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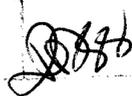
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Arizona Corporation Commission
DOCKETED

JAN 23 2012

DOCKETED BY 

January 23, 2012

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

RE: Arizona Public Service Company's 2010 Test Year Rate Case
Docket No. E-01345A-11-0224

Pursuant to the ALJ Procedural Order dated July 29, 2011:

IT IS FURTHER ORDERED that the parties shall prepare a brief, written summary of the prefiled testimony of each of their witnesses and shall file each summary at least two working days before the witness is scheduled to testify.

Attached please find the Settlement Testimony Summaries of Jeff Guldner, Leland Snook and Chuck Miessner.

If you have any questions regarding this information, please contact Zachary Fryer at (602)250-4167.

Sincerely,


Jeffrey W. Johnson

JJ/cd
Attachments

cc: Parties of Record

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Summary of Testimony Provided by Jeffery B. Guldner

My Settlement Testimony and APS strongly support the Settlement, which reflects thoughtful solutions that balance the many disparate interests at play in this rate case while preserving the Commission's critical role in setting energy policy. The Settlement will allow APS to continue to provide high quality service to customers, support the level of energy efficiency ("EE") and distributed generation ("DG") authorized by the Commission, and contribute positively to the Arizona economy. Moreover, the fact that 22 of the 24 still active parties to these proceedings champion the Settlement signals that Arizona's regulatory environment continues to be one that is collaborative, efficient, and focused on producing constructive outcomes for the State. Specifically, advocates for all of APS's customer classes support the Settlement (residential, commercial, industrial, and low income alike), as do the majority of other stakeholders, including the American Association of Retired Persons ("AARP"), merchant generators and competitive suppliers, individual large customers, Air Force and Marine Corps military bases, realtors, individual landowners, investors and labor unions. That the Settlement has such broad-reaching support strongly suggests that it is in the public interest.

Substantively, the Settlement proposes a total base rate increase of zero dollars. The agreed-upon zero dollar base rate increase is significantly less than what APS originally sought, the same as what the Residential Utility Consumer Office ("RUCO") originally proposed, and only slightly more than what Staff initially recommended. It reflects a compromise that, when balanced with all other provisions of the Agreement, was minimally adequate for APS to maintain its financial strength, support above-average levels of reliability and customer service, and make continued investments necessary for Arizona's energy future.

Summary of Testimony Provided by Jeffery B. Guldner

The average customer bill will go down, not up, on the rate effective date of this Settlement, and that impact will continue throughout 2012. The average residential customer's monthly bill, for example, will immediately decrease by about 1.0%. This customer benefit is caused by (1) APS receiving substantially less rate relief than it had originally requested; (2) a decline in fuel costs; and (3) the Company's agreement to delay the reset of the Power Supply Adjustor ("PSA") rate until February 2013, thus continuing the current PSA credit now applied to customer bills. I described the estimated bill impact of this Settlement in a letter filed in this Docket on January 9, 2012, which also is attached to my Direct Settlement Testimony as Attachment JBG-S1.

In addition to proposing rate levels, the Agreement precludes APS from filing its next general rate case prior to May 31, 2015. New rates from any such filing could not take effect prior to July 1, 2016. This four-year stay out is intended to give continued structure and predictability to APS general rate cases. Other customer benefits include a buy-through rate for industrial and large commercial customers, shareholder-funded bill assistance for additional low-income customers, additional rate options for residential and general service customers, and a process for simplifying the customer bill format.

From a policy perspective, the Settlement allows the Commission to retain its flexibility to set energy policy as it deems appropriate in the future. Unlike the 2009 APS Rate Case Settlement Agreement (Decision No. 71448 (December 30, 2009)), this Settlement was specifically designed to provide a rate structure that will allow APS to adapt to policy changes that may occur during the Settlement period (from the Settlement's rate effective date until July 1, 2016), without either

Summary of Testimony Provided by Jeffery B. Guldner

constraining the Commission or producing economically untenable results for the Company.

