



ORIGINAL



0000124935

RECEIVED

April 29, 2010

2011 APR 29 P 4: 06

P.O. Box 53999
Phoenix, AZ 85072
Mail Station 9036
Tel 602 250 3392

Arizona Corporation Commission

DOCKETED

APR 29 2011

AZ CORP COMMISSION
DOCKET CONTROL

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007-2996

DOCKETED BY

Re: Compliance Filing of Arizona Public Service Company Regarding APS
Expense Reduction Commitment, Docket No. E-01345A-08-0172
(2009 APS Settlement Agreement).

Dear Sir or Madam:

As part of its 2009 rate case settlement (the "Settlement")¹, APS agreed to sustain the \$20 million expense savings reported to the Commission in 2009, and to increase its expense reduction commitment to an annual average of \$30 million each year through 2014, for a cumulative total reduction of \$150 million. In no year may the reduction be less than \$25 million. The types of expense savings that may count towards this provision are generally left to the Company's discretion, except that they may not include deferrals of one expense to a subsequent period and may not include cost reductions otherwise necessary to preserve safe and reliable electric service.

APS is acutely focused on cost management, not only to comply with its Settlement obligation and keep costs in check, but also to show customers, stakeholders, investors, credit rating agencies, and the Commission that APS is a company that is committed to managing its costs well. For the 2010 - 2014 Settlement term, that focus is critical both for APS to meet its expense reduction commitment and to strengthen the Company's credit quality and financial metrics. Towards those ends, APS has removed at least \$37,400,000 from its cost structure in 2010. These expense savings include the following:

| Area | Action Taken | 2010 Expense Savings |
|----------------------|---|----------------------|
| Supply Chain Savings | Transformed APS's supply chain organization, changing the way that APS manages its acquisition of goods and services. Among other things, the supply chain initiative is standardizing APS's procurement practices and implementing high-quality planning, procuring, warehousing and delivery of materials and services. Improved sourcing has occurred, for example, in rental equipment vendors, janitorial services, security services and distribution construction. | \$5,000,000 |

¹ Approved by the Commission in Decision No. 71448 (December 30, 2009). The expense reduction commitment is located in Section VII of the Settlement Agreement.

| | | |
|---|--|-------------|
| Fossil Generation Efficiency Improvements | Adopted a standardized operations model for all APS fossil plants, driving plants towards greater consistency, economies of scale, implementation of best practices, resource and knowledge sharing, improved problem identification and communication, reduced use of contractors, and improved cost effectiveness. | \$4,600,000 |
| Fossil Generation Payroll Reduction | Reduced staffing levels and lowered overtime costs at APS fossil plants, resulting in reduced payroll expenses. This was accomplished, for example, by redoing shift and coverage schedules and reallocating and reprioritizing work assignments. | \$5,500,000 |
| Energy Delivery Process Efficiencies | Adopted an Energy Delivery initiative called "SOAR" (Standardize, Organize, Automate, Review), which focused on improving the planning and scheduling of projects, and more efficiently executing daily work activities associated with maintaining the Company's distribution system. As a result of this initiative, among other things, APS reduced corrective maintenance costs by expanding its use of the automated monitoring and analysis process ("TOAN"), for which APS was given the EEI Edison Award in 2008, to include substation equipment; created dedicated planners and standard work packages for crews so that they could be more efficient on jobs; and made more productive use of crews by way of temporary re-deployment to overloaded work areas, thus allowing headcount and overtime cost reductions. | \$6,300,000 |
| Information Services Savings | Reorganized and reduced staffing levels and eliminated non-critical work activities. This resulted, among other things, from a review of work practices, incorporating more current and efficient technology solutions, and increased training and development of key skills across technology platforms. | \$4,800,000 |
| Benefits Costs | Reduced workers compensation claim costs through a focused campaign to improve the safety consciousness of APS's workforce. APS's safety campaign resulted in approximately one-third fewer Occupational Safety and Health Act recordable injuries in 2010 than in 2009. | \$300,000 |
| Customer Service Operating Efficiencies | Focused on various initiatives, including the promotion of paperless-only billing (now the preferred method for 200,000 customers) to reduce administrative costs; the improvement of self-serve options for payment confirmation, which reduced call center call volume and headcount; and made various scheduling and staffing changes in the call center to increase efficiencies and reduce overtime costs. | \$900,000 |
| Law Department and Government Affairs Savings | Performed more work in-house thereby reducing outside legal counsel and contractor costs. | \$800,000 |
| Interest Savings | Saved interest costs related to reduced expenditures. | \$2,500,000 |

| | | |
|--------------------------------------|--|---------------------|
| Management and Employee Compensation | Maintained 2008 base compensation levels in 2009 for all management employees and many non-union front line employees, resulting in continued savings in 2010. | \$5,800,000 |
| Contractor Wage Freeze | Maintained 2008 wage or salary increases in 2009 for APS contractors, resulting in continued savings in 2010. | \$900,000 |
| TOTAL | | \$37,400,000 |

