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BEFORE THE ARIZONA CORPORATION COMMISSION

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| | |
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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<br>E-01345A-05-0826<br>E-01345A-05-0827<br>NOTICE OF FILING TESTIMONY SUMMARIES |

Federal Executive Agencies (FEA), by and through the undersigned attorney, representing all Federal customers of Arizona Public Service Company, hereby provides notice of filing the Testimony Summaries of Dr Dennis Goins and Colonel Ronald J. Mozzillo in this proceeding.

RESPECTFULLY SUBMITTED this 8th day of November 2006.

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Arizona Corporation Commission
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8th day of November 2006, with:

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Phoenix, AZ 85007

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**BEFORE THE ARIZONA CORPORATION 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<br>E-01345A-05-0826<br>E-01345A-05-0827 |

Testimony Summary

Dr Dennis Goins

On behalf of

Federal Executive Agencies

November 8, 2006

**DOCKET NO. E-01345A-05-0816**

**SUMMARY OF TESTIMONY**

**DENNIS W. GOINS**

## I. DIRECT

In my direct testimony, I address 3 principal issues:

1. Allocation of demand-related production costs. Because summer peak demands are the principal drivers of APS' need for generating capacity, I recommend using APS' proposed 4CP methodology to allocate demand-related production costs.

2. Revenue spread. Under APS' proposed revenue spread, rates for the Residential and General Service classes move closer to cost of service (measured by movement towards a unity rate of return index). However, interclass revenue subsidies under APS' revenue spread increase by more than 50 percent—from around $44.5 million under present rates to more than $67.2 million under proposed rates. Approximately $64.3 million of the interclass subsidies created under APS' proposed revenue spread goes to Residential customers. I recommend reducing interclass revenue subsidies under APS' proposed revenue spread by half, subject to no class' receiving an increase greater than 150 percent of the average system rate increase (excluding the EIC).

3. Voltage discounts for Rate E-34. Results from APS' cost-of-service studies indicate that all voltage discounts for Rate E-34 customers should be increased—particularly the Primary Substation discount—relative to voltage discounts proposed by APS. I recommend increasing the discounts to $4.72 per kW for transmission customers, $4.04 for customers served directly from a primary substation, and $0.79 per kW for customers served from primary lines.

## II. SURREBUTTAL

In my surrebuttal testimony, I address 3 principal issues:

1. Staff's recommended 4CP&A methodology to allocate fixed production costs. Under Staff's recommended 4CP&A allocation methodology, allocation factors reflect a weighted combination of each class' 4CP demand factor and its average demand factor. The methodology suffers from at least two major flaws: (1) double counting average demand in the peak demand and energy (average demand) components of the 4CP&A allocation factors, and (2) an asymmetrical allocation of fixed and variable production costs that results in higher load factor customer classes subsidizing lower load factor classes. Because of these major flaws, I recommend using APS' proposed 4CP allocation methodology.

2. Allocation of energy-related costs. Results from AECC witness Kevin Higgins' hourly energy cost analysis show that the APS 4CP and Staff 4CP&A cost studies—both of which use kWh consumption unadjusted for hourly cost differentials to allocate energy costs to classes—understate the energy-related cost responsibility of Residential customers and overstate the energy-related cost responsibility of higher load factor General Service customers. I recommend using AECC's method to assign time-differentiated, energy-related production costs to customer classes—especially if the Commission requires APS to allocate fixed production costs using the 4CP&A methodology recommended by Staff.

3. Staff's revenue spread. Staff recommends using results from its 4CP&A cost study as a guide in spreading its proposed revenue increase. Staff's recommended revenue spread relies on results from a seriously flawed cost study. In addition, Staff's revenue spread exacerbates the interclass revenue subsidy problem that I discussed in my direct testimony. In particular, Staff's revenue spread increases the interclass revenue subsidy that Residential customers ***receive***—going from around $38.6 million under present rates to nearly $43.9 million. This occurs even when the subsidy is measured relative to cost responsibility determined in Staff's recommended 4CP&A cost study. I recommend that the Commission adopt the revenue spread described in my direct testimony.

**BEFORE THE ARIZONA CORPORATION COMMISSION**

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Testimony Summary

Colonel Ronald J. Mozzillo

On behalf of

Federal Executive Agencies

November 8, 2006

**Testimony Summary of Colonel Ronald J. Mozzillo, USAF**

I am Colonel Ronald J. Mozzillo, Commander, 56th Mission Support Group, Luke Air Force Base, Arizona. I lead seven squadrons encompassing over 1,800 personnel with responsibilities for all areas of base support.

The purpose of my testimony is to identify the economic impact of Luke Air Force Base on the Arizona economy, and highlight the impact of increased utility bills on Luke Air Force Base.

Luke Air Force Base is the Air Force's training ground for F-16 fighter pilots and maintainers. Last year Luke Air Force pilots flew over 50,000 flying hours supporting 36,997 sorties. In addition to our mission of training mission-ready fighter pilots and maintenance personnel, in 2005 Luke Air Force Base deployed 573 Airmen worldwide in support of contingency operations and the Global War on Terror. Luke Air Force Base supports 5377 active duty Air Force members, 1699 Air Force Reserve members and 1248 Department of the Air Force civilian employees..

In addition to the $ 358 million payroll, Luke Air Force Base employees, as well as nearly 4399 secondary jobs in the local communities have an economic impact on Arizona of approximately $1 billion per year. Luke Air Force Base executed $347 million in annual contract awards in Fiscal Year 2005. Of this amount, $10.452 million was awarded within the state of Arizona and $35.2 million was awarded to small and disadvantaged businesses, including $9.6 million to Arizona small and disadvantaged businesses.

Luke Air Force Base takes utility service on the APS E-32 and E-34 Rate Schedules. In fiscal year 2005, Luke Air Force Base paid APS about $4.2 million for electric utility service.

The funds used to pay for the utility service are operations and maintenance (O&M) funds. These funds are also used to fund military operations and maintenance. Any cost avoidance or reduction in costs Luke pays for utilities ensures funds could be utilized elsewhere for essential military operations and maintenance. Since the funding used to pay utility bills is the same funding used to fund military operations and maintenance, when utility bills increase, we must reduce spending on other areas of our military operations and maintenance. The only mechanism we have to increase our overall funding level is to request additional appropriations from Headquarters Air Force and ultimately, Congress.