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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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KRISTIN K. MAYES
BARRY WONG

2006 NOV 27 P 4: 33

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 TO AMEND DECISION NO. 67744.

DOCKET NO. E-01345A-05-0816

IN THE MATTER OF THE INQUIRY INTO THE FREQUENCY OF UNPLANNED OUTAGES DURING 2005 AT PALO VERDE NUCLEAR GENERATING STATION, THE CAUSES OF THE OUTAGES, THE PROCUREMENT OF REPLACEMENT POWER AND THE IMPACT OF THE OUTAGES ON ARIZONA PUBLIC SERVICE COMPANY'S CUSTOMERS.

DOCKET NO. E-01345A-05-0826

IN THE MATTER OF THE AUDIT OF THE FUEL AND PURCHASED POWER PRACTICES AND COSTS OF THE ARIZONA PUBLIC SERVICE COMPANY.

DOCKET NO. E-01345A-05-0827

STAFF'S NOTICE OF FILING

Staff of the Arizona Corporation Commission hereby provides notice of filing the Summary of the Testimony and Exhibits of James R. Dittmer, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 27th day of November, 2006.

Arizona Corporation Commission

DOCKETED

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DOCKETED BY [Signature]

[Signature]
Christopher C. Kempley, Chief Counsel
Janet Wagner, Senior Staff Counsel
Charles Hains, Attorney
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

1 Original and 17 copies of the foregoing filed
2 this 27th day of November, 2006 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, AZ 85007

7 Copy of the foregoing mailed this
8 27th day of November, 2006 to:

9 Deborah R. Scott
10 Kimberly A. Grouse
11 SNELL & WILMER
12 One Arizona Center
13 400 East Van Buren Street
14 Phoenix, AZ 85004-2202

15 Thomas L. Mumaw
16 Karilee S. Ramaley
17 PINNACLE WEST CAPITAL
18 CORPORATION
19 Post Office Box 53999, MS 8695
20 Phoenix, AZ 85072-3999

21 C. Webb Crockett
22 Patrick J. Black
23 FENNEMORE CRAIG, P.C.
24 3003 North Central Avenue, Suite 2600
25 Phoenix, AZ 85012-2913

26 Michelle Livengood
27 UniSource Energy Services
28 One South Church Street, Suite 200
Tucson, AZ 85702

Donna M. Bronski
Deputy City Attorney
City Attorney's Office
3939 North Drinkwater Boulevard
Scottsdale, AZ 85251

George Bien-Willner
3641 North 39th Avenue
Phoenix, AZ 85014

Michael W. Patten
J. Matthew Derstine
Laura E. Sixkiller
ROSHKA DEWULF & PATTEN, PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, AZ 85004

Michael L. Kurtz
BOEHM, KURTZ & LOWRY
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202

Scott S. Wakefield
RUCO
1110 West Washington Street, Suite 220
Phoenix, AZ 85007

Lawrence V. Robertson, Jr.
Post Office Box 1448
Tubac, AZ 85646

Bill Murphy
Murphy Consulting
5401 North 25th Street
Phoenix, AZ 85016

Andrew W. Bettwy
Karen S. Haller
Assistants General Counsel
Legal Affairs Department
5241 Spring Mountain Road
Las Vegas, NV 89150

1 Amanda Ormond
2 The Ormond Group LLC
3 Southwest Representative
4 Interwest Energy Alliance
5 7650 South McClintock, Suite 103-282
6 Tempe, AZ 85284
7
8 Joseph Knauer, President
9 Jewish Community of Sedona
10 and the Verde Valley
11 100 Meadowlark Drive
12 Post Office Box 10242
13 Sedona, AZ 86339-8242
14
15 David C. Kennedy, Esq.
16 818 East Osborn Road, Suite 103
17 Phoenix, AZ 85014
18
19 S. David Childers, Esq.
20 LOW & CHILDERS
21 2999 North 44th Street, Suite 250
22 Phoenix, AZ 85018
23
24 Tracy Spoon
25 Sun City Taxpayers Association
26 12630 North 103rd Avenue, Suite 144
27 Sun City, AZ 85351
28
29 Tammie Woody
30 10825 West Laurie Lane
31 Peoria, AZ 85345
32
33 Douglas V. Fant
34 Law Offices of Douglas V. Fant
35 3655 West Anthem Drive, Suite A-109
36 Anthem, AZ 85086
37
38 Walter W. Meek, President
39 Arizona Utility Investors Association
40 2100 North Central Avenue, Suite 210
41 Phoenix, AZ 85004
42
43 Sein Seitz, President
44 Arizona Solar Energy Industries Association
45 3008 North Civic Center Plaza
46 Scottsdale, AZ 85251

Dan Austin
Comverge, Inc.
6509 West Frye Road, Suite 4
Chandler, AZ 85226

Timothy M. Hogan
Arizona Center for Law in the Public Interest
202 East McDowell Road, Suite 153
Phoenix, AZ 85004

