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Attorneys for Arizona Public Service Company

**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION  
OF ARIZONA PUBLIC SERVICE 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,

DOCKET NO. E-01345A-11-0224

**NOTICE OF FILING RESPONSIVE  
TESTIMONY IN SUPPORT OF  
PROPOSED SETTLEMENT  
AGREEMENT**

Pursuant to the Procedural Order issued by the Arizona Corporation Commission on December 23, 2011, Arizona Public Service Company hereby files the Responsive Settlement Testimony of Jeffrey B. Guldner in response to the testimonies filed in partial opposition to the Proposed Settlement.

RESPECTFULLY SUBMITTED this 25<sup>th</sup> day of January, 2012.

By: *[Signature]*  
Meghan H. Grabel  
Thomas L. Mumaw

Attorneys for Arizona Public Service Company

1 ORIGINAL and thirteen (13) copies  
2 of the foregoing filed this 25<sup>th</sup> day of  
3 January, 2012, with:

3 Docket Control  
4 ARIZONA CORPORATION COMMISSION  
5 1200 West Washington Street  
6 Phoenix, Arizona 85007

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**RESPONSIVE SETTLEMENT TESTIMONY OF JEFFREY B. GULDNER**

**On Behalf of Arizona Public Service Company**

**Docket No. E-01345A-11-0224**

**January 25, 2012**

**Table of Contents**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
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14  
15  
16  
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24  
25  
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28

I. INTRODUCTION ..... 1

II. SUMMARY ..... 2

III. REBUTTAL TO NRDC AND SWEEP ..... 2

    A. The Perfect is the Enemy of the Good..... 2

    B. NRDC and SWEEP have exaggerated the Perceived Deficiencies of the  
        LFCR. .... 3

    C. The Residential “Opt-Out” Rate Option does not Discourage Energy  
        Efficiency..... 5

IV. CONCLUSION ..... 5

1           **RESPONSIVE SETTLEMENT TESTIMONY OF JEFFREY B. GULDNER**  
2           **ON BEHALF OF ARIZONA PUBLIC SERVICE COMPANY**  
3           **(Docket No. E-01345A-11-0224)**

3    I.    INTRODUCTION

4    Q.    **PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

5    A.    My name is Jeffrey B. Guldner. My business address is 400 N. 5<sup>th</sup> Street,  
6           Phoenix, Arizona, 85004. I am Vice President of Rates and Regulation for  
7           Arizona Public Service Company (“APS” or “Company”).

8    Q.    **DID YOU SUBMIT TESTIMONY IN THIS PROCEEDING THAT**  
9           **PROVIDES YOUR EDUCATIONAL AND PROFESSIONAL**  
10           **BACKGROUND?**

11   A.    Yes, in the Direct Testimony filed on June 1, 2011 and the Direct Settlement  
12           Testimony filed on January 18, 2012.

13   Q.    **WHAT IS THE PURPOSE OF YOUR RESPONSIVE SETTLEMENT**  
14           **TESTIMONY?**

15   A.    My Direct Settlement Testimony supported the Settlement Agreement  
16           (“Settlement”) that was filed with the Commission on January 6, 2012 and  
17           recommends that the Commission approve it. In this Responsive Settlement  
18           Testimony, it will not be my intent to take issue with every statement made or  
19           conclusion drawn by either the witnesses supporting the Settlement or those  
20           partially opposing the Settlement. Each of the Settling Parties, and for that matter  
21           the parties in partial opposition, view the Settlement and the issues resolved  
22           therein from their own perspective – a perspective that may or may not be shared  
23           by the Company. That also is something that should not be a surprise to anyone.  
24           Rather, my Responsive Settlement Testimony will focus on the testimonies of  
25           Ralph Cavanagh on behalf of the Natural Resources Defense Council (“NRDC”) and  
26           Jeff Schlegel on behalf of Southwest Energy Efficiency Project (“SWEEP”),  
27           who are the only two witnesses registering even partial opposition to the  
28           Settlement.