For example, addressing highly divergent stakeholder positions, the Settlement resolves APS's original proposal for a comprehensive revenue per customer decoupling mechanism by proposing a LFCR mechanism with residential opt-out rates. The LFCR mechanism will enable APS to continue to offer a variety of DSM programs to help customers save money at the level or pace the Commission deems best for Arizona. The LFCR mechanism achieves this result by limiting lost fixed cost recovery only to revenues that are measurably lost because of DSM or DG, at whatever level the Commission authorizes in any year. The LFCR does not recover fixed costs lost because of other potential factors that could reduce energy sales, such as weather or general economic conditions. Nothing in the Settlement binds the Commission to any specific DSM or DG policy or standard. Rather, it both supports current EE and DG regulatory requirements and flexibly adapts to future changes in EE and DG policy.

While the LFCR is necessary to enable customers to have greater control over their energy use, the Settlement addresses more conceptual customer concerns about this type of mechanism by providing residential customers a choice to "opt out" of paying the LFCR and instead pay a slightly higher basic service charge ("BSC"). In addition, the Settlement addresses fixed cost recovery for large commercial customers through rate design rather than through the LFCR.

The Settlement also enhances the Commission's flexibility with respect to the Renewable Energy Surcharge ("RES") and the Demand Side Management Adjustment Clause ("DSMAC"). As to the RES, it removes the requirement that

Summary of Testimony Provided by Jeffery B. Guldner

RES charges and caps must be administered according to certain proportions; moves 15 months of utility-owned renewable resources from the RES to base rates; and, except with respect to the renewable energy-related capital investments made in compliance with Decision No. 71448, prevents the Company from continuing to recover capital carrying costs for APS-owned renewable energy projects through the RES adjustor. As to the DSMAC, among other things, it modifies the existing EE performance incentive; requires APS and stakeholders to develop and propose a new performance incentive structure for future DSM filings for the Commission's consideration; and, excluding DSM-related capital investments already authorized by the Commission, it prevents carrying costs for such investments to be recovered through the DSMAC. These provisions all give the Commission greater flexibility to manage the rate and customer bill impacts associated with the RES and DSMAC.

Certain financial terms are essential to sustain the four-year rate moratorium. Among them is constructive rate treatment for APS's requested purchase of the Southern California Edison ("SCE") share of Four Corners Units 4 and 5 were the acquisition to close and for the subsequent retirement of Units 1-3 – the "Four Corners Transaction," which is the subject of Docket No. E-01345A-10-0474 (the "Four Corners Docket"). While the Settlement would allow the Company to seek an adjustment rider related to the Four Corners Transaction, that rider cannot be implemented unless the Commission authorizes the Company to pursue the transaction and the transaction thereafter closes. The Settlement does not presuppose either the outcome of the Four Corners Docket or a prudency-finding related to the Four Corners Transaction.

Summary of Testimony Provided by Jeffery B. Guldner

Other material provisions include eliminating the 90/10 sharing provision now in the PSA, coupled with the adoption of other prudent fuel and power procurement and use incentive devices; cost deferrals related to changes in APS's composite property tax rate; changes to the Transmission Cost Adjustment mechanism ("TCA") process; and modifications to the Company's EIS.

In sum, the Settlement resolves the issues raised in the Company's Rate Application in a manner that produces customer benefits that would not result from litigation. This is true both because the litigation process is adversarial and because several of the Settlement's provisions are either unlikely to have been adopted or could not be mandated outside of a settlement.

While no Signatory, including APS, received all that it sought or would have sought in litigation, the Signatories agree that the Settlement is in the public interest. The Settlement preserves the Commission's flexibility with respect to energy policy; shields customers from a base rate increase in challenging economic times; supports APS financially during a four-year stay out period, allowing the Company to continue to provide high quality reliability and customer service; and resolves a complex and challenging rate case efficiently and to the satisfaction of the overwhelming majority of the parties. For all of these reasons, APS respectfully asks that the Commission promptly approve the Settlement and allow rates to take effect on July 1, 2012.

Lastly, my Settlement Responsive Testimony addresses the testimonies of NRDC witness Ralph Cavanagh and SWEEP witness Jeff Schlegel and what they perceive to be the deficiencies of the LFCR mechanism adopted by the Settlement.

