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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

2006 NOV -6 P 4: 18

- JEFF HATCH-MILLER, Chairman
- WILLIAM A. MUNDELL
- MIKE GLEASON
- KRISTIN K. MAYES
- BARRY WONG

AZ CORP COMMISSION
DOCUMENT CONTROL

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 Testimony Summary of Michael L. Brosch in the above-referenced matter.

RESPECTFULLY SUBMITTED this 6th day of November, 2006.

Arizona Corporation Commission
DOCKETED

NOV -6 2006

DOCKETED BY *nr*

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EXECUTIVE SUMMARY OF TESTIMONY
DIRECT TESTIMONY OF MICHAEL L. BROSCH

ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-05-0816

My Direct Testimony on behalf of Commission Staff addresses the cost of service allocation study that is sponsored by APS witness David Rumolo. I explain that cost of service allocation studies are needed to segregate the retail portion of APS rate base and operating income that is subject to the jurisdiction of the Arizona Corporation Commission from that which is under the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). Then, the ACC retail jurisdictional rate base and adjusted test year operating income amounts are further allocated among retail customer classes using class cost of service allocations, so as to provide information reflective of the estimated costs to serve each customer class, as well as unbundled functional and unit costs for use as a guide in the design of tariff rate schedules.

In this Docket, I have reviewed and accepted as reasonable all but one of the cost allocation procedures employed by Mr. Rumolo. My only objection to the Company's approach is the same objection raised by Staff and RUCO in the Company's last Arizona rate case; the Company's use of a 4 coincident peak ("4CP") method to allocate electric production facilities costs based solely upon summer peak demands. I explain in testimony that generating facility costs are not incurred solely to meet summer peak day demands as implied by the 4CP method, but are also optimized to economically produce energy throughout the balance of the year. APS generating capacity costs are not caused only by the need to meet summer peak demands. If this were the case, the Company could have built its entire portfolio of generation consisting of relatively inexpensive gas-fired peaking capacity and avoided the considerable additional costs it has incurred to own and operate nuclear and coal-fired base-load generating units. It is necessary and appropriate to employ an energy weighted production capacity allocation methodology to recognize that a mix of peaking and base-load generating facilities are utilized by APS to cost effectively meet overall 4CP peak hour demands as well as average demands that must be served the other 8,756 hours of the year.

I recommend application of an energy-weighted allocation factor for electric production facilities, in place of the Company's straight 4CP method, using a 4CP peak and average allocation methodology. I have employed the Company's cost allocation model to apply this modified cost allocation to the adjusted rate base and operating income levels sponsored by Staff witness James R. Dittmer, using the Staff's recommended 4CP peak and average method. For illustrative purposes, I have also allocated the Staff's rate base and operating income using the APS-proposed 4CP methodology. The results of these allocations are presented in Attachments MLB-3 and MLB-4 to my Direct Testimony, respectively.