole that the parties believe and the Commission is asked to find is “in the public interest” rather than isolated provisions of that proposed Settlement. Obviously, APS would not believe it “in the public interest” for it to make, taken in isolation, all the concessions embodied by the proposed Settlement. Neither

would it reasonably expect other parties to feel differently about the issues most important to them. What is "in the public interest" is that a widely divergent group of usually adversarial interests were able to find sufficient common ground to work out this unprecedented agreement – an agreement that represents the originally-desired outcome of no one but an acceptable outcome to virtually everyone. I am hopeful that the Commission will also conclude that this Settlement is in the public interest – not because APS and twenty-some other parties, including Commission Staff say so, but because I hope you will share our collective belief that the Settlement offers substantial benefits to our customers and to the State – benefits that could not likely be achieved through protracted adversarial litigation.

**Major Issue Comparison
APS Case vs. Settlement Agreement**

Issue	APS Rate Case Filing ¹	Settlement	APS Witness
Revenue Requirement	\$175M (9.77%) increase (includes CRCC surcharge)	\$75.5M (4.21%) increase (includes CRCC surcharge and \$10M of required DSM expenditures)	Donald G. Robinson
Competition Rules Compliance Charge (CRCC Surcharge)	0.44% increase to test year revenue requirement in the form of a temporary surcharge; APS may recover \$47.7M plus interest over 5 years	No significant change	Donald G. Robinson
PWEC Asset Treatment / Competitive Procurement of Power	Included in rate base at original cost less depreciation of \$889M	Included in rate base at original cost less depreciation of \$700M (includes \$148M Track B disallowance and additional 6 months of depreciation); no future stranded costs for the PWEC assets; APS will not self-build prior to 1/1/15 without authorization by the Commission; RFP by end of 2005 for at least 1000 MW for 2007 and beyond	Steven M. Wheeler Donald G. Robinson
Cost of Capital	55-45 capital structure w/ PWEC assets	No change	Donald G. Robinson
	5.8% cost of debt	No change	Donald G. Robinson
	11.5% cost of equity	10.25% cost of equity	Donald G. Robinson

**Major Issue Comparison
APS Case vs. Settlement Agreement**

Issue	APS Rate Case Filing ¹	Settlement	APS Witness
Power Supply Adjustor	PSA to include fuel and purchased power costs and have no sunset provision; APS and customers to share in costs and savings (90% to customers, 10% to APS, APS' share capped at \$20M); PSA to begin after June 30, 2004 per Decision No. 61973	APS to forego recovery of increased fuel and purchased power costs between 7/1/04 and 12/31/04; cap on APS share eliminated; detailed reporting requirements; PSA to have a minimum life of 5 years	Donald G. Robinson
Depreciation	Depreciation rates based on traditional service lives	Depreciation rates based on Staff's extended service lives	Donald G. Robinson
\$234 Million Write-Off	Full restoration	No current or future recovery	Steven M. Wheeler
Demand Side Management	\$3M per year for DSM programs (including low income) collected through a DSM surcharge	DSM expenditures of \$48M on ACC-approved DSM programs over 3 years; \$10M per year in base rates with the remainder recovered through DSM adjustment mechanism; collaborative of interested parties to identify and provide input on DSM proposals prior to submission to Commission for approval	Donald G. Robinson

