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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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8 IN THE MATTER OF THE APPLICATION OF
9 ARIZONA PUBLIC SERVICE COMPANY
10 FOR A HEARING TO DETERMINE THE
11 FAIR VALUE OF THE UTILITY PROPERTY
12 OF THE COMPANY FOR RATEMAKING
13 PURPOSES, TO FIX A JUST AND
14 REASONABLE RATE OF RETURN
15 THEREON, TO APPROVE RATE
16 SCHEDULES DESIGNED TO DEVELOP
17 SUCH RETURN, AND TO AMEND
18 DECISION NO. 67744

Docket No. E-01345A-05-0816

13 IN THE MATTER OF THE INQUIRY INTO
14 THE FREQUENCY OF UNPLANNED
15 OUTAGES DURING 2005 AT PALO VERDE
16 NUCLEAR GENERATING STATION, THE
17 CAUSES OF THE OUTAGES, THE
18 PROCUREMENT OF REPLACEMENT
19 POWER AND THE IMPACT OF THE
20 OUTAGES ON ARIZONA PUBLIC SERVICE
21 COMPANY'S CUSTOMERS.

Docket No. E-01345A-05-0826

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

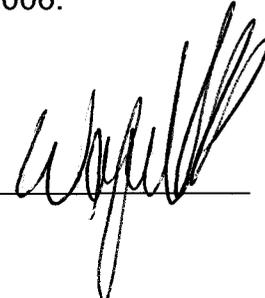
Docket No. E-01345A-05-0827

NOTICE OF FILING

21 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
22 Testimony Summaries of Marylee Diaz-Cortez and William A. Rigsby in the above-referenced
23 matter.
24

1 RESPECTFULLY SUBMITTED this 16th day of November 2006.

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4 Scott S. Wakefield
Chief Counsel



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6 AN ORIGINAL AND SEVENTEEN COPIES
7 of the foregoing filed this 16th day
8 of November 2006 with:

9 Docket Control
10 Arizona Corporation Commission
11 1200 West Washington
12 Phoenix, Arizona 85007

13 COPIES of the foregoing hand delivered/
14 mailed or *emailed this 16th day of November 2006 to:

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12 By *Ernestine Gamble*
13 Ernestine Gamble

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**Arizona Public Service Company
Docket No. E-01345A-05-0816
Rate Application**

**SUMMARY OF THE TESTIMONY OF MARYLEE DIAZ CORTEZ
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

The following is a summary of the significant issues set forth in the direct and surrebuttal testimony of Ms. Diaz Cortez. A full discussion of these issues and the underlying theory and rationales for her recommendations are contained in the referenced documents.

Palo Verde Steam Generator – This adjustment decreases plant in service by \$36.7 million and increases accumulated depreciation by the same amount to reflect the retirement of a steam generator that was replaced post test year.

SFAS Deferred Credit – This adjustment reduces rate base by a net amount of \$3.886 million to include an ACC jurisdictional deferred credit in rate base that the Company had omitted.

Pension Liability – This adjustment removes the pension liability from rate base net of deferred income taxes.

Working Capital – This adjustment decreases the working capital requirement by \$73.3 million, and is primarily attributable to excluding non-cash depreciation expense from the lead/lag calculation and consideration of the long-term interest expense lags.

PWEC Administrative and General Expense - This adjustment decreases operating expense to remove some prior period A&G accounting entries.

SUMMARY OF THE TESTIMONY OF MARYLEE DIAZ CORTEZ (Cont.)

DSM Net Lost Revenues – This adjustment increases revenue by \$4.9 based on a disallowance of the Company-requested Net Lost Revenue adjustment.

Pension Liability - This adjustment decreases annual operating expenses by \$43.695 million to deny APS' request to pre-fund pensions.

Supplemental Executive Retirement Plan – This adjustment decreases operating expenses by \$4.173 million to remove the cost of additional retirement benefits afforded only to high-ranking officials.

Decommissioning Expense – This adjustment decreases operating expenses by \$715,000 to reflect the actual test year recorded Decommissioning expense.

Tax Consulting Fees – This adjustment decreases test-year expenses to remove tax consulting fees related to a prior period.

Miscellaneous Expense – This adjustment removes various inappropriate expenses such as sponsorships, party supplies, and bobblehead toy figurines.

Unregulated Operations - This adjustment removes from operating income the revenues and expenses attributable to APS' unregulated Trading and Marketing department.

Lobbying and Political Activities Expense - This adjustment decreases operating expenses by \$166,000 to remove expenditures related to lobbying and other political activities.

SUMMARY OF THE TESTIMONY OF MARYLEE DIAZ CORTEZ (Cont.)

Amortization Expense - This adjustment decreases amortization expense by \$6.991 million to remove an unsupported increase in amortization expense.

PSA Changes – This section examines the Company's requested changes in its PSA mechanism, and recommends denial of the requested change in sharing of hedge gains and losses.

