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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

GARY PIERCE, Chairman
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BRENDA BURNS

AZ CORP COMMISSION
DOCKET CONTROL

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, AND TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN.

NO. DOCKET NO. E-01345A-11-0224

**WAL-MART STORES, INC. AND
SAM'S WEST, INC.'S NOTICE OF
FILING**

Wal-Mart Stores, Inc. and Sam's West, Inc. (collectively "Wal-Mart"), hereby provides notice of filing the direct testimony (Rate Design Issues) of Steve W. Chriss in the above-referenced matter.

Dated this 2nd day of December, 2011.

Arizona Corporation Commission

DOCKETED

DEC 2 2011

DOCKETED BY

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By

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2 Docket Control
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4 Phoenix, AZ 85007

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TABLE OF CONTENTS

1

2 Introduction2

3 Purpose of Testimony.....2

4 Summary of Recommendations3

5 Revenue Allocation.....4

6 Rate Design6

7 Experimental Rate Rider Schedule AG-110

8

9 Exhibit SWC-5: Rate Class Rates of Return and Relative Rates of Return, Present and
Proposed Rates

10 Exhibit SWC-6: APS Response to Noble et al 2.1

11 Exhibit SWC-7: APS Response to Nobile et al 1.1

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Introduction

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Steve W. Chriss. My business address is 2001 SE 10th St., Bentonville, AR 72716-0550. My title is Senior Manager, Energy Regulatory Analysis, for Wal-Mart Stores, Inc.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?

A. I am testifying on behalf of Wal-Mart Inc. and Sam's West, Inc. (collectively "Walmart").

Q. ARE YOU THE SAME STEVE W. CHRISS WHO TESTIFIED EARLIER IN THIS DOCKET?

A. Yes. My Witness Qualification Statement was included with my initial testimony as Exhibit SWC-1.

Q. HAVE YOU PREPARED EXHIBITS?

A. Yes, I have prepared Exhibit SWC-5, consisting of one page, Exhibit SWC-6, consisting of one page, and Exhibit SWC-7, consisting of one page.

Purpose of Testimony

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address aspects of the Arizona Public Service Company's ("APS" or "the Company") proposed revenue allocation,

1 rate design, and Schedule AG-1, responding specifically to the testimony of
2 Charles A. Miessner.

3 **Summary of Recommendations**

4 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

5 **A.** My recommendations to the Commission are as follows:

- 6
- 7 1) At the proposed revenue requirement, Walmart does not oppose the Company's
8 proposed revenue allocation.
- 9
- 10 2) If the Commission determines that the appropriate revenue requirement is
11 lower than the level proposed by the Company the Commission should
12 determine the extent to which rates for each rate class can be moved closer to
13 their respective class cost of service.
- 14
- 15 3) The Commission should approve the Company's proposed changes in the
16 structure of E-32L.
- 17
- 18 4) The Commission should approve Schedule AG-1, with the following changes
19 and clarifications:
- 20 a) All retail customers who meet the aggregated peak load requirements
21 should be able to take service under Schedule AG-1.
- 22
- 23 b) The following definition for Aggregated Peak Load should be included
24 in the tariff:
- 25 "Aggregated Peak Load: The sum of the maximum metered kW for the
26 individual customer accounts over the last twelve months, at the time the

1 customer requests service under this schedule, for customer accounts
2 billed under the same corporate name, ownership *or* identity.”

3 c) Customers returning to APS generation service due to the end of a
4 contract period or cancellation of Schedule AG-1 should not be charged
5 a returning customer charge.

6 d) The Commission should reject the Management Fee and monthly
7 reserve capacity charge.
8

9 The fact that an issue is not addressed in this testimony should not be
10 construed as an endorsement of any filed position.

11
12 **Revenue Allocation**

13 **Q. GENERALLY, WHAT IS WALMART'S POSITION ON SETTING**
14 **RATES BASED ON THE UTILITY'S COST OF SERVICE?**

15 A. Walmart advocates that rates be set based on the utility's cost of service. This
16 will provide equitable rates that reflect cost causation, send proper price
17 signals, and minimize price distortions.
18

19 **Q. HOW DID APS DETERMINE ITS PROPOSED REVENUE**
20 **ALLOCATION?**

21
22 A. APS states in their testimony that they considered cost of service as well as rate
23 stability in allocating the proposed revenue requirement increase to the
24 different customer classes. In general, APS allocated higher increases to those
25 rate classes that were the most deficient in recovering their cost of service and
26

1 lower increases to those rate classes that produce greater recovery of their cost
2 of service. *See* Testimony of Charles A. Miessner, page 4, line 4 to line 25.

