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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR AUTHORIZATION FOR
THE PURCHASE OF GENERATING
ASSETS FROM SOUTHERN CALIFORNIA
EDISON AND FOR AN ACCOUNTING
ORDER.

DOCKET NO. E-01345A-10-0474

STAFF'S NOTICE OF FILING
WITNESS SUMMARIES

Staff of the Arizona Corporation Commission ("Staff") hereby files the Witness Summaries of Staff Witnesses Laura A. Furrey, Jeffrey M. Michlik and Margaret "Toby" Little in the above-referenced matter.

RESPECTFULLY SUBMITTED this 12th day of July, 2011.

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Original and thirteen (13) copies
of the foregoing filed this
12th day of July, 2011, with:

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Phoenix, Arizona 85007

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**SUMMARY OF TESTIMONY
STAFF WITNESS MARGARET (TOBY) LITTLE**

**IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY
FOR AUTHORIZATION FOR THE PURCHASE OF
GENERATING ASSETS FROM SOUTHERN CALIFORNIA EDISON
AND FOR AN ACCOUNTING ORDER
DOCKET NO. E-01345A-10-0474**

Staff believes that all of the alternatives presented and analyzed adequately address the needs of the projected customer and load growth in APS' service territory and are not inconsistent with APS' resource plan. The proposal would replace one source of coal generation with another source of coal generation that the Company expects will be cheaper. As such, it does not represent a basic change in its resource plan for meeting baseload requirements. The proposal would increase APS' baseload generation by 129 MW which, based on projected load growth, is expected to be fully utilized by 2014. The remaining alternatives propose various combinations of baseload generation: coal, a combination of coal and combined cycle natural gas, or all combined cycle natural gas generation. From a resource planning perspective, each of the proposals would meet the baseload generation needs of the Company.

Staff believes that the alternatives presented by the Company are the most reasonable scenarios to be considered at this time to meet baseload requirements currently being served by Four Corners 1-5. The cost estimates and assumptions used by the Company in its analyses seem appropriate and reasonable. The total system revenue requirement calculations and the sensitivity analyses provided by APS show a definite if relatively small benefit to its customers over the 30 year life of the proposed alternative, and the proposal offers additional significant benefits that are beyond the scope of this engineering study. Staff believes that the proposed alternative is reasonable. However, this does not imply a specific treatment for future rate base or rate making purposes.

**SUMMARY OF TESTIMONY
STAFF WITNESS LAURA A. FURREY**

**IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY
FOR AUTHORIZATION FOR THE PURCHASE OF
GENERATING ASSETS FROM SOUTHERN CALIFORNIA EDISON
AND FOR AN ACCOUNTING ORDER
DOCKET NO. E-01345A-10-0474**

The Four Corners Power Plant ("Four Corners") Units 1-3 are owned and operated by Arizona Public Service Company ("APS" or the "Company"). Four Corners Units 4 and 5 are operated by APS and co-owned by APS, Southern California Edison Company ("SCE"), El Paso Electric Company, Salt River Project Agricultural Improvement and Power District, and Tucson Electric Power Company. For reasons unique to California utilities, SCE stated that it would no longer make "life extending" capital investments in Four Corners and would divest or otherwise terminate its 48% ownership share in Units 4 and 5 by 2016. APS believes that if no one purchases SCE's share, the remaining owners of Units 4 and 5 may elect to close those units.

This testimony addresses APS' request that the Arizona Corporation Commission ("ACC" or "Commission") authorize the Company to acquire SCE's share of Four Corners Units 4 and 5. Such a request is necessary because the Commission imposed a moratorium on the acquisition of new generation by APS in approving a modified Settlement Agreement in Decision No. 67744 (April 7, 2005).

The modified Settlement Agreement approved in Decision No. 67744 detailed specific criteria that the Company would be required to address should it pursue a self-build option prior to January 1, 2015.¹ This testimony details whether and how APS has addressed:

- a. The Company's specific unmet needs for additional long-term resources;
- b. The Company's efforts to secure adequate and reasonably-priced long-term resources from the competitive wholesale market to meet these needs;
- c. The reasons why APS believes those efforts have been unsuccessful, either in whole or in part;
- d. The extent to which the request to self-build generation is consistent with any applicable Company resource plans and competitive resource acquisition rules or orders resulting from the workshop/rulemaking proceeding described in paragraph 79; and
- e. The anticipated life-cycle cost of the proposed self-build option in comparison with suitable alternatives available from the competitive market for a comparable period of time.

¹ Decision No. 67744 (April 7, 2005) at paragraph 75.

Staff determined that APS adequately addressed the above criteria, as summarized below, and recommends that the Commission lift the self-build moratorium in order to allow APS to pursue the acquisition of SCE's share of Four Corners Units 4 and 5, if APS management decides to do so.