Hook-up Fees – This section examines the merits of using hook-up fees to mitigate the cost of growth.

Environmental Improvement Charge – This section recommends denial of a Company-proposed adjustor that would require ratepayers to pay for environmental improvements prior to their construction and in-service date.

Demand Side Management – This section discusses RUCO's recommendation regarding DSM expenditures after the three year period covered by Decision No. 67744 has lapsed.

Demand Response Program – RUCO recommends that a task force be formed to explore opportunities for load shaving and shifting through Demand Response Programs.

Environmental Portfolio Standard – This section discusses the pending revisions to the EPS.

SUMMARY OF THE TESTIMONY OF MARYLEE DIAZ CORTEZ (Cont.)

Rate Design – RUCO recommends that its recommended revenue requirement be spread equally across all customer classes and meter sizes.

**Arizona Public Service Company
Docket No. E-01345A-05-0816
Rate Application**

**SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

The following is a summary of the significant issues set forth in both the direct and the surrebuttal testimony of RUCO witness William A. Rigsby, on Arizona Public Service Company's ("APS" or "Company") application for a permanent rate increase. A full discussion of the rate base and operating expense issues associated with APS' request for revenue relief and the underlying theory and rationales for Mr. Rigsby's recommendations are contained in the referenced documents. The significant issues associated with the case are as follows:

Bark Beetle Remediation – Mr. Rigsby will address both the rate base and operating expense adjustments that are associated with this issue. In regard to the rate base treatment of the Company's bark beetle regulatory asset, Mr. Rigsby is recommending that the Commission adopt the actual test year-end deferral balance of \$4,469,059 as the amount on which the Company should be able to earn a return on over an appropriate period of time. The year-end balance treatment that Mr. Rigsby is recommending is no different than the treatment that the Commission typically affords rate base assets.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

In regard to the operating expense treatment for the bark beetle regulatory asset, Mr. Rigsby is recommending that the Commission adopt a three-year recovery of the actual test year-end deferral balance of \$4,469,059 noted above. ACC Staff, APS and RUCO are all in agreement that three years is an appropriate amortization period for the recovery of the Company's bark beetle regulatory asset.

Interest on Customer Deposits – Mr. Rigsby is recommending that the Commission adopt his revised interest expense adjustment of \$871,000, which results in an adjusted level of \$2.4 million in interest on customer deposits. The adjustment takes into consideration the most recent known available interest rate of 4.38 percent and the actual balance of APS customer deposits that were booked at the end of the test year. Both Mr. Rigsby and APS witness Chris N. Froggatt are in agreement on the revised adjustment.

Depreciation Expense – Mr. Rigsby is recommending that the Commission adopt his revised depreciation expense adjustment of \$262,000, which is related to the retirement of turbo-generator units valued at \$9,231,000 (depreciated at a rate of 2.84 percent). Both Mr. Rigsby and APS witness Laura L. Rockenberger are in agreement on the revised adjustment.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

Incentive Pay – Mr. Rigsby is recommending that the Commission adopt RUCO's recommended reduction of APS' expensed incentive program costs by \$4,563,000. The recommended adjustment represents a policy decision on the part of RUCO and, as explained in Mr. Rigsby's direct testimony, forms a recommended starting point from which the Commission can make whatever changes, if any, it wishes to make. Mr. Rigsby believes that it is important to note that other than its recommended level of reduction (which retains 80 percent of the Company-proposed expense), RUCO has not made any specific recommendations regarding the development, administration, goals or the internal execution of the Company's incentive program.

Property Tax Expense – Mr. Rigsby is recommending that the Commission adopt his property tax adjustment, which reduces the Company-proposed level of property tax expense by \$5,976,49. The adjustment reflects the Company's restatement of property tax expense, which takes into consideration the known and measurable suspension of the county education tax that was recently signed into law. In making his adjustment, Mr. Rigsby relied entirely on the figures that were provided by APS witness Laura L. Rockenberger. Mr. Rigsby believes that the Commission should reject Ms. Rockenberger's revised estimated property tax expense figure, which includes property valuation figures that are two years removed from the Company's test year ended September 30, 2005.

SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

Advertising Expense – Mr. Rigsby is recommending that the Commission adopt his recommended \$4,625 reduction to advertising expense. The adjustment is related to APS promotional advertising and has been included in Company witness Laura L. Rockenberger's rebuttal adjustment that reduces test year operating expenses by \$508,000.

Income Tax Expense – Mr. Rigsby is recommending that the Commission adopt his method for calculating a final income tax figure for APS. Both Mr. Rigsby and Company witness Chris N. Froggatt are in agreement on the use of the synchronized interest methodology to determine the amount of interest expense to be deducted from income tax, and that the difference between RUCO's and the Company's recommended levels of income tax expense is the result of the difference in each party's recommended adjustments to rate base and changes to the weighted cost of debt as opposed to the method used to calculate the income tax figure.