Jay I. Moyes
Moyes Storey Ltd.
1850 North Central Avenue, Suite 110
Phoenix, AZ 85004

Kenneth R. Saline, P.E.
K.R. Saline & Assoc., PLC
160 North Pasadena, Suite 101
Mesa, AZ 85201

Robert W. Geake
Vice President and General Counsel
Arizona Water Company
Post Office Box 29006
Phoenix, AZ 85038-9006

Lieutenant Colonel Karen S. White
Chief, Air Force Utility Litigation Team
AFLSA/JACL-ULT
139 Barnes Drive
Tyndall AFB, FL 32403

Greg Patterson
Arizona Competitive Power Alliance
916 West Adams Street, Suite 3
Phoenix, AZ 85007

Jim Nelson
12621 North 17th Place
Phoenix, AZ 85022

Barbara Klemstine
Brian Brumfield
Arizona Public Service
Post Office Box 53999, MS 9708
Phoenix, AZ 85072-3999

1 Jon Poston
2 AARP Electric Rate Project
3 6733 East Dale Lane
4 Cave Creek, AZ 85331

4 Coralette Hannon
5 AARP Government Relations & Advocacy
6 6705 Reedy Creek Road
7 Charlotte, NC 28215

8 monica A. martinez

9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
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Testimony Summary for James Dittmer

Mr. Dittmer has filed direct and surrebuttal testimony on behalf of the ACC Utilities Division Staff addressing revenue, expense and rate base adjustments. The majority of Staff Adjustments sponsored by Mr. Dittmer have been accepted by APS. Some adjustments have been accepted by APS in concept, though the actual exact revenue requirement value of some adjustments are dependent other determinations – such as cost of capital – to be made by this Commission. Mr. Dittmer also sponsors the Joint Accounting Schedules that reflect the cumulative recommendations of all Staff witnesses and that includes a reconciliation of Staff's base rate recommendation relative to the Company's original base rate request.

Set forth below are the adjustments being sponsored by Mr. Dittmer that remain "at issue" with APS, as well as a very brief description of the rationale underlying each adjustment.

- Staff is recommending that bark beetle costs deferred *prior to* the date of this Commission's order wherein it authorized APS to defer bark beetle remediation costs be disallowed. Staff did not, and does not, believe the stipulation in the last case intended for APS to be able to defer and later recover costs incurred *prior to* the effective date of the authorizing order.
- Staff is recommending that newly claimed Investment Tax Credits, not restricted as to rate treatment by Internal Revenue Code "normalization" requirements, be used as a rate base offset. These funds are undeniably "cost free" to APS, and accordingly, should be reflected as a rate base offset.
- Staff continues to oppose APS' proposal to collect in rates over a five-year period the "unfunded" projected pension benefit obligation. APS' pension cost proposal has never before been approved by any regulatory body, will result in intergenerational inequity among ratepayers, will result in at least a temporary double recovery of such "unfunded" balance, will do nothing to eliminate current cash flow concerns, and will eventually exacerbate APS' cash flow problems during the ten year period in which the funds are to be returned to ratepayers.
- Staff opposes that portion of the Company's proforma adjustment for Sundance non-fuel operations and maintenance expense that is based upon projected overhaul costs that will not be incurred for many years in the future – and certainly beyond the period of time that rates being established in this proceeding can reasonably be expected to remain in effect.
- Staff opposes inclusion of stock based incentive compensation in cost of service development that is based entirely upon the Company's achievement of financial goals with absolutely no consideration of customer-oriented goals.

- As a matter of regulatory policy, Staff opposes recovery of all lobbying costs, and further, recommends that in the future APS be ordered to record all lobbying costs below the net operating income line – consistent with guidelines set forth within the Uniform System of Accounts.

In its rebuttal filing, APS effectively abandoned its request for rate relief based upon an adjusted historic test year cost of service, and instead, for the first time essentially based the totality of its request upon forecasted financial metrics for 2007 and 2008. More specifically, APS argues in rebuttal and rejoinder testimony that to the extent this Commission adopts any of Staff, RUCO or other intervenors' "revenue requirement" positions or adjustments to the historic test year cost of service, that it should concurrently authorize an exact offsetting "attrition" adjustment to bring the level of rate relief being granted back to the level that APS supports in rejoinder testimony. Mr. Dittmer opposes the Company's belated request for an attrition adjustment. If an attrition adjustment is to be authorized, it should only occur after a utility clearly sets forth such a request in direct testimony so that all parties can adequately analyze through the discovery phase of the proceeding and address in direct testimony as necessary. No party has adequately reviewed the Company's forecast. Accordingly, setting rates on the Company's forecast, after the discovery phase of the proceeding has largely been completed, would be unfair to ratepayers in this proceeding and would result in very bad precedent for all future Arizona utility rate proceedings.