3 **Q. DOES THE COMPANY'S PROPOSED REVENUE ALLOCATION**
4 **MOVE EACH CLASS TO THEIR RESPECTIVE CLASS COST OF**
5 **SERVICE?**
6

7 A. No. As I discussed in my previous testimony, for the General Service class as a
8 whole, the Company's proposed rates will produce a rate of return of 12.43
9 percent, which is approximately 40 percent above the Company's proposed
10 ACC Jurisdiction rate of return of 8.87 percent. *See* Exhibit SWC-2. As a
11 result, the net operating income for the General Service class is approximately
12 \$76.8 million higher than it would be were revenue to be allocated at the
13 Company's cost of service. *See* Exhibit SWC-3. This is an increase from the
14 rate of return in present rates for the General Service class as a whole, which is
15 11.86 percent, though is lower relative rate of return for the class when
16 compared to the previous relative rate of return. *See* Exhibit SWC-5.
17
18
19

20 **Q. AT THE PROPOSED REVENUE REQUIREMENT INCREASE, DOES**
21 **WALMART OPPOSE THE COMPANY'S PROPOSED REVENUE**
22 **ALLOCATION?**
23

24 A. No.
25
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Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION IF IT DETERMINES THAT A LOWER REVENUE REQUIREMENT IS APPROPRIATE?

A. If the Commission determines that the appropriate revenue requirement is lower than the level proposed by the Company the Commission should determine the extent to which rates for each rate class can be moved closer to their respective class cost of service.

Rate Design

Q. WHAT IS YOUR UNDERSTANDING OF THE CURRENT STRUCTURE OF SCHEDULE E-32L?

A. My understanding is that Schedule E-32L currently has a \$/day basic service charge, a declining block \$/kW demand charge, and a declining block \$/kWh energy charge. *See* APS Rate Schedule E-32L, Effective date of January 1, 2010.

Q. IS IT YOUR UNDERSTANDING THAT THE CURRENT SCHEDULE E-32L STRUCTURE COLLECTS SOME DEMAND-RELATED FIXED COSTS THROUGH THE ENERGY CHARGE?

A. Yes. The current Schedule E-32L structure collects some demand-related costs through the first tier of the energy charge. *See* Direct Testimony of Charles A.

1 Miessner, page 18, line 9 to 11.

2 **Q. DOES APS PROPOSE CHANGES TO THE STRUCTURE OF**
3 **SCHEDULE E-32L?**

4 A. Yes. APS proposes to remove the first tier energy charge, modify the
5 remaining energy charge to reflect the average energy cost per kWh, and
6 recover the demand costs that are currently collected in the first tier of the
7 energy charge through the demand charge. *Id.*, line 11 to line 14 and
8 Attachment CAM-6.
9

10
11 **Q. DOES WALMART SUPPORT THE PROPOSED CHANGES TO THE**
12 **STRUCTURE OF SCHEDULE E-32L?**

13 A. Generally, yes. Removing the collection of demand-related costs from the
14 energy charge better reflects the Company's cost of service and improves the
15 collection of fixed costs. Additionally, moving the collection of demand-
16 related costs to the demand charge corrects the shift in demand cost
17 responsibility from lower load factor customers to higher load factor customers
18 that occurs when demand-related costs are recovered through energy charges.
19 Essentially, recovering demand-related costs on the energy charge results in
20 misallocation of cost responsibility as higher load factor customers overpay for
21 the demand-related costs incurred by the Company to serve them.
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25 **Q. CAN YOU PROVIDE A GENERAL ILLUSTRATION OF A SHIFT IN**
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DEMAND COST RESPONSIBILITY?

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- A. Yes. To provide my illustration, I assume the following:
- a) A utility has only two customers (Customer 1 and Customer 2), with individual monthly peak demands of 20 kW for a total monthly system load of 40 kW.
 - b) The annual revenue requirement or cost to the utility associated with the investment for the 40 kW infrastructure is \$2,000, and the entire cost will be collected each year, so each customer has caused the utility to incur \$1,000 of demand-related or fixed costs.
 - c) Customer 1 has a monthly demand of 20 kW and a load factor of 60 percent and thus consumes 105,120 kWh/year ($20 \text{ kW} * 0.6 * 8760$).
 - d) Customer 2 has a monthly demand of 20 kW and load factor of 30 percent and thus consumes 52,560 kWh/year ($20 \text{ kW} * 0.3 * 8760$).