**Major Issue Comparison
APS Case vs. Settlement Agreement**

Issue	APS Rate Case Filing ¹	Settlement	APS Witness
Environmental Portfolio Standard and Other Renewables Programs	Maintain current level of EPS funding and modify current EPS surcharge to allow for annual changes in funding to meet the current EPS requirements	Current EPS surcharge modified to accommodate future changes to EPS; 2005 Renewables RFP for at least 100 MW and 250,000 MWh plus 10% of incremental load growth	Donald G. Robinson
Regulatory Issues	APS sought clarification as to the responsibility of assuring adequate and reliable supplies for APS customers and the permitted structures and means by which that obligation should be discharged	The Settlement Agreement clarifies that (1) APS has the obligation to plan for and serve all customers in its service area, (2) changes in retail access are to be addressed through ECAG, (3) (subject to other conditions of the Settlement) APS has the ability to self-build or buy assets for native load and (4) APS may join a FERRE-approved RTO.	Steven M. Wheeler
Low Income Programs	Maintain current programs and increase funding for marketing E-3 & E-4 tariffs	Increase E-3 and E-4 tariff discount levels	David J. Rumolo
Returning Customer Direct Access Charge	Consistent with Decision No. 66567	No change	David J. Rumolo
Service Schedule Changes	Proposed changes to Schedules 1, 3, 4, 7, 10 and 15	Changes to Schedules 1, 3, 4, 7, 10 and 15 as generally proposed by Staff	David J. Rumolo

**Major Issue Comparison
APS Case vs. Settlement Agreement**

Issue	APS Rate Case Filing ¹	Settlement	APS Witness
Nuclear Decommissioning Funding	Funding level determined using traditional, Commission-approved methodology	No change	Donald G. Robinson
Transmission Cost Adjustor	Proposed as rate schedule TCA-1 and relates to specific costs incurred by APS for procuring transmission for retail customers	Approved with 5% trigger over average test-year transmission costs	David J. Rumolo
Distributed Generation	Continuation of existing policies and practices	Staff to schedule workshops to discuss and resolve outstanding issues	Stephen J. Bischoff
Bark Beetle Remediation	Cost recognition sought	APS authorized to defer reasonable costs that exceed test year levels of tree and brush control	Donald G. Robinson Stephen J. Bischoff
Rate Design	Rate unbundling in conformance with Competition Rules; current frozen rate schedules eliminated; modification to time-of-use rates for General Service customers	Unbundled rate design structure similar to that proposed in APS filing; frozen rates to be eliminated in next rate case; modifications to relative class rates of return compared to APS filed case; maintain current time-of-use time periods for General Service rates; significant revisions to General Service rate E-32	David J. Rumolo

**Major Issue Comparison
APS Case vs. Settlement Agreement**

Issue	APS Rate Case Filing ¹	Settlement	APS Witness
Litigation and Other Issues	Not addressed	<p>APS and affiliates to dismiss or forego with prejudice any and all litigation related to Decision No. 65154, the Track A Order and Decision No. 61973 (1999 APS Settlement); the Preliminary Inquiry ordered in Decision No. 65796 shall be concluded with no further action by the Commission</p>	Steven M. Wheeler

¹ If APS modified its position on rebuttal, this column reflects that modification.

**SUMMARY OF SETTLEMENT REBUTTAL TESTIMONY
OF STEVEN M. WHEELER**

Of the nearly thirty parties to this rate proceeding, only one has filed testimony in opposition. Even here, the AzCA has taken issue with portions of just two of the 22 sections of the proposed settlement. For my part, I wish to simply reiterate the Company's three fundamental positions with regard to the interconnection and operation of customer-owned generation on the APS system. The Commission should not mandate measures that:

- (1) compromise system reliability;
- (2) compromise employee or public safety; or,
- (3) subsidize distributed generation with other customers' money.

Summary of Settlement Direct Testimony of Steven M. Fetter

In this Settlement testimony, I discuss certain aspects of the settlement agreement that is under consideration by the Arizona Corporation Commission ("ACC" or "Commission") for review and approval. Specifically, from my perspective as a former state utility commission chairman and former head of the utility ratings practice at a major credit rating agency, I focus on the importance of settlements to the regulatory process and the benefits that can flow from them; the reasonableness of the 10.25% return on equity provision included within this settlement agreement; and the reaction of the Wall Street financial community, which generally appeared to view the settlement as a constructive resolution of the issues pending within the rate case, but also had some concern about the settlement's immediate impact on APS' financial condition. Finally, I conclude by explaining why I believe that approval of the settlement would represent a positive step for the regulatory environment within Arizona and why such approval could have a positive effect on the credit profiles of other regulated utilities operating within the Commission's jurisdiction.