In addressing specific unmet needs for additional long-term resources, the Company stated that even if the proposed transaction moves forward, APS will require another 545 MW of resources to meet its 2017 load requirements. This transaction preserves a well balanced energy supply portfolio for APS, with a slight net increase of 179 MW, providing protection against volatile natural gas prices as well as the potential loss of the Navajo Generating Station capacity.

In addressing the Company's efforts to secure adequate and reasonably-priced long-term resources from the competitive wholesale market to meet the need should Four Corners Units 4 and 5 shut down and why those efforts were unsuccessful, APS stated that there is no existing market for a coal or nuclear resource that would be available to replace Four Corners generation on the necessary timeline. And although natural gas generation would be the next likely alternative, APS has participated in solicitations with merchant gas generators in the recent past and APS was not successful in acquiring any gas generation in these solicitations.

APS stated that the proposed transaction is consistent with its 2009 Resource Plan because it maintains a diverse energy supply portfolio. In addition to resource diversity, the 2009 Resource Plan stressed other key considerations including financial sustainability, resource self-sufficiency, positioning for climate change policy, long-term planning for resource needs, high reliability, and the need for flexibility. The proposed transaction is consistent with these other key considerations.

In discussing consistency with competitive resource acquisition rules, APS acknowledged that, generally speaking, a utility must use an RFP process in acquiring energy and capacity. One exception which would allow a utility to use a procurement method other than an RFP is if "the transaction presents the load-serving entity a genuine, unanticipated opportunity to acquire a power supply resource at a clear and significant discount, compared to the cost of acquiring new generating facilities, and will provide unique value to the load-serving entity's customers[.]"² APS addressed how the proposed transaction fits this particular exemption, allowing the Company to use a bilateral contract in this instance rather than an RFP.

APS also addressed the anticipated life-cycle cost of the proposed transaction in comparison with suitable alternatives, namely natural gas generation, available from the competitive market for a comparable period of time. APS' proposed transaction, at a levelized life cycle cost of \$85/MWh appears to be about \$6 per MWh less than the alternative of existing combined-cycle natural gas available in the competitive market. When compared to the cost of new combined-cycle natural gas generation, the cost of the proposed transaction is \$15 per MWh less.

² A.A.C. R14-2-705(B)(5).

Laura Furrey Summary

Any decision by the Commission to lift the self-build moratorium in order to allow APS to pursue the proposed transaction should not constitute Commission approval of the transaction itself nor should it determine the ultimate regulatory treatment that can or will be accorded to any interest in a generating facility ultimately acquired by APS. Staff is not recommending approval or denial of the acquisition itself, nor is Staff recommending that APS purchase or not purchase SCE's share of Four Corners. Staff's position is that APS' management should make the decision regarding this purchase. Normally, the management of a company is responsible for deciding whether any given acquisition should take place. The company then justifies management's decision in a subsequent rate case.

**SUMMARY OF TESTIMONY
STAFF WITNESS JEFFREY M. MICHLIK**

**IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY
FOR AUTHORIZATION FOR THE PURCHASE OF
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AND FOR AN ACCOUNTING ORDER
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The testimony of Mr. Michlik recommends adoption of an accounting order with the following provisions:

Accounting Order

- (1) That APS may defer, for future consideration of recovery through rates, all non-fuel costs of owning, operating and maintaining the acquired SCE interest in Four Corners Units 4 and 5 net of non-fuel operations and maintenance and property tax savings associated with the closure of Four Corners Units 1 through 3;
- (2) That APS account for all unrecovered costs associated with Four Corners Units 1 through 3 with the perspective that the Commission continues to consider these costs available for future recovery unless and until otherwise determined (i.e., these costs should not be prematurely written off);
- (3) That APS account for any additional costs incurred in connection with the closure of Four Corners Units 1 through 3 with the perspective that the Commission continues to consider these costs available for future recovery unless and until otherwise determined (i.e., these costs should not be prematurely written off);
- (4) That no cost of money, i.e., return, be applied to any deferred amounts;
- (5) That the authorization of a cost deferral not constitute a finding or determination that the deferred costs and proceeds are reasonable, appropriate, or prudent; that such authorization not be construed as providing any relief through rates with respect to the ultimate recovery of the above-authorized deferrals; and that such authorization not be construed to limit the Commission's authority to review the deferred balance and to make any disallowances thereof;
- (6) That APS prepare and retain accounting records sufficient to permit detailed review, in a rate proceeding, of all deferred costs and cost benefits as authorized above;

Jeffrey Michlik Summary

- (7) That APS prepare a separate detailed report of all costs deferred under this authorization and that APS include that report as an integral component of each of its general rate applications in which recovery of those deferred costs is requested;
- (8) That APS file with Docket Control, as a compliance item in this docket, an annual status report of all matters related to the deferrals, and the cumulative costs thereof, with the first such report due no later than December 31, 2012; and
- (9) That the Decision in this matter becomes effective immediately.