Q. IF THE DEMAND-RELATED COSTS WERE CHARGED ON A PER KW BASIS, WHAT WOULD THE PER KW CHARGE BE?

A. The charge would be \$4.17 per kW-month ($\$2,000 / 40 \text{ kW} / 12 \text{ months}$). Each customer would then pay \$1,000 for the demand-related cost they impose on the system ($20 \text{ kW} * \$4.17/\text{kW} * 12$).

Q. IF THE DEMAND-RELATED COSTS WERE CHARGED ON A PER KWH BASIS, WHAT WOULD THE PER KWH CHARGE BE?

1 A. If the utility were to charge the demand-related costs on a per kWh basis, the
2 energy charge would be 1.27 cents/kWh (or \$0.0127/kWh). This is calculated
3 as follows: $\$2,000 / 157,680 \text{ kWh}$, using total company sales (i.e., the sum of
4 the two customers' annual kWh usage) as the denominator.
5

6 **Q. WHAT WOULD EACH CUSTOMER PAY UNDER THE PER KWH**
7 **CHARGE?**

8 A. Customer 1, who caused the utility to incur \$1,000 in demand-related costs,
9 with a load factor of 60 percent and an annual usage of 105,120 kWh, would
10 pay \$1,333 ($\$0.0127/\text{kWh} * 105,120 \text{ kWh}$). Customer 2, who also caused the
11 utility to incur \$1,000 in demand-related costs, with a load factor of 30 percent
12 and an annual usage of 52,560 kWh, would pay \$667 ($\$0.0127/\text{kWh} * 52,560$).
13
14

15 **Q. IS THIS AN EQUITABLE RESULT?**

16 A. No. Even though each customer caused the utility to incur \$1,000 in fixed
17 costs, the utility will be over-recovering from one customer and under-
18 recovering from the other. Under the per kWh scenario, the utility would over-
19 recover from Customer 1, the higher load factor customer, by \$333 (i.e. \$1,333
20 in revenues minus \$1,000 in costs), and under-recover from Customer 2, the
21 lower load factor customer, by \$333 (i.e. \$667 in revenues minus \$1,000 in
22 costs).
23
24

25 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION ON**
26

1 **THIS ISSUE?**

- 2 A. In order to provide customers with equitable rates that reflect cost causation
3 principles, send proper price signals, and minimize price distortions within rate
4 classes, the Commission should approve the Company's proposed changes in
5 the structure of E-32L.
6

7 **Experimental Rate Rider Under Schedule AG-1**

8 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S**
9 **PROPOSED SCHEDULE AG-1?**
10

- 11 A. My understanding is that the Company has proposed Schedule AG-1 to allow
12 customers with an aggregated peak load of 10 MW or more each month
13 throughout the year to purchase alternative sources of generation to serve their
14 full power requirements. *See* Direct Testimony of Charles A. Miessner, page
15 20, line 14 to line 15 and Attachment CAM-7, page 1.
16

17 **Q. DOES WALMART SUPPORT THE APPROVAL OF SCHEDULE AG-**
18 **1?**
19

- 20 A. Generally, yes. However, as I will explain below, several changes and
21 clarifications should be incorporated into the approved tariff.
22

23 **Q. IS THE COMPANY'S PROPOSAL CLEAR REGARDING WHICH**
24 **CUSTOMERS MAY TAKE SERVICE UNDER SCHEDULE AG-1?**

- 25 A. No. The proposed tariff states that the rate rider schedule is available "...for all
26

1 Standard Offer customers who have an aggregated Peak load of 10 MW or
2 more each month throughout the year, as measured at the customer's meter(s)."
3 *See* Attachment CAM-7, page 1. However, the Company's testimony suggests
4 that APS will limit participation to Schedules E-34 and E-35. *See* Testimony
5 of Charles A. Miessner, page 20, line 4.
6

7 **Q. DOES MR. MIESSNER CONFIRM IN A RESPONSE TO A DATA**
8 **REQUEST THAT THE COMPANY "GENERALLY ANTICIPATES**
9 **THAT SCHEDULE AG-1 WOULD BE AVAILABLE TO RETAIL**
10 **CUSTOMERS THAT ARE CURRENTLY RECEIVING POWER FROM**
11 **THE APS GRID"?**
12

13 A. Yes. *See* Exhibit SWC-6.
14

15 **Q. IS IT YOUR OPINION THAT ALL RETAIL CUSTOMERS WHO**
16 **MEET THE AGGREGATED PEAK LOAD REQUIREMENTS,**
17 **REGARDLESS OF RATE SCHEDULE, BE ABLE TO TAKE SERVICE**
18 **UNDER SCHEDULE AG-1?**
19

