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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

GARY PIERCE, Chairman
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP
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AZ CORP COMMISSION
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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

DOCKET NO. E-01345A-11-0224

**NOTICE OF FILING TESTIMONY
SUMMARY**

AARP hereby files the attached testimony summary for AARP witness Nancy Brockway.

RESPECTFULLY SUBMITTED on January 26, 2012.

Arizona Corporation Commission
DOCKETED

JAN 26 2012

DOCKETED BY

Craig A. Marks
Craig A. Marks, PLC
10645 N. Tatum Blvd., Ste. 200-676
Phoenix, Arizona 85028
(480) 367-1956 (Direct)
(480) 367-1956 (Fax)
Craig.Marks@azbar.org
Attorney for AARP

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Docket Control
Arizona Corporation Commission
1200 West Washington
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TESTIMONY SUMMARY FOR AARP WITNESS NANCY BROCKWAY

I Direct Testimony (November 18, 2011)

The Commission should reject APS' proposed ERA and EIA tracking accounts.

1. The ERA generation-addition cost tracker is not needed in order for APS to recover its costs of service and earn a fair return.

APS proposes that the present APS Environmental Improvement Surcharge ("EIS") be replaced by what it calls the Environmental and Reliability Account ("ERA"). Between rate cases, APS would book to that account the costs of certain new generation additions and additional pollution controls for existing generation, and then recover these costs in tracker rates reset annually outside a rate case, until the next base rate case. The Company claims it needs to adjust rates whenever a generation addition or environmental compliance investment is made, or else its earnings will be eroded. The Company fails to acknowledge that many changes occur after any given rate case, and increases in revenue requirements in one area (such as generation additions) may be offset by decreases in revenue requirement elsewhere (as in depreciation accounts). Only an updated and comprehensive estimate of revenue requirements can determine whether raising rates to explicitly reflect a given plant investment will create excess earnings. Further, the tracker mechanism will make prudence determinations difficult if not practically impossible. The ERA is not needed, and its institution would shift significant risks from the Company to the consumer, yet APS does not propose to reduce its requested return to acknowledge this fact. The ERA should be rejected.

- 1 2. The EIA (decoupling mechanism) is not necessary to assure fair and vigorous
2 investments by APS in energy efficiency and unfairly shifts risks, such as
3 economic downturns, to ratepayers.

4 APS presents its EIA as necessary to facilitate its investments in and support for
5 energy usage reduction measures. However, APS proposes a full decoupling
6 mechanism that would protect its revenues as sales erode for any reason,
7 including non-utility efficiency initiatives, economic downturns, or weather.
8 Decoupling, and removal of the direct incentive for APS to sell more electricity
9 does not guarantee that APS will invest in effective energy efficiency measures
10 and demand-side management programs in which all APS customers can benefit.
11 Further, adoption of revenue decoupling is not a necessary or sufficient condition
12 to increase energy efficiency. There are numerous, non-decoupling tools
13 available to public policy-makers to promote energy efficiency objectives.
14 Decoupling will shift significant risks from APS to its consumers, yet APS does
15 not propose to reduce its requested return to reflect this reality. APS is in a better
16 position than consumers to manage weather-related risks. APS should not be
17 made whole for sales reductions caused by service interruptions or outages. The
18 APS mechanism rate design does not promote energy efficiency. The APS EIA
19 proposal should be rejected.

20 **II Direct Testimony – Rate Design (December 2, 2011)**

21 AARP would prefer that APS's low-income rates remain the same. However, if the
22 Commission determines that a rate increase is warranted, it should reject the Company's
23 proposed redesign of its low-income rates. APS should not add to the low-income
24 revenue responsibility (PSA, DSMAC and TCA), and then apply a flat 25% discount to
25 the resulting higher bill regardless of usage. The Company also should not increase the
26 underlying base rates for Low Income rates by a percentage any higher than the
27 percentage increases on the corresponding non-low-income rates. Instead, the present
28 structure of the low-income rates should be retained. That is, the tiered discounts and
29 exemptions from PSA and DSMAC riders should be retained. The underlying Low-
30 Income base rates should be increased by the same percentages as those on the
31 corresponding non-low-income base rates. The cap on the discounts should also be
32 increased by the same percentage. To mitigate potential burdens of higher base rates on
33 higher usage lower income customers, special efforts should be made to target efficiency
34 programs to such customers.

35 The Company's proposed increases to basic service charges should be rejected. These
36 increases fall hardest on low-use customers, many of whom are low-income. Increasing
37 basic service charges is inconsistent with the goal of providing price signals for energy
38 conservation.

39 **III Direct Testimony in Support of Settlement Agreement (January 17, 2011)**

40 The Settlement Agreement addresses the concerns about pre-approval and decoupling
41 that I raised in my earlier testimonies. I recommend that the Settlement Agreement be
42 approved. It contains specific benefits and protections for residential, fixed-income and

1 low-income customers. On balance, it provides a just and reasonable resolution of the
2 Company's rate case.