Summary of Settlement Direct Testimony of Donald G. Robinson

The Settlement was reached after extensive and detailed negotiations involving essentially all of the parties to the case. One of the Company's primary goals going into this rate proceeding was to preserve its financial integrity so that it could continue to attract the capital required to maintain reliable service to our customers. Although I believe the Settlement should permit APS to maintain investment grade credit ratings, it does not provide APS the ability to improve those ratings, nor does it leave room for any further material decline in the Company's financial ratios. It also will not allow the Company to actually earn the agreed to return on common equity ("ROE"). For these reasons, the reactions of the financial markets to the Settlement were mixed, with some entities being neutral to marginally positive, and others expressing concerns about the modest level of the rate increase proposed in the Settlement. APS Witness Steven Fetter addresses the reaction of the market in more detail in his Settlement Testimony.

The Settlement adopts a Power Supply Adjustor ("PSA") similar to adjustment mechanisms approved by the Commission in other proceedings and to the PSA approved by the Commission in APS' PSA proceeding (*see* Decision No. 66567 (November 18, 2003)). The PSA is critical to the Company's and, I believe, the financial market's, ability to accept the low base rate increase. As discussed in greater detail in my Rebuttal Testimony and in the Rebuttal Testimony filed by APS Witness Peter Ewen, fuel and purchased power will make up almost half of the total Company operating expenses in 2005. This increasing exposure to forward gas and power prices, coupled with high price volatility, further illustrates the importance of the proposed PSA.

Although APS already had the lowest overall depreciation rates in Arizona, the Settlement further extends the service lives of many APS assets as recommended by Staff while adopting the jurisdictional net salvage allowance proposed by APS. This extension of service lives explains why the Company's agreement to forego stranded costs on the PWEC assets also represents a significant concession.

I also discuss two procurement processes that the Company will be implementing before the end of 2005 as a result of the Settlement. First, the Company will conduct a 2005 solicitation for at least 1000 MW of long-term resources, with deliveries to begin in 2007. PWEC will not participate in this solicitation. The Settlement also places restrictions on the Company's right to self-build generation through 2015.

Second, the Company will conduct a special RFP in 2005 seeking at least 100 MW and 250,000 MWh from various renewable resources for delivery beginning in 2006. In addition, the Company has agreed to seek to acquire 10% of its future incremental nameplate capacity needs from such renewables.

Finally, my testimony discusses the issues of nuclear decommissioning and the deferral for bark beetle remediation costs.

On October 29, 2004, Commissioner Mayes asked the parties to provide a comparison of their litigation and settlement positions. Mr. Wheeler has provided a matrix of these issues, and I will discuss a few of them.

After a detailed evaluation of the Company's financial status and its revenue requirement needs, the Company filed an application seeking a revenue requirement increase of \$175 million, including the Competition Rules Compliance Charge ("CRCC"). In the Settlement submitted to the Commission, APS has agreed to a revenue requirement increase of only \$75.5 million including the CRCC. The Company agreed to this reduced revenue requirement increase because we believe that the lower revenue requirement increase maintains the Company's financial integrity, a key driver in the Company's rate case application, although it leaves little room for any decline in the Company's financials. Furthermore, the settlement of this rate case resolves many complex and contentious issues in a reasonable manner and is in the public interest.

