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ARIZONA CORPORATION COMMISSION
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26 January 2012

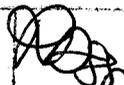
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Arizona Corporation Commission

DOCKETED

JAN 26 2012

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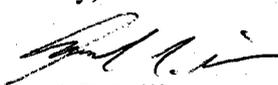
Re: Docket No. E-01345A-11-0224

Dear Madam or Sir:

Enclosed please find the original and 13 copies of the Executive Summary For The Prefiled Testimony In Support Of The Proposed Settlement Agreement of Dr Larry Blank in the above-captioned case.

Thank you for your assistance in this matter.

Sincerely,



Samuel T. Miller
Staff Attorney
Air Force Utility Law Field Support Center

Attach:
Larry Blank Summary of Prefiled Testimony

BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS:
Gary Pierce, Chairman
Bob Stump
Sandra D. Kennedy
Paul Newman
Brenda Burns

2012 JAN 26 A 11: 53

ARIZONA CORPORATION 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.

)
) DOCKET NO. E-01345A-11-0224
) **FEDERAL EXECUTIVE AGENCY'S**
) **NOTICE OF FILING**
)
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)

The Federal Executive Agencies (FEA), hereby provide notice of filing of the Executive Summary For The Prefiled Testimony In Support Of The Proposed Settlement Agreement Of Dr. Larry Blank in the above referenced matter.

Dated this 25th day of January, 2012.



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A copy of the foregoing was
mailed/*emailed this
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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 COMPANY FOR A)
HEARING TO DETERMINE THE FAIR VALUE)
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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

EXECUTIVE SUMMARY

FOR THE

PREFILED TESTIMONY

IN SUPPORT OF THE PROPOSED SETTLEMENT AGREEMENT

OF

LARRY BLANK

ON BEHALF OF

THE FEDERAL EXECUTIVE AGENCIES

January 26, 2012

EXECUTIVE SUMMARY

1
2
3 **1. INTRODUCTION**

4 Dr. Blank testifies in support of the Proposed Settlement Agreement (“the Agreement”) on
5 behalf of the Federal Executive Agencies (“FEA”). As a general observation, the Agreement is a
6 very well-balanced attempt to address all the issues in this case, is clearly in the public interest,
7 and should be approved by the Commission. Although FEA defers to the Company, Staff, and
8 other parties to address all details of the Agreement, Dr. Blank specifically addresses the Rate
9 Case Stay Out provision, the Lost Fixed Cost Recovery (“LFCR”) mechanism, and the
10 significant change in rate design for the large general service customer classes and their
11 exemption from the LFCR mechanism.

12 **2. FOUR-YEAR MORATORIUM ON BASE RATE CHANGES**

13 The four year moratorium on base rate changes preventing any base rate increase prior to July 1,
14 2016, (Section 2.1 of the Agreement) is a common provision in rate case settlements, serves to
15 protect customers from risk related to base cost increases, and does not limit the Commission’s
16 flexibility to pursue important electricity policy matters through a rulemaking proceeding and/or
17 a tariff rider as the need may arise under special circumstances.

18 **3. THE LOST FIXED COST RECOVERY (“LFCR”) MECHANISM**

19 To create an incentive for the successful implementation of energy efficiency (“EE”) and
20 distributed generation (“DG”) programs, the Agreement would have APS implement a targeted
21 fixed cost recovery approach known as a Lost Fixed Cost Recovery (“LFCR”) mechanism (see
22 Sections 9.1 – 9.6 of the Agreement). This approach is far superior to the decoupling mechanism
23 proposed by the Company in its application, which, as Dr. Blank explained in prefiled testimony
24 filed November 18, 2011, would have resulted in an over-correction for fixed cost recovery due

1 to changes in kWh sales, failed to remove the large amount of fixed costs recovered through the
2 fixed monthly basic charges and the demand charges, and did not account for the significant
3 differences in rate design across rate classes. In addition to the LFCR mechanism, the
4 Agreement continues to support the EE shared net benefits performance incentives (Section
5 9.14(b) of the Agreement), which places Arizona ahead of the curve nationally in terms of
6 creating incentives for APS implementation of EE programs.

7 **4. LARGE CUSTOMER RATE DESIGN AND THE LFCR EXEMPTION**

8 The Agreement would significantly alter the rate design for the large general service customer
9 classes by substantially increasing the demand charges above those proposed by APS in its
10 application (as reflected in Attachment K to the Agreement). This constitutes a significant shift
11 in fixed cost recovery away from the energy charges to the demand charges. These substantial
12 increases in the demand charges greatly shield APS from risk associated with possible energy
13 (kWh) reductions due to energy efficiency. This substantive change in rate design greatly
14 supports the exemptions from the LFCR mechanism found in Section 9.7 of the Agreement.
15 These exemptions are also proper given the fact that rate design varies greatly across rate classes,
16 fixed costs are properly allocated to each customer during a rate case, and grouping these large
17 customers with other customer classes under the LFCR would cause unjustified shifts in fixed
18 cost recovery away from those other customer classes onto the large customers as more fully
19 explained in Dr. Blank's November 18 prefiled testimony.