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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

Docket No. E-01345A-11-0224

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, TO APPROVE RATE SCHEDULES
DESIGNED TO DEVELOP SUCH RETURN.

**NOTICE OF FILING
TESTIMONY SUMMARIES**

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NOTICE IS GIVEN that, pursuant to the Procedural Orders dated July 29, 2011 and December 23, 2011 in this docket, the Arizona Investment Council files the testimony summaries of Gary Yaquinto and Steven M. Fetter.

RESPECTFULLY SUBMITTED this 20th day of January, 2012.

GALLAGHER & KENNEDY, P.A.

By

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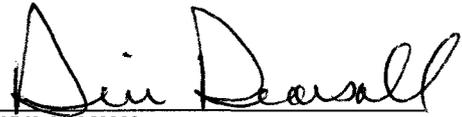
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Testimony Summary of Gary Yaquinto in Support of Settlement Agreement
on behalf of the Arizona Investment Council

Arizona Public Service Company Rate Case
Docket No. E-01345A-11-0224

Mr. Yaquinto is the President of the Arizona Investment Council (“AIC”)—one of 22 signatories that support the Proposed Settlement Agreement which was filed in this Docket on January 6, 2012 (“Settlement Agreement”). His testimony describes the discussions, negotiations and meetings which led to the execution of the Settlement Agreement—all of which were transparent and open to all intervenors.

He testifies that the Settlement Agreement builds on the progress from the Company’s last case. It should improve APS’ financial condition, while also affording customers current rate stability, a four-year stay-out provision and minimizing the potential for future rate shock. Key investor benefits include the potential for lower earnings attrition than would otherwise occur during the moratorium—primarily because of the possible rate adjustment for APS’ acquisition of SCE’s share of Four Corners Units 4 and 5, should that transaction proceed and be approved; an Environmental Improvement Charge modification to allow recovery on a more timely basis of APS’ carrying costs on government-mandated environmental controls; and a cost deferral related to near-term changes in Arizona property tax rates.

Mr. Yaquinto also points out that the Settlement Agreement responds to the Commission’s desire to maintain overall policy flexibility when considering settlement agreements in specific utility rate cases. The AIC urges Commission approval of the agreement. It is an appropriate and productive balance of the divergent views of multiple parties that should give APS a realistic opportunity to recover its prudent costs and earn a reasonable rate of return.

Testimony Summary of Steven M. Fetter in Support of Settlement Agreement
on behalf of the Arizona Investment Council

Arizona Public Service Company Rate Case
Docket No. E-01345A-11-0224

Steven M. Fetter's testimony, on behalf of the Arizona Investment Council, supports the Proposed Settlement Agreement ("Settlement Agreement"). Mr. Fetter is the President of Regulation UnFettered; previously worked for Fitch, Inc, a credit rating agency based in New York and London; and prior to that, served as the Chairman of the Michigan Public Service Commission ("Michigan PSC").

Mr. Fetter describes the Settlement Agreement as a thoughtful and creative package of provisions which are well-balanced across disparate interests; are likely to be well-received by the investment community and rating agencies; and afford the Commission considerable energy policy flexibility. As Chairman of the Michigan PSC, Mr. Fetter testifies that he encouraged its staff to facilitate settlements like this one, because they afford regulators like the Commission a greater opportunity to evaluate whether the terms of the agreement as a whole are consistent with the public interest than does a contested case.

Mr. Fetter discusses the Settlement Agreement's fair balancing of competing utility and consumer interests, including customer beneficial provisions, such as the 2012 zero or negative base rate and bill impact result and its four-year rate case stay-out, as well as Company positive benefits, such as three provisions which address regulatory lag and approval of a Lost Fixed Cost Recovery mechanism to provide revenue support for load lost as a result of APS' energy efficiency and distributed generation support efforts. Although the authorized return on common equity ("ROE") of 10% is somewhat below recent ROE awards in other regulatory jurisdictions, he believes that the level, together with the authorized capital structure, should allow APS to improve its financial condition and credit ratings over time.

Based on his 25-year involvement within the regulated utility sector, Mr. Fetter concludes that the Settlement Agreement produces benefits that a fully-litigated case rarely achieves. Commission review should lead to conclusions that it is reasonable and should be approved.