The Settlement revenue requirement increase is based on a reduced cost of equity from the Company's filing. In its filing, the Company sought an ROE of 11.5%, a 5.8% cost of debt, and a capital structure of 50% debt-50% equity, which resulted in an 8.67% cost of capital. The Settlement, however, reflects an ROE of 10.25%, a cost of debt of 5.8%, and a capital structure of 55% debt-45% equity, which results in a cost of capital of 7.80%. As I discuss in my Settlement Direct Testimony, APS will not actually earn this reduced return in 2005, even assuming that the Settlement rates could be implemented January 1, 2005. Thus, a pattern of earning less than what the Commission has found to be the Company's cost of equity will continue, with 2005 representing the 4th straight year of underearning by the Company totaling more than \$220 million of underearning during that period.

In its filing, APS sought to rate base the PWEC Assets (Redhawk CC1 and CC2, West Phoenix CC4 and CC5, and Saguaro CT3) at projected cost of service as of June 30, 2004. At this level, those assets provide a significant

benefit to APS customers. In the Settlement, APS has agreed to rate base the PWEC Assets at \$700 million. That amount reflects a disallowance of \$148 million from book value and is intended to reflect an estimate of the value for the remaining portion of the APS-PWEC Track B contract. Although the Company continues to believe that such a disallowance was not justified by the facts and because of the significant value that the PWEC Assets provide to customers at the rate base figure proposed in the Company's original rate filing, in the context of a global settlement, the Company agreed to the reduced rate base amount for the PWEC Assets.

In addition to agreeing to the disallowance on the PWEC Assets, the Company also agreed in the Settlement to two provisions critical to the merchant intervenors – the self-build moratorium and the competitive procurement process. Neither provision was addressed in the Company's rate case filing because the Company believed, and still believes, that the consolidation of the PWEC Assets into APS represents a great value to APS and our customers. APS also believed that it needed maximum flexibility to meet its customers' future generation needs in the most cost effective and reliable manner possible. However, Mr. Wheeler explains, the Company also saw significant value in reaching a global settlement of the rate case because of the certainty that it will bring not only to the Company, but also to the other parties. The competitive procurement called for in the Settlement will give the competitive wholesale market a clear opportunity to demonstrate whether or not it can deliver value to our customers, and we look forward to working with those in the merchant power industry to make this competitive solicitation and future competitive solicitations a success.

A key component of the Company's rate case filing, and critical to the Settlement submitted to the Commission, was not only the rate basing of the PWEC Assets, but also the PSA. All parties to the Settlement saw value in the PSA as proposed in the Settlement, which includes a 90/10 sharing and detailed reporting requirements, because it is critical to the Company's future economic stability and smoothes the impacts of volatile fuel and purchased power costs on customers.

With respect to depreciation, the Settlement adopts Staff's significantly longer service lives for many of APS' assets. Although longer service lives will lead to greater overall costs to customers over the life of the assets in question, it did reduce the revenue requirement in this case, and thus the Company agreed to them in the context of the settlement.

The Company included in its rebuttal case a proposal for \$3 million per year for demand side management ("DSM"), including low income

program funding, to be collected through a DSM surcharge. The Company also requested sufficient funding for the environmental portfolio standard ("EPS"). The Settlement, however, includes Commission approved DSM expenditures of \$48 million over three years, with \$10 million per year recovered in base rates and the rest recovered through an adjustment mechanism. Although the Company had reservations about its ability to actually spend such amounts in the time frames specified, it ultimately agreed to such a dramatic increase in DSM spending because of the broad array of issues otherwise resolved in the Settlement.

Finally, the Settlement adopts the Company's proposed nuclear decommissioning treatment, which is consistent with the Commission's prior decisions and reflects a "greenfield" approach to decommissioning and a deferral for future recovery of the reasonable costs of bark beetle remediation that exceed test year levels of tree and brush control.

Each of the issues I have discussed, as well as those discussed by Mr. Wheeler and Mr. Rumolo, played an important role in the Company's agreement to the Settlement. Each issue is also important to at least one or more of the other parties to the Settlement. Combined, the resolution of those issues in the Settlement submitted to the Commission for approval represents a significant achievement on the part of all of the parties and is in the public interest.