20 A. Yes. Qualification for Schedule AG-1 should not be predicated on the rate
21 schedule under which a potential participant currently takes service.
22

23 **Q. IN THE COMPANY'S PROPOSED TARIFF, HAVE THEY PROVIDED**
24 **A DEFINITION FOR "AGGREGATED PEAK LOAD"?**
25

26 A. No.

1 **Q. HAS THE COMPANY, IN THE DISCOVERY PROCESS, PROPOSED A**
2 **DEFINITION?**

3 A. Yes. The Company has proposed the following definition:

4
5 “Aggregated Peak Load: The sum of the maximum metered kW for the
6 individual customer accounts over the last twelve months, at the time the
7 customer requests service under this schedule, for customer accounts billed
8 under the same corporate name, ownership and identity, as determined by the
9 Company.” See Exhibit SWC-7.

10 **Q. DO YOU PROPOSE ANY CHANGES TO THE DEFINITION?**

11 A. Yes. I propose the following changes:

12
13 “Aggregated Peak Load: The sum of the maximum metered kW for the
14 individual customer accounts over the last twelve months, at the time the
15 customer requests service under this schedule, for customer accounts billed
16 under the same corporate name, ownership and or identity, ~~as determined by~~
17 ~~the Company.~~”

18 **Q. WHY IS THIS CHANGE NECESSARY?**

19 A. This change is necessary to ensure that customers who have the same corporate
20 ownership but operate under different corporate names in the state, such as
21 Wal-Mart Stores, Inc. and Sam's West, Inc., are able to include all of their load
22 under APS in the program.
23

24 **Q. DOES APS PROPOSE RETURNING CUSTOMER CHARGES FOR**
25 **CUSTOMERS WHO RETURN TO THE COMPANY'S BUNDLED**
26

GENERATION SERVICE?

1
2 A. Yes. In testimony, APS states that the returning customer charge will be
3 assessed if the customer returns to the standard APS generation service before
4 the contract term ends, due to default or other reason. *See* Direct Testimony of
5 Charles A. Miessner, page 21, line 20 to line 24. However, the proposed tariff
6 language is less specific about the circumstances of return, and appears to
7 charge a returning customer charge for all customers regardless of the
8 circumstances surrounding the customer's return to APS generation service.
9
10 *See* Attachment CAM-7, page 2.

11
12 **Q. DOES THE COMPANY DISCUSS THE NEED FOR A RETURNING**
13 **CUSTOMER CHARGE?**

14
15 A. No.

16 **Q. ARE THERE CIRCUMSTANCES IN WHICH THE COMPANY**
17 **SHOULD NOT CHARGE A RETURNING CUSTOMER CHARGE TO A**
18 **CUSTOMER RETURNING TO APS GENERATION SERVICE?**

19
20 A. Yes. The Company should not charge a returning customer charge if, at the
21 time a customer returns to APS generation service, APS can know with
22 reasonable certainty that the customer will return, such as the end of a contract
23 period or if APS files for and receives permission from the Commission to
24 cancel Schedule AG-1.
25
26

1 **Q. DOES THE COMPANY PROPOSE TO INCLUDE FEES FOR**
2 **CUSTOMERS ON SCHEDULE AG-1?**

3 A. Yes. The Company proposes two fees. First, APS proposes a monthly reserve
4 capacity charge equal to 15 percent of the customer's monthly peak load.
5 Second, APS proposes a "Management Fee" of \$0.0006/kWh. *See Attachment*
6 *CAM-7, page 2.*

7
8 **Q. HAS APS PROVIDED JUSTIFICATION FOR THESE AMOUNTS?**

9 A. No. The Management Fee, per the Company's testimony, is predicated on the
10 Company's purchasing and managing of the alternative generation on behalf of
11 the customer, but provides no cost basis for the \$0.0006/kWh charge. *See*
12 *Direct Testimony of Charles A. Miessner, page 20, line 18 to line 21.* The
13 Company has provided no justification or cost basis for the monthly reserve
14 capacity charge. As such, the Commission should reject the inclusion of both
15 charges.
16
17

18 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION**
19 **REGARDING SCHEDULE AG-1?**

20 A. The Commission should approve Schedule AG-1, with the following changes
21 and clarifications:

- 22
23 1) All retail customers who meet the aggregated peak load requirements should be
24 able to take service under Schedule AG-1.
25
26

1 2) The following definition for Aggregated Peak Load should be included in the
2 tariff:

3 “Aggregated Peak Load: The sum of the maximum metered kW for the
4 individual customer accounts over the last twelve months, at the time the
5 customer requests service under this schedule, for customer accounts billed
6 under the same corporate name, ownership *or* identity, as determined by the
7 Company.”

