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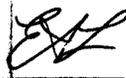
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15 Attorneys for the Global Water Utilities

Arizona Corporation Commission

**DOCKETED**

OCT 04 2013

DOCKETED BY 

**BEFORE THE ARIZONA CORPORATION COMMISSION**

16 IN THE MATTER OF THE APPLICATION  
17 OF ARIZONA WATER COMPANY, AN  
18 ARIZONA CORPORATION, FOR A  
19 DETERMINATION OF THE FAIR VALUE  
20 OF ITS UTILITY PLANT AND PROPERTY  
21 AND FOR ADJUSTMENTS TO ITS RATES  
22 AND CHARGES FOR UTILITY SERVICE  
23 FURNISHED BY ITS EASTERN GROUP  
24 AND FOR CERTAIN RELATED  
25 APPROVALS.

DOCKET NO. W-01445A-11-0310

**NOTICE OF FILING RE-HEARING  
DIRECT TESTIMONY**

26 Intervenor Liberty Utilities (Rio Rico Water & Sewer) Corp. f/k/a Rio Rico  
Utilities, Inc. and the Global Water Utilities hereby submit the Re-Hearing Direct  
Testimony of Paul Walker. See **Exhibit A** attached hereto.

...

...

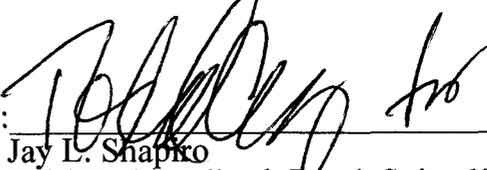
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RESPECTFULLY SUBMITTED this 4th day of October, 2013.

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**ORIGINAL** and 13 copies filed  
this 4th day of October, 2013 with:

Docket Control  
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Phoenix, Arizona 85007

**COPY** hand-delivered  
this 4th day of October, 2013 to:

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Arizona Corporation Commission  
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25 By: Whitney Berk  
26

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

**BOB STUMP, Chairman**  
**GARY PIERCE**  
**BRENDA BURNS**  
**BOB BURNS**  
**SUSAN BITTER SMITH**

IN THE MATTER OF THE APPLICATION OF  
ARIZONA WATER COMPANY, AN ARIZONA  
CORPORATION, FOR A DETERMINATION OF  
THE FAIR VALUE OF ITS UTILITY PLANT  
AND PROPERTY AND FOR ADJUSTMENTS  
TO ITS RATES AND CHARGES FOR UTILITY  
SERVICE FURNISHED BY ITS EASTERN  
GROUP AND FOR CERTAIN RELATED  
APPROVALS.

DOCKET NO. W-01445A-11-0310

Re-Hearing Direct Testimony  
of  
Paul Walker

October 4, 2013

1 **Q. Please state your name.**

2 A. My name is Paul Walker.

3

4 **Q. By whom are you employed and what is your position?**

5 A. I am the founder and owner of Insight Consulting, LLC.

6

7 **Q. Please describe your background and qualifications.**

8 A. I hold an MBA from Thunderbird, The Garvin School of International Management, and a  
9 Bachelor's in Business Management from the University of Phoenix; additionally I have  
10 completed numerous military schools and courses. In 2001, I joined the Commission as  
11 Policy Advisor to Commissioner Marc Spitzer. Prior to that, I had served on Governor  
12 Hull's negotiating team working with Arizona's Indian Tribes to develop Indian gaming  
13 compacts, and as Policy & Communications Manager at the Arizona Department of  
14 Gaming.

15

16 In my current work, I provide regulatory consulting, advice and analysis, as well as  
17 testimony drafting, editing, and preparation services to utility clients. In addition, I  
18 provide regulatory analysis to utility investors, and chair Arizonans for Responsible Water  
19 Policy, a trade group and PAC representing water utilities in Arizona. I have given  
20 numerous presentations at regulatory workshops and industry meetings; and I am also a  
21 member of the Arizona Power Plant and Line Siting Committee.