As the foregoing demonstrates, APS has been and remains committed to a Company-wide emphasis on efficiency and cost management, both during the Settlement term and beyond. This letter reports a savings of over \$37 million in 2010 and satisfies the Company's compliance obligations for 2010 under Section VII of the Settlement Agreement. Because 2010 is a rate case test year, these reductions will directly benefit customers.

Sincerely,



Donald G. Robinson

cc: Parties to the Docket;
Original and 13 copies to Docket Control

Copies of the foregoing
delivered/mailed this 29th day of April,
2011, to:

Ernest G. Johnson
Executive Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Maureen Scott
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Janet Wagner
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Terri Ford
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Barbara Keene
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Elijah Abinah
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Daniel Pozefsky
Chief Counsel
RUCO
1110 West Washington
Suite 220
Phoenix, AZ 85007

William A. Rigsby
RUCO
1110 West Washington
Suite 220
Phoenix, AZ 85007

Tina Gamble
RUCO
1110 West Washington
Suite 220
Phoenix, AZ 85007

C. Webb Crocket
Fennemore Craig
3003 North Central
Suite 2600
Phoenix, AZ 85012

Kevin Higgins
Energy Strategies, LLC
215 South State Street
Suite 200
Salt Lake City, UT 84111

Michael L. Kurtz
Boehm, Kurt & Lowry
36 East Seventh Street
Suite 2110
Cincinnati, OH 45202

Kurt J. Boehm
Boehm, Kurt & Lowry
36 East Seventh Street
Suite 2110
Cincinnati, OH 45202

Denis George
Corporate Energy Manager (G09)
The Kroger Company
1014 Vine Street
Cincinnati, OH 45202

Stephen J. Baron
J. Kennedy & Associates
570 Colonial Park Drive
Suite 305
Roswell, GA 30075

Theodore Roberts
Law Department
Sempra Energy
101 Ash Street
H Q 13D
San Diego, CA 92101

Lawrence V. Robertson, Jr.
2247 E. Frontage Road
Tubac, AZ 85646

Michael A. Curtis
501 East Thomas Road
Phoenix, AZ 85012

William P. Sullivan
501 East Thomas Road
Phoenix, AZ 85012

Larry K. Udall
501 East Thomas Road
Phoenix, AZ 85012

Michael Grant
Gallagher & Kennedy, P.A.
2575 East Camelback Road
Phoenix, AZ 85016

Gary Yaquinto
Arizona Investment Council
2100 North Central
Suite 210
Phoenix, AZ 85004

David Berry
Western Resource Advocates
P.O. Box 1064
Scottsdale, AZ 85252

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

Jeff Schlegel
SWEEP Arizona Representatives
1167 W. Samalayuca Drive
Tucson, AZ 85704

Jay I. Moyes
Moyes, Sellers & Sims
1850 North Central Avenue
Suite 1100
Phoenix, AZ 85004

Jeffrey J. Woner
K.R. Saline & Associates, PLC
160 N. Pasadena
Suite 101
Mesa, AZ 85201

Scott Canty
General Counsel
The Hopi Tribe
P.O. Box 123
Kykotsmovi, AZ 86039

Cynthia Zwick
1940 E. Luke Avenue
Phoenix, AZ 85016

Nicholas J. Enoch
349 North 4th Avenue
Phoenix, AZ 85003

Karen S. White
Air Force Utility Litigation &
Negotiation Team
AFLOA/JACL-ULT
139 Barnes Drive
Tyndall AFB, FL 32403

Douglas V. Fant
Law Offices of Douglas V. Fant
3655 W. Anthem Drive
Suite A-109 PMB 411
Anthem, AZ 85086

Barbara Wyllie-Pecora
14410 W. Gunsight Dr.
Sun City West, AZ 85375

Carlo Dal Monte
Catalyst Paper Corporation
65 Front Street
Suite 201
Nanaimo, BC 0

Steve Morrison
SCA Tissue North America
14005 West Old Hwy 66
Bellemont, AZ 86015