Summary of Testimony Provided by Leland R. Snook

My testimony supports the Settlement Agreement. Specifically, the purpose of my Direct Settlement Testimony is to provide an overview of the Lost Fixed Cost Recovery (“LFCR”) mechanism, why it was adopted and its benefits. In conjunction with the LFCR, I will also discuss a corresponding Opt-Out rate option for residential customers. My testimony also describes why large commercial customers were excluded from the mechanism and how their rate design was modified to accommodate this exclusion. Finally, I discuss the modification made to APS’s existing Environmental Improvement Surcharge (“EIS”).

The LFCR mechanism represents a distinct departure from the full revenue per customer decoupling mechanism proposed in APS’s Direct Testimony, while also reflecting collaboration amongst a diverse group of Settling Parties. It is a targeted mechanism to address the financial pressure created by the sales reductions associated with Demand-Side Management (“DSM”) and renewable Distributed Generation (“DG”). The LFCR adopted in the Settlement made minimal modifications to the Commission Staff proposal discussed in Staff Witness Howard Solganick’s Direct Testimony. This approach provides a clear and direct link between EE and DG sales reductions to the amount of uncollected fixed costs to be recovered by the Company. Importantly, this link allows APS to be given the opportunity to recover its lost fixed costs attributable to EE or DG at any level and pace that the Commission authorizes as a matter of policy. The LFCR adjustment will also be subject to a 1% cap. This cap is significantly below the 3% cap proposed by APS in its Direct Testimony, as APS Witness Jeff Guldner discusses in his Direct Settlement Testimony.

The implementation of the LFCR provided in the Settlement Agreement is coupled with the provision of an Opt-Out rate option for residential customers. This rate provides customers an option to have a slightly higher Basic Service

**Summary of Testimony Provided by
Leland R. Snook**

Charge (“BSC”) rather than participating in the LFCR mechanism. This Opt-Out rate provides customers with the opportunity to avoid an LFCR charge, while still allowing the customer to participate in and benefit from DSM and DG programs. Notably, the Opt-Out rate would be difficult, if not impossible, to implement under a full revenue per customer decoupling model.

The Settlement also proposes a cooperative solution to address lost fixed cost recovery relating to large customer classes. Rather than being included in the LFCR, the Settlement Agreement modifies the rates for these customers to allow for greater recovery of fixed costs through higher demand charges, and a corresponding downward adjustment to energy charges. These rate modifications provide the Company with adequate fixed cost recovery from these customers, while allowing them to be exempt from the LFCR.

Finally, the Settlement Agreement modifies APS’s existing EIS. Instead of using a set amount of funds advanced by customers to pay for new government mandated environmental controls, APS will now pay for the new facilities as it does other traditional plant and collect a portion of the capital carrying costs through the EIS. The EIS rate will thus be initially reset to zero, and will be capped so that it cannot increase to more than the present EIS rate.

Summary of Testimony Provided by Charles A. Miessner

The purpose of my Direct Settlement Testimony (“Testimony”) is to support the rate provisions in the Settlement Agreement (“Settlement”) and provide the resulting rate schedules and service schedules, all in clean and redline version. I also support the revised Schedule H-2, which summarizes the proposed revenue changes for each retail rate class.

In my Testimony, I support the zero base rate increase provided in the Settlement and describe the revenue spread and impact for specific rate classes. I also summarize the rate provisions adopted in the Settlement. The Company agrees with these provisions and believes that they are fair and appropriate. Further, I summarize the new customer rate options that are included in the Settlement: 1) the two new demand response rate programs – the residential peak time rebate program and the interruptible rate for extra-large general service customers, which will provide additional options for customers to save on their bills; and 2) the new experimental alternative generation rate, Rate Schedule AG-1, which will test a new generation service arrangement for a limited number of general service customers. Next I summarize the proposal for low income programs which consolidates the low income rates into the standard residential rates and eliminates the low income exemption for certain adjustor rates, but increases the discount levels to hold customers harmless (on average) from these changes. Finally, I provide the Lost Fixed Cost Recovery Adjustor rate schedule (“LFCR”) and explain the opt-out rate option for residential customers.