8 3) Customers returning to APS generation service due to the end of a contract
9 period or cancellation of Schedule AG-1 will not be charged a returning
10 customer charge.

11 4) The Commission should reject the Management Fee and monthly reserve
12 capacity charge.

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 A. Yes.

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	Present Rates		Proposed Rates	
	Rate of Return (1)	Relative Rate of Return (2)	Rate of Return (3)	Relative Rate of Return (4)
Residential	6.08%	0.73	6.67%	0.75
General Service	11.86%	1.43	12.43%	1.40
Water Pumping	6.06%	0.73	6.79%	0.77
Street Lighting	7.19%	0.87	7.58%	0.85
Dusk to Dawn	9.76%	1.18	10.07%	1.14
Total ACCC Jurisdiction	8.29%		8.87%	

Sources:
 (1) and (2): Schedule G-1, page 1
 (3) and (4): Schedule G-2, page 2

NOBLE AMERICAS ENERGY SOLUTIONS LLC, CONSTELLATION
NEWENERGY, INC., DIRECT ENERGY, LLC AND
SHELL ENERGY NORTH AMERICA (US), L.P. ("NOBLE, ET AL")
SECOND SET OF DATA REQUESTS REGARDING THE APPLICATION TO
APPROVE RATE SCHEDULES DESIGNED TO DEVELOP A JUST AND
REASONABLE RATE OF RETURN
DOCKET NO. E-01345A-11-0224
OCTOBER 21, 2011

Noble et al 2.1: The Availability Section of the proposed Experimental Rate Rider Schedule AG-1 ("Schedule AG-1") says that Schedule AG-1 is "available in all territory served by the Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the sites served." Please identify the points that meet these criteria.

2.1.1 Are there any points in the territory served by the Company where Schedule AG-1 would not be available due to this requirement?

2.1.2 What are the criteria that determine whether the required facilities are of "adequate capacity and the required phase and suitable voltage" to meet the requirement of Schedule AG-1?

Response:

2.1.1 The availability section is standard language that is used in APS' retail standard offer rate schedules. The Company generally anticipates that Schedule AG-1 would be available to retail customers that are currently receiving power from the APS grid. We do not anticipate there will be areas where this language will restrict participation. Typically the customers will already be served by the APS system. However, new customers who request service under schedule AG-1 will be required to comply with APS's Line Extension Policy, Service Schedule 3.

2.1.2 The Company generally anticipates that Schedule AG-1 would be available to retail customers that are currently receiving power from the APS grid.

NOBLE AMERICAS ENERGY SOLUTIONS LLC, CONSTELLATION
NEWENERGY, INC., DIRECT ENERGY, LLC AND
SHELL ENERGY NORTH AMERICA (US), L.P. ("NOBLE, ET AL")
FIRST SET OF DATA REQUESTS REGARDING THE APPLICATION TO
APPROVE RATE SCHEDULES DESIGNED TO DEVELOP A JUST AND
REASONABLE RATE OF RETURN
DOCKET NO. E-01345A-11-0224
OCTOBER 20, 2011

Noble et al 1.1: With reference to the Application section of the proposed
Experimental Rate Rider Schedule AG-1 ("Schedule AG-1"),
please describe what is meant by use of the term
"aggregated."

1.1.1 Would APS be willing to modify Schedule AG-1 to
include a definition of this term?

1.1.2 If so, what language would APS suggest?

Response:

1.1.1

Yes. APS will revise Schedule AG-1 to add a definition of
"aggregated peak load" at the appropriate time in this
proceeding.

1.1.2

The Company intends that for service under Schedule AG-1,
customer accounts can be aggregated under the same corporate
name, entity and ownership, over multiple sites. For example, a
national chain account customer, where the various sites are
owned by the same corporate entity, could aggregate the loads
over multiple accounts and sites. However, a franchised chain
account, where each site is separately owned, could not. The
proposed definition is:

Aggregated Peak Load: The sum of the maximum metered kW
for the individual customer accounts over the last twelve
months, at the time the customer requests service under this
schedule, for customer accounts billed under the same corporate
name, ownership and identity, as determined by the Company.