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CLUB**
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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

October 13, 2011

Re: Post Hearing Reply Brief of Sierra Club in Docket Number
E-01345A-10-0474

To Whom It May Concern:

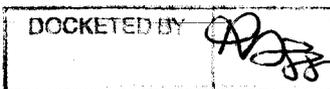
Please find enclosed the original and 13 copies of the Post Hearing Reply Brief and Proof of Service on behalf of Sierra Club. One copy has been mailed to each of the parties on the service list.

Please do not hesitate to contact me if you have any questions. Thank you.

Arizona Corporation Commission

DOCKETED

OCT 14 2011



Sincerely,

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Cc: Service List

PROOF OF SERVICE RECEIVED

I hereby certify that I have this day served the foregoing documents on the following parties in this proceeding by mailing a copy thereof, properly addressed with first class postage prepaid to:

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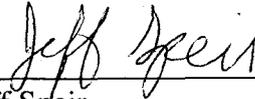
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Dated at San Francisco, California this 13th day of October, 2011.



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Attorney for Sierra Club

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ARIZONA CORPORATION COMMISSION
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Before the Arizona Corporation Commission

GARY PIERCE, CHAIRMAN
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP
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
**POST HEARING REPLY BRIEF OF
SIERRA CLUB**

Sierra Club submits the following brief in reply to the parties' post hearing
briefs on the application of Arizona Public Service ("APS") for authorization of its
proposal to retire Four Corners Units 1-3 and purchase Southern California Edison's
("SCE") share of Four Corners Units 4 and 5.

I. SUMMARY OF RECOMMENDATIONS

Sierra Club reiterates the recommendations it has made throughout this
proceeding to the Arizona Corporation Commission ("Commission"):

- The Commission should direct APS to begin planning to immediately
retire Four Corners Units 1-3 because APS's modeling analyses show
that retirement of Four Corners Units 1- 3 is a significantly less
expensive option than retrofitting those units with new emissions
controls. Retiring Four Corners Units 1-3 will also have dramatic and
beneficial impacts on public health and the environment.

- The Commission should reject APS's proposed acquisition of SCE's share of Four Corners Units 4-5 with leave to refile the Application pending a complete resource plan analysis that includes (1) the upcoming compliance risks that the coal plant will face, and (2) the technical feasibility and economic viability of alternatives to the Four Corners plant.

II. APS DID NOT PROVIDE ADEQUATE SUPPORT FOR ITS PROPOSAL TO INCREASE ITS EXPOSURE TO THE RISKS OF OWNING AN OLD AND DIRTY COAL PLANT

APS's opening brief did not cure the defects of its application. APS did not adequately analyze and support its request to this Commission to lift the self-build moratorium and authorize APS to acquire SCE's share of Four Corners. The Commission imposed the self-build moratorium specifically to address the type of transaction that APS proposed here: the acquisition of a generating unit or interest in one from any merchant or utility generator. (Decision No. 67744 at p. 25.) APS therefore had the burden to demonstrate to this Commission – and its customers – that the purchase of Four Corners warranted an exception to the self-build moratorium. APS failed to meet this burden.

A Commission order granting APS's application would almost certainly result in APS returning to the Commission in its next general rate case to request recovery of the \$294 million purchase price. APS will also return time and time again after that to request recovery of hundreds of millions of dollars in costs for environmental retrofits, costs for repairs to the aging components of the Four Corners plants, and a myriad of other costs related to the Four Corners plant. The critical decision point to determine whether or not to commit ratepayer resources to this investment is now. It therefore fell on APS to provide adequate support in this application for its request before starting down a path of expensive and risky investment in coal. The evidence presented by APS in this proceeding falls short of that requirement because, as Sierra Club has explained, APS failed to fully analyze the financial risks of investments in coal-fired generation that will result from increasingly stringent environmental

1 regulations and other coal related costs. APS also failed to adequately consider a
2 range of alternatives to meet its demand needs.

3 It was APS's burden to demonstrate that its request is appropriate. APS
4 criticized various intervenors for not providing independently analyzed alternatives to
5 the proposed transaction. (APS Opening Brief at pp. 5, 7.) This criticism distracts
6 from the fact that the burden fell to APS – not intervenors – to demonstrate the
7 prudence of the proposed transaction. The Commission does not require, “that Staff
8 or Intervenors must prove imprudence by clear and convincing evidence or, for that
9 matter, that Staff and Intervenors must prove anything by any standard in a utility-
10 initiated rate proceeding. The risk of non-persuasion, and, hence, the burden of proof,
11 remains on the Applicant, in this case, APS.” Docket No. U-1345-85-156, Decision
12 No. 55228 (emphasis in original). While this proceeding is not a rate proceeding, the
13 same standard of proof is applicable here because APS will be committing resources
14 for which it will eventually request recovery in rates. This proceeding revealed
15 numerous instances where APS's analysis fell short of the standard of proof. Most
16 notably, APS failed to consider the financial risks that would result from increasing its
17 customers' exposure to aging coal resources. Those risks are substantial, and failure to
18 include an analysis of the increasing costs of coal pollution was sufficient to warrant
19 denial of APS's application. APS also failed to gather and include sufficient
20 information in its analysis of natural gas resources and renewable generation as
21 alternatives to its proposal to increase its reliance on coal. The resulting analysis was
22 therefore flawed and biased in favor of the proposed transaction.

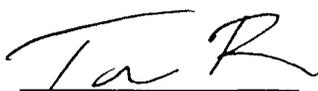
23 **III. CONCLUSION**

24 Coal is a toxic and harmful resource. The increasing costs of pollution controls
25 necessary to operate coal plants and the public's growing intolerance for coal-fired
26 electric generation will continue to put financial pressure on utilities that own coal
27 resources. Rather than acknowledging this trend and planning for it, APS proposed in
28

1 this application to increase its reliance on coal. This is a mistake. It is a mistake that
2 will harm public health, will pollute the air and water, and ultimately will increase
3 costs for both APS and its customers. Sierra Club recommends that the Commission
4 reject APS' proposed acquisition of SCE's share of Four Corners Units 4-5.

5
6 Dated: October 14, 2011

7 Respectfully submitted,

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9 

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