1 II. SUMMARY

2 Q. **PLEASE SUMMARIZE YOUR RESPONSIVE SETTLEMENT TESTIMONY.**

3 A. Both NRDC witness Cavanagh and SWEEP witness Schlegel exaggerate what  
4 they perceive to be the deficiencies of the Lost Fixed Cost Recovery (“LFCR”)  
5 mechanism adopted by the Settlement and fail to acknowledge the LFCR’s  
6 benefits. APS needed an effective rate mechanism to allow it to pursue the level  
7 of demand-side management (“DSM”) and distributed generation (“DG”)  
8 authorized by the Commission. Customer groups and Staff wanted the  
9 protections they associated with a more limited and targeted mechanism than full  
10 revenue per customer decoupling (“Full Decoupling”). The Settlement strikes a  
11 balance between these interests while not limiting the Commission’s authority to  
12 determine DSM and/or DG policy. Finally, the residential “opt-out” rate is an  
13 important, perhaps critical, feature of the Settlement to several of the Settling  
14 Parties representing consumer interests and does not affect the existing incentive  
15 of residential customers to manage their energy usage.

16 III. REBUTTAL TO NRDC AND SWEEP

17 A. *The Perfect is the Enemy of the Good*

18 Q. **NRDC AND SWEEP ARGUE THAT FULL DECOUPLING IS SUPERIOR TO THE LFCR. DO YOU AGREE?**

19 A. From the Company’s perspective, the issue is one of balance. Obviously, APS  
20 proposed full decoupling in its Direct Testimony filed June 1, 2011, and thus I am  
21 not going to tell the Commission that Full Decoupling would not remove the  
22 current financial disincentive to the Company presented by energy efficiency and  
23 DG. However, the LFCR is also sufficient for that purpose at this time and  
24 represented a balanced mechanism that could garner the broad support necessary  
25 to reach a comprehensive Settlement.  
26

1 Q. **COULD THERE HAVE BEEN A BROADLY SUPPORTED**  
2 **SETTLEMENT THAT INCLUDED FULL DECOUPLING**

3 A. In my opinion, the answer is clearly no. Indeed, it is precisely the narrower scope  
4 of the LFCR and the consequent ability to craft a reasonable residential “opt-out”  
5 rate that allowed the 22 Settling Parties to reach the consensus represented by the  
6 Settlement. For APS to insist on Full Decoupling would have been tantamount to  
7 saying the Company was unwilling to compromise with Staff and customer  
8 representatives such as RUCO, AARP, FEA, Kroger, Wal-Mart and AECC.  
9 Thus, whether or not Full Decoupling is regarded as the “perfect” solution to the  
10 problem of unrecovered fixed costs attributable to DSM and DG, the LFCR  
11 mechanism is clearly a good resolution to that problem which APS was not  
12 prepared to forego in this Docket.

13 Q. **IS THE LFCR INCONSISTENT WITH THE COMMISSION’S POLICY**  
14 **STATEMENT ON DECOUPLING?**

15 A. No. Although the Policy Statement did express a general preference for Full  
16 Decoupling, it clearly allowed for alternatives that fit the particular circumstances  
17 of the utility in question. *See* Policy Statement No. 3 at page 20. In this case, the  
18 particular circumstance for APS is the need to have a rate mechanism that has  
19 broad support from the very customers that will either be subject to the  
20 mechanism or have their rates restructured to account for lost fixed cost recovery  
21 due to DSM and DG. The Settlement in general and the LFCR in particular has  
22 precisely that broad support.

23 B. *NRDC and SWEEP have exaggerated the Perceived Deficiencies of the*  
24 *LFCR.*

25 Q. **SWEEP CONTENDS THAT THE SETTLEMENT SOMEHOW**  
26 **CONSTRAINS THE COMMISSION’S AUTHORITY RELATING TO**  
27 **DSM AND DG? (SETTLEMENT TESTIMONY OF JEFF SCHLEGEL AT**  
28 **4.) IS THAT AN ACCURATE READING OF THE SETTLEMENT?**

A. No. Rather, the Settlement’s proposed LFCR provides fixed cost recovery from  
whatever level of DSM and DG the Commission authorizes and at whatever pace

1 the Commission authorizes. The LFCR thus enhances the Commission's policy  
2 flexibility.