22

23 **Q. Who are you testifying on behalf of in this proceeding?**

24 A. This testimony is submitted on behalf of Liberty Utilities (Rio Rico Water & Sewer)  
25 Corp. ("Liberty") and Global Water.<sup>1</sup>

26

27 <sup>1</sup> Global Water – Palo Verde Utilities Company, Global Water – Santa Cruz Water Company,  
Valencia Water Company – Town Division, Valencia Water Company – Greater Buckeye

1 Q. **Please summarize your experience regarding Distribution System Improvement**  
2 **Charges (DSIC) including the System Improvement Benefits (SIB) Mechanism**  
3 **before?**

4 A. I participated in the negotiations that resulted in the SIB Mechanism in Phase II of this  
5 case. I then testified in the Phase II hearing in this docket regarding the SIB Mechanism.  
6 In addition, I also testified regarding the SIB Mechanism during the recent Global Water  
7 rate case, Docket No. W-01212A-12-0309 et al. Before the development of the SIB  
8 Mechanism, I presented on the topic of Distribution System Improvement Charges (DSIC)  
9 during the Commission's water workshops in Docket No. W-00000C-06-0140, and as  
10 Chairman of Arizonans for Responsible Water Policy, I co-authored "Moving Beyond  
11 Rate Shock and Regulatory Lag" in October of 2012. My workshop presentation and the  
12 white paper were attached to my Direct Testimony in Phase II of this Docket.

13  
14 Q. **Have you reviewed the Application for Rehearing filed by the Residential Utility**  
15 **Consumer Office (RUCO) on July 17, 2013?**

16 A. Yes.

17  
18 Q. **In your view, does RUCO's Application for Rehearing raise any new issues?**

19 A. No. I believe that all the issues raised by RUCO in the Application for Rehearing were  
20 fully addressed in the Phase II proceedings in this docket.

21  
22 Q. **Is there anything about RUCO's position, as stated in its Application for Rehearing,**  
23 **that is inconsistent with prior positions taken by RUCO?**

24 A. Yes. RUCO's opposition to the SIB Mechanism is inconsistent with its prior support for  
25 the following adjustor mechanisms for Arizona Public Service Company ("APS"):

26  
27 

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Division, Water Utility of Greater Tonopah, Willow Valley Water Co. and Water Utility of  
Northern Scottsdale.

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- Renewable Energy Surcharge.
- Energy Efficiency / Demand Side Management Surcharge; and
- Environmental Improvement Surcharge

**Q. Have each of these adjustors been approved by the Commission?**

A. Yes.

**Q. Does the fact that these adjustors came about through settlements have any effect on their validity in your mind?**

A. No, if it is okay for electric companies such as APS or TEP to have these types of plant rate adjustors it seems that it should be okay for water/wastewater companies as well.

**Q. RUCO appears to be concerned with a surcharge based on additional utility plant between rate cases. Do each of these three adjustors allow a surcharge between rate cases for additional utility plant?**

A. Yes. In particular, these surcharges allow a return on the capital carrying costs of eligible utility plant additions. The most recent APS rate decision defines "Capital carrying costs" as including "(1) a return at the Company's Weighted Average Cost of Capital approved by the Commission in this rate case; (2) depreciation expense; (3) income taxes; (4) property taxes; (5) deferred taxes and tax credits where appropriate; and (6) associated O&M."<sup>2</sup>

Of course, this is very similar to the surcharge allowed under the SIB Mechanism.

**Q. What is the history of these three adjustor mechanisms?**

A. The Renewable Energy and Demand Side Management adjustors were originally approved

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<sup>2</sup> Decision No. 73183 (May 24, 2012) at Exhibit A, Page 9 of 22, footnote 1.

1 in the 2009 APS rate order, Decision No. 71448 (December 30, 2009). The 2009 rate  
2 order was the result of a settlement agreed by many parties, including RUCO. All three  
3 adjustors were continued in the 2012 APS rate order, Decision No. 73183 (May 24,  
4 2012)(Attachment Walker-1). As with the previous case, the 2012 APS rate order was the  
5 result of a settlement agreement approved by numerous parties, including RUCO.  
6