3 First, under the Settlement Agreement, the Company agrees to withdraw its request for
4 the so-called Environment and Reliability Account. The ERA would have amounted to a
5 form of pre-approval for plant investment, and would have undermined the ability of the
6 Commission to determine the prudence of such investments.

7 Second, APS has agreed to a targeted decoupling mechanism (called the "Lost Fixed Cost
8 Recovery" mechanism" or "LFCR"), whereby it will recover a portion of verified,
9 unrecovered distribution and transmission costs resulting from its energy efficiency
10 programs, instead of an unlimited decoupling mechanism as originally proposed. In this
11 fashion, the Company continues to bear those risks which it is better able to manage, such
12 as weather variations, rather than shifting those risks to consumers. At the same time the
13 Company will receive limited cost recovery based on its verified energy savings pursuant
14 to the state's energy efficiency goals. The LFCR mechanism will be applied equally to
15 all kilowatt-hours, thus preserving an incentive to save energy. In addition, the
16 Settlement Agreement contains an opt-out provision, allowing customers who prefer to
17 take service under rates designed to recover assigned revenues less on a usage basis than
18 is the case with regular rates subject to the LFCR adjustment. APS agrees to work with
19 interested parties to design and implement an outreach program to inform customers of
20 this option.

21 An additional benefit of the Settlement Agreement is that APS customers would not bear
22 the \$85.9 million dollar net increase to revenue APS requested in its updated revenue
23 request. The net impact of the Settlement Agreement on base rates as of the day the new
24 rates take effect will be a slight decrease for most residential customers, and the
25 Company agrees not to implement any new general rate increase before July 1, 2016,
26 effectively a four-year stay-out (subject to certain conditions). Before that date, it is true
27 that rates may increase as a result of changes in the effect of various tracker rates, and the
28 possible inclusion of the Four Corners purchase. However, the Company agrees not to
29 increase rates under these tracker rates before 2013. Thus, overall rates will remain
30 stable through the end of the year.

31 On rate design issues, Settlement Agreement significantly amends the Company's
32 original restructuring of the low-income discount rates, to preserve the average level of
33 rate relief now provided, and to maintain the tiered discount system, whereby lower-
34 usage customers receive a greater discount level. These amendments make it possible to
35 concur with the underlying proposal to simplify the structure of the low-income rates, as
36 proposed in the APS filing, while also addressing the concerns raised in my testimony.
37 APS has also agreed to leave the basic service charges intact, which prevents the
38 unreasonable shifting of revenue responsibility to low-usage customers about which I
39 expressed concern in my rate design testimony. The inverted block effect of the low-
40 income rate design, retained by the Settlement Agreement, will have a positive effect on
41 customer incentives to conserve energy.

42 Finally, the Settlement Agreement adds a residential hold-harmless provision to the
43 proposed wholesale (or "buy-through") purchase provision for large customers, the so-
44 called AG-1 rate. As filed, there was no protection against the Company seeking to make

1 residential customers pay towards any costs "stranded" as a result of large customer
2 switch to this new rate. The Settlement Agreement makes clear that residential customers
3 will not have to bear any increased costs as a result of the implementation of the AG-1
4 rate.

5 **IV Rebuttal Testimony in Support of Settlement Agreement (January 25, 2011)**

6 In my Rebuttal Testimony I respond to arguments made by the National Resources
7 Defense Fund (NRDC) and the Southwest Energy Efficiency Project (SWEET) in
8 opposition to the Settlement Agreement. I recommend that the Commission not adopt
9 these parties' request that LFCR as contained in the Settlement Agreement be rejected. I
10 affirm my recommendation that the Commission adopt the Settlement Agreement as a
11 just and reasonable resolution of the issues in the docket.

12 **Response to SWEET**

13 The proposed settlement does not limit the Commission's discretion to determine energy
14 efficiency policy. The Commission is not bound to accept the Settlement Agreement.
15 Nor is it bound to implement the December 2010 Policy Statement's preferred decoupling
16 mechanism. If the Commission rejects the Settlement Agreement because it fails to
17 include SWEET's preferred revenue decoupling mechanism, the Settlement Agreement
18 will lose support and parties will seek to litigate the full range of issues in the case.
19 SWEET's preferred revenue decoupling mechanism is not necessary to ensure that APS
20 achieves its targets under the Electric Energy Efficiency Standards. Further, it transfers
21 unreasonable levels of risk to consumers. In addition, SWEET does not propose any
22 adjustment to the agreed return on equity to reflect this reality. The mechanism agreed to
23 by APS and the Signatories in the Settlement Agreement, Lost Fixed Cost Recovery, is a
24 targeted decoupling mechanism that will be effective in removing the financial
25 disincentive for APS to invest in energy efficiency. SWEET's other proposed
26 adjustments are not contemplated by the Settlement Agreement, and are not reasonable,
27 much less essential.

28 **Response to NRDC**

29 The response to SWEET covers all the issues raised by NRDC in its partial opposition to
30 the Settlement Agreement.