3 **Q. BUT DOES NOT THE SETTLEMENT LIMIT THE COMMISSION'S**  
4 **ABILITY TO CONSIDER FULL DECOUPLING IN THIS**  
5 **PROCEEDING? (SETTLEMENT TESTIMONY OF JEFF SCHLEGEL AT**  
6 **4.)**

7 **A.** Absolutely not. Under terms of the Settlement, the Commission is not bound to  
8 make any particular resolution of the unrecovered fixed cost problem and could  
9 adopt Full Decoupling. *See* Settlement at §§9.13, 20.2 and 20.4. NRDC witness  
10 Cavanagh acknowledges that the Commission retains such an option. *See*  
11 Settlement Testimony of Ralph Cavanagh at 5. However, that could well result  
12 in several Signatories withdrawing their support for the Settlement. *See*  
13 Settlement at §20.5. A principal benefit of any settlement is the broad consensus  
14 it represents on a number of issues, of which unrecovered fixed costs is merely  
15 one.

16 **Q. DOES THE LFCR CREATE AN INCENTIVE FOR APS TO INFLATE**  
17 **THE SALES LOST TO DSM AND DG?**

18 **A.** I don't think so. The LFCR does not rely on the Company's estimates of lost  
19 sales, but on the measurement, evaluation and reporting ("MER") process  
20 conducted by an independent MER consultant on an after-the-fact basis (in the  
21 case of DSM) and on actual metered output (or its statistical equivalent) of DG  
22 installations. Moreover, the savings attributable to DSM will have a further  
23 independent review every five years, beginning with the Company's next general  
24 rate case. *See* Settlement at §§ 9.6 and 9.14(e).

25 **Q. IS APS CONCERNED THAT THE DETERMINATION OF LOST SALES**  
26 **ATTRIBUTABLE TO DSM AND DG UNDER THE LFCR WILL BE**  
27 **CONTROVERSIAL?**

28 **A.** This was originally a concern of the Company. However, the Settlement's  
determination that the already in place MER process for DSM programs and the  
metered output from DG are dispositive of the level of lost APS sales for

1 purposes of the LFCR alleviates that concern and is further evidence that APS  
2 cannot “game” the LFCR mechanism. See Settlement at §9.6.

3 C. *The Residential “Opt-Out” Rate Option does not Discourage Energy*  
4 *Efficiency.*

5 **Q. DOES THE RESIDENTIAL “OPT-OUT” RATE DISCOURAGE ENERGY**  
6 **EFFICIENCY” AS ALLEGED BY NRDC AND SWEEP? (SETTLEMENT**  
7 **TESTIMONIES OF RALPH CAVANAGH AND JEFF SCHLEGEL AT 6.)**

8 A. Absolutely not. This is essentially the same argument that opponents of Full  
9 Decoupling have made about the small annual adjustments to rates possible under  
10 that mechanism – an argument rejected by both NRDC and SWEEP in this and  
11 other proceedings. We are not talking about moving to a fixed/variable pricing  
12 regime for electricity, but rather a modest increase in one rate element. This  
13 small increase in the basic service charge in the residential “opt-out” is analogous  
14 to the price of gasoline dropping by about one percent per gallon. Who would  
15 seriously argue that such a small change would discourage consumers from  
16 buying fuel-efficient cars? Moreover, in this case there is, in fact, no decrease in  
17 the current per kWh charge in the residential “opt-out” rate, thus mooted even  
18 this already weak argument against the LFCR mechanism.

18 **IV. CONCLUSION**

19 **Q. DO YOU HAVE ANY CONCLUDING REMARKS?**

20 A. APS strongly supports the Settlement. The Company was willing to compromise  
21 on the issue of Full Decoupling in the interest of reaching consensus on the LFCR  
22 and other critical issues. APS believes that the LFCR can allow the Commission  
23 to pursue the levels of DSM and DG that this Commission, as a matter of policy,  
24 finds appropriate during the term of the Settlement and urges that the  
25 Commission adopt this and other provisions of the Settlement as being in the  
26 public interest.

1 Q. DOES THIS CONCLUDE YOUR RESPONSIVE SETTLEMENT  
TESTIMONY?

2 Yes.

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