7 **Q. Please describe the APS Renewable Energy adjustor in greater detail.**

8 A. As approved in the 2009 APS rate order, the APS Renewable Energy (RES) adjustor  
9 allowed APS to recover the “capital carrying costs” of eligible renewable energy projects  
10 through a surcharge. The 2012 APS rate order limited the scope of eligible projects to the  
11 following: “capital carrying costs for renewable energy-related capital investments that  
12 APS makes in compliance with Commission Decision No. 71448 shall be recovered in the  
13 RES adjustor unless and until specifically authorized for recovery in another adjustor or in  
14 base rates.”<sup>3</sup>  
15

16 **Q. Please describe the Energy Efficiency / Demand Side Management Adjustor in  
17 greater detail.**

18 A. Like the RES adjustor, the APS Energy Efficiency / Demand Side Management (DSM)  
19 adjustor was part of the Settlement Agreement approved in the 2009 APS rate order. The  
20 DSM adjustor allowed the recovery of DSM costs, including capital carrying costs.  
21 However, in the 2012 rate order, the DSM adjustor was partially replaced by the Lost  
22 Fixed Cost Recovery Mechanism. Accordingly, the DSM adjustor was modified as  
23 follows: “Beginning with APS’s 2013 DSM Implementation Plan (filed in 2012), and  
24 excluding DSM-related capital investments already authorized by the Commission,  
25 carrying costs for DSM-related capital investments shall not be recovered through the  
26

---

27 <sup>3</sup> Decision No. 73183 (May 24, 2012) at Exhibit A, Page 9 of 22, Section 8.2.

1 DSM Adjustment Clause.”<sup>4</sup>

2  
3 **Q. Please describe the APS Environmental Improvement Surcharge in greater detail.**

4 A. The APS Environmental Improvement Surcharge (EIS) was originally established in  
5 Decision No. 69663 (June 28, 2007), and the EIS Plan of Administration was approved in  
6 Decision No. 70213 (March 20, 2008). As originally conceived, the EIS surcharge was a  
7 flat surcharge of \$00016 per KWH that was deposited into a separate, restricted account  
8 that could only be spent on certain types of environmental projects. However, the EIS  
9 surcharge was substantially modified by the 2012 settlement and rate order from a flat  
10 surcharge to fund future projects, to a surcharge that allows recovery of capital investments  
11 after the fact. The 2012 settlement agreement explains the changes as follows: “APS shall  
12 implement a revised version of the existing Environmental Improvement Surcharge  
13 (“EIS”). As amended, APS shall no longer receive customer dollars through the EIS to pay  
14 for government-mandated environmental controls. However, when APS invests capital to  
15 fund any government-mandated environmental controls, the EIS will recover the  
16 associated capital carrying costs, subject to a cap equal to the charge currently in place for  
17 the EIS. Adjustments to the EIS shall become effective each April 1<sup>st</sup> unless Staff requests  
18 Commission review or unless otherwise ordered by the Commission. APS will not request  
19 a change in the rate cap prior to its next general rate case.”<sup>5</sup>

20  
21 **Q. So the APS EIS adjustor, RES adjustor, and DSM adjustor all allowed the recovery  
22 of “capital carrying costs”?**

23 A. Yes. The DSM adjustor previously allowed the recovery of capital carrying costs, but that  
24 feature has been superseded by the Lost Fixed Cost Recovery Mechanism. The EIS now  
25 specifically allows for the recovery of capital carrying costs for the “government-mandated

26 \_\_\_\_\_  
27 <sup>4</sup> Decision No. 73183 (May 24, 2012) at Exhibit A, Pages 12 and 13 of 22, Section 9.14(a).

<sup>5</sup> Decision No. 73183 (May 24, 2012) at Exhibit A, Page 16 of 22, Section 11.2.

1 environmental controls”, and the RES adjustor allows for recovery of “renewable energy-  
2 related capital investments that APS makes in compliance with Commission Decision No.  
3 71448.” Thus, the SIB mechanism is hardly unique in allowing the recovery of a return of  
4 and on invested capital for specified types of plant between general rate cases in Arizona.  
5

6 **Q. Does the 2012 APS rate order contain any other provision that allows a rate  
7 modification for a change in APS plant?**

8 A. Yes, there is a very important provision in the settlement regarding APS’s acquisition of  
9 the Southern California Edison’s interest in the 4 Corners Power Plant. The Settlement  
10 provides the following:

11 “Except as provided in Section 9.14(d), this rate case shall remain open for  
12 the sole purpose of allowing APS to file a request, no later than December  
13 31, 2013, that its rates be adjusted to reflect the proposed Four Corners  
14 transaction, should the Commission allow APS to pursue the acquisition  
15 and should the transaction thereafter close. Specifically, APS may within  
16 ten (10) business days after any Closing Date but no later than December  
17 31, 2013, file an application with the Commission seeking to reflect in  
18 rates the rate base and expense effects associated with the acquisition of  
19 SCE’s share of Units 4 and 5, the rate base and expense effects associated  
20 with the retirement of Units 1-3, and any cost deferral authorized in  
21 Docket No. E-O1345A-10-0474. APS shall also be permitted to seek  
22 authorization to amend the PSA Plan of Administration to include in the  
23 PSA the post-acquisition Operations and Maintenance expense associated  
24 with Four Corners Units 1-3 as a cost of producing off-system sales until  
25 closure of Units 1-3, provided that such costs do not exceed off-system  
26 sales revenue in any given year. APS’s rates shall be adjusted only if the  
27 Commission finds the Four Corners transaction to be prudent.”<sup>6</sup>

22 **Q. Please summarize your testimony.**

23 A. The SIB Mechanism allows for recovery of and on capital investment in specified utility  
24 plant accounts under specific circumstances between general rate cases. In this, it operates  
25 very similarly to the recovery of “capital carrying costs” under the former version of the  
26

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27 <sup>6</sup> Decision No. 73183 (May 24, 2012) at Exhibit A, Page 15 of 22, Section 10.2.

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APS DSM adjustor, under the prior and current versions of the APS RES adjustor, and  
under the new version of the APS EIS adjustor.

**Q. Does this conclude your testimony?**

A. Yes.

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# **ATTACHMENT WALKER-1**

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

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

Arizona Corporation Commission

**DOCKETED**

MAY 24 2012

DOCKETED BY *LM*

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

DECISION NO. 73183

**OPINION AND ORDER**

DATES OF HEARING:

July 18, 2011 (Procedural Conference); October 7, 2011 (Public Comments – Sun City, Arizona); December 16, 2011 (Special Open Meeting); January 19, 2012 (Public Comments – Phoenix, Arizona); January 19, 2012 (Pre-Hearing Conference); January 26, 27, 30, 31, February 1, 2, and 3, 2012.

PLACE OF HEARING:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Lyn Farmer

IN ATTENDANCE:

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

APPEARANCES:

Ms. Meghan H. Gabel and Mr. Thomas L. Mumaw, Law Department, PINNACLE WEST CAPITAL CORPORATION, on behalf of the Applicant;

Mr. Michael M. Grant, GALLAGHER & KENNEDY, PA, on behalf of Arizona Investment Council;

Mr. Craig A. Marks, CRAIG A. MARKS, PLC, on behalf of AARP;

Mr. Timothy M. Hogan, ARIZONA CENTER FOR LAW IN THE PUBLIC INTEREST; on behalf of Southwest Energy Efficiency Project, Western Resource Advocates, Arizona School Boards Association, and Arizona Association of School Business Officials;

Ms. Cynthia Zwick, in propria persona;

Mr. Scott S. Wakefield, RIDENOUR, HEINTON & LEWIS, PLLC, on behalf of Wal-Mart Stores, Inc.;

Mr. Jeffrey W. Crockett, BROWNSTEIN, HYATT, FARBER SCHRECK, LLP, on behalf of Arizona Association of Realtors;

Mr. Lawrence V. Robertson, Jr., MUNGER CHADWICK, P.L.C., on behalf of Southwestern Power Group, Bowie Power Station, Noble Americas Energy Solutions, LLC, Constellation NewEnergy, Inc., Direct Energy, LLC, and Shell Energy North America, (US), LP;

Mr. C. Webb Crockett, FENNEMORE CRAIG, PC, on behalf of Freeport-McMoRan Copper & Gold, Inc., and Arizonans for Electric Choice and Competition;

Mr. Nicholas L. Enoch, LUBIN & ENOCH, PC, on behalf of Locals 387, 640 and 769 of the International Brotherhood of Electrical Workers;

Captain Samuel Miller; AIR FORCE UTILITY LAW FIELD SUPPORT CENTER, on behalf of the Federal Executive Agencies;

Ms. Laura E. Sanchez, on behalf of the Natural Resources Defense Council;

Mr. Greg Patterson, of Counsel, MUNGER CHADWICK, P.L.C. on behalf of the Arizona Competitive Power Alliance;

Ms. Jody M. Kyler, BOEHM, KURTZ & LOWRY, on behalf of the Kroger Company;

Mr. Daniel Pozefsky, Chief Counsel, on behalf of the Residential Utility Consumer Office; and

Ms. Maureen A. Scott, Senior Staff Counsel, Ms. Janet Wagner, Assistant Chief Counsel, Mr. Charles O. Hains and Mr. Scott Hesla, Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

**BY THE COMMISSION:**

On June 1, 2011, Arizona Public Service Company ("APS" or "Company") filed with the Arizona Corporation Commission ("Commission") an application to determine the fair value of the utility property of the Company for ratemaking purposes, to fix a just and reasonable rate of return

1 thereon, and to approve rate schedules designed to develop such return. The application requested a  
2 net increase in base rates of \$95.5 million, or 3.3 percent, to become effective July 1, 2012. The  
3 requested increase was based upon adjusted test year sales and expenses for the Company's electric  
4 operations during the twelve months ending December 31, 2010 ("test year").

5 On July 1, 2011, the Commission's Utilities Division ("Staff") filed a Letter of Sufficiency  
6 indicating that the application had met the sufficiency requirements of Arizona Administrative Code  
7 ("A.A.C.") R14-2-103 and classifying the Company as a Class A utility.

8 Intervention was requested and granted to Freeport-McMoRan Copper & Gold, Inc.  
9 ("Freeport-McMoRan"); Arizonans for Electric Choice and Competition ("AECC") (sometimes  
10 collectively referred to as "AECC"); the Residential Utility Consumer Office ("RUCO"); the Town  
11 of Wickenburg ("Wickenburg"); Barbara Wyllie-Pecora; Western Resource Advocates ("WRA");  
12 Southwest Energy Efficiency Project ("SWEEP"); The Kroger Co. ("Kroger"); Arizona Association  
13 of Realtors ("AAR"); the Town of Gilbert ("Gilbert"); Tucson Electric Power Company ("TEP");  
14 Cynthia Zwick; Arizona Investment Council ("AIC"); Federal Executive Agencies ("FEA"); Arizona  
15 Competitive Power Alliance ("Alliance"); Local Union 387, International Brotherhood of Electrical  
16 Workers, AFL-CIO, CLC, Local Union 640, International Brotherhood of Electrical Workers, AFL-  
17 CIO, CLC, and Local Union 769, International Brotherhood of Electrical Workers, AFL-CIO, CLC  
18 (together, "IBEW"); Southwestern Power Group II, L.L.C. and Bowie Power Station, L.L.C.  
19 ("SWPG/Bowie"); Natural Resources Defense Council ("NRDC"); the Arizona School Boards  
20 Association and the Arizona Association of School Business Officials (together, "ASBA/AASBO");  
21 AzAg Group; Wal-Mart Stores, Inc. and Sam's West, Inc. (together, "Wal-Mart"); Noble Americas  
22 Energy Solutions LLC, Constellation NewEnergy, Inc., Direct Energy, LLC and Shell Energy North  
23 America (US), L.P. (together, "Noble/Constellation/Direct/Shell"); Mel Beard; AARP; and Interwest  
24 Energy Alliance ("Interwest").<sup>1</sup>

25 \_\_\_\_\_  
26 <sup>1</sup> Mr. Beard filed a Motion to rescind his intervention on November 29, 2011, which was granted by Procedural Order  
27 issued on December 2, 2011. On November 18, 2011, SCA Tissue North America ("SCA") requested intervention and  
28 by Procedural Order issued December 2, 2011, ruling on the intervention was stayed pending SCA's compliance with the  
requirements of the Procedural Order. SCA did not pursue its intervention. On January 6, 2012, the Community  
Information and Referral Services filed a Motion to Intervene which was opposed by several parties and which was  
denied during the January 19, 2012 pre-hearing conference.

1 By Procedural Order issued July 29, 2011, the hearing was set to commence on January 19,  
2 2012, and other procedural timeframes were established.

3 On December 22, 2011, Staff filed a Request for a Modification to the Procedural Schedule  
4 requesting that the date of filing the Settlement Agreement be extended until January 6, 2012, and  
5 also proposing other changes to the procedural schedule.

6 By Procedural Order issued December 23, 2011, the hearing was rescheduled to commence  
7 on January 26, 2012, and the date for filing any settlement agreement was extended until January 6,  
8 2012.

9 On January 6, 2012, a proposed Settlement Agreement ("Settlement Agreement") attached  
10 hereto as Exhibit A, and signed by 22 parties<sup>2</sup> was filed. Although nine parties did not sign the  
11 Settlement Agreement,<sup>3</sup> only two, SWEEP and NRDC, expressed partial opposition.

12 The evidentiary hearing on the Settlement Agreement was held on January 26, 27, 30, 31, and  
13 February 1, 2, and 3, 2012. Jeffrey Guldner, Charles Meissner, and Leland Snook testified on behalf  
14 of APS; Stephen Baron testified on behalf of Kroger; Larry Blank testified on behalf of the FEA;  
15 Nancy Brockway testified on behalf of AARP; Mary Lynch testified on behalf of  
16 Noble/Constellation/Direct/Shell; Chris Hendrix and Steve Chriss testified on behalf of Wal-Mart;  
17 Ms. Zwick testified on her own behalf; Jeffrey Schlegel testified on behalf of SWEEP; Ralph  
18 Cavanagh testified on behalf of NRDC; Frank Radigan and Jodi Jerich testified on behalf of RUCO;  
19 Steven Fetter and Gary Yaquinto testified on behalf of AIC; Kevin Higgins testified on behalf of  
20 Freeport-McMoRan and AECC; G. David Vandever testified on behalf of IBEW; Tom Farley  
21 testified on behalf of AAR; and Steve Olea and Howard Solganick testified on behalf of Staff.<sup>4</sup>

22 On February 29, 2012, the Joint Initial Post-Hearing Brief of Parties Supporting the  
23 Settlement (Except Commission Staff)<sup>5</sup>, SWEEP's Opening Brief, and Staff's Opening Brief were  
24 filed. On March 1, 2012, the NRDC's Opening Brief was filed. No party filed a Reply Brief.

25 \_\_\_\_\_  
26 <sup>2</sup> APS, Staff, RUCO, Ms. Zwick, FEA, Kroger, Freeport-McMoRan, AECC, Wal-Mart, IBEW, AzAg, Alliance, AARP,  
AAR, Ms. Wyllie-Pecora, AIC, SWPG/Bowie, and Noble/Constellation/Direct/Shell.

27 <sup>3</sup> ASBA/AASBO, Interwest, NRDC, SWEEP, TEP, Gilbert, Wickenburg, and WRA.

28 <sup>4</sup> APS' testimony filed with the application and the parties' witness testimony filed in November and December 2011  
were also admitted into the record.

<sup>5</sup> Hereafter, "Joint Signatories".



1 was very broad and addressed weather and other economic conditions. Instead of the EIA, Staff  
 2 recommended approval of a Lost Fixed Cost Recovery (“LFCR”) mechanism.<sup>10</sup> Staff also  
 3 recommended that the Commission deny the proposed ERA mechanism;<sup>11</sup> that the Commission deny  
 4 APS’ proposal to recover chemical costs through the PSA; and that the Commission also deny the  
 5 request to consolidate the unbundled transmission service charges in the TCA.<sup>12</sup> Staff agreed with  
 6 the request to eliminate the 90/10 PSA sharing provision<sup>13</sup> and the request to amend the TCA to allow  
 7 the FERC-approved transmission rate to become effective for retail customers on the date it becomes  
 8 effective for wholesale customers.<sup>14</sup> Staff recommended that Schedule 9 be rejected and that APS  
 9 undertake a cost of service study as part of its next rate case. Staff also recommended that beginning  
 10 with APS’ 2013 REST Plan, APS no longer be allowed carrying costs for renewable energy-related  
 11 capital investments, and that the proportionality requirement associated with the Renewable Energy  
 12 Standard (“RES”) adjustor rate and associated caps be removed.<sup>15</sup> Staff also recommended that APS  
 13 no longer be allowed carrying costs for Demand Side Management (“DSM”) related capital  
 14 investments beginning with APS’ 2013 DSM Implementation Plan.<sup>16</sup> Finally, Staff proposed a  
 15 modified performance incentive structure to measure APS’ implementation of its energy efficiency  
 16 programs.<sup>17</sup>

17 RUCO recommended a FVROR of 6.10 percent, for a net rate decrease of \$0 million,  
 18 comprised of a base rate increase of \$140 million (\$98 million in base rate increase and transfer of  
 19 \$42 million of the AZ Sun program funding from the RES to base rates) offset by a credit of \$140  
 20 million from the PSA.<sup>18</sup> RUCO recommended that the Commission reject the ERA proposal, the EIA  
 21 proposal, the proposal to include chemical costs in the PSA, the low income adjustment, the coal  
 22 mine reclamation cost adjustment, the request to consolidate the unbundled transmission service  
 23

24 <sup>10</sup> Staff Ex. 5, Solganick November 18, 2011 Direct Testimony at 15.

25 <sup>11</sup> Staff Ex. 6, McGarry November 18, 2011 Direct Testimony at 17.

26 <sup>12</sup> *Id.* at 30.

27 <sup>13</sup> *Id.* at 19.

28 <sup>14</sup> *Id.* at 32.

<sup>15</sup> Staff Ex. 9, Furrey December 2, 2011 Direct Testimony at 2.

<sup>16</sup> *Id.*

<sup>17</sup> *Id.* at 6-11.

<sup>18</sup> RUCO Ex. 5, Rigsby November 18, 2011 Direct Testimony at 50; RUCO Ex. 1, Radigan November 18, 2011 Direct Testimony at 7.

1 charges in the TCA, and the elimination of the 90/10 sharing provision in the PSA.<sup>19</sup>

2 The AECC recommended that APS' requested revenue increase be reduced by at least  
3 \$75.392 million; that APS' System Benefit charge be reduced by \$8.704 million per year to reflect  
4 the reduction in decommissioning costs associated with the Palo Verde Nuclear Generating Station  
5 life extension; that the 90/10 PSA sharing provision not be eliminated; that the EIA be rejected for all  
6 customers and if some form of decoupling is approved by the Commission, that customers with  
7 billing demands greater than 400 kW be excluded; that the ERA proposal be rejected; and that while  
8 APS' Cost of Service Study should be adopted, other changes were necessary to some of APS' rate  
9 schedules.<sup>20</sup>

10 Kroger recommended that the Commission reject the EIA proposal, and that any decoupling  
11 mechanism that may be adopted by the Commission should exclude customers taking service on Rate  
12 E-32 L and large industrial customers taking service on Rates E-34 and E-35.<sup>21</sup>

13 The FEA recommended that the Commission reject the EIA proposal, the 90/10 sharing  
14 elimination, and the request to move \$44.9 million out of the RES and into base rates.<sup>22</sup> The FEA  
15 recommended that APS be required to maintain its unbundled rate billing capabilities and allow  
16 customers that billing option.<sup>23</sup>

17 Ms. Zwick recommended that the Commission reject the request for an increase in rates for  
18 low-income customers; deny the change in policy relating to the exemption of low-income customers  
19 from the PSA and DSM charges unless there is another discount; and to expand the eligibility of the  
20 shareholder bill assistance program to up to 200 percent of the federal poverty level.

21 The AARP recommended that the Commission reject the ERA and EIA proposals,<sup>24</sup> and the  
22 redesigned low-income rates.<sup>25</sup>

23  
24 <sup>19</sup> RUCO Ex. 1, Radigan November 18, 2011 Direct Testimony at 6-7; RUCO Ex. 2, Radigan November 23, 2011 Direct  
Testimony at 3.

25 <sup>20</sup> AECC Ex. 1, Higgins November 18, 2011 Direct Testimony at 4-6; AECC Ex. 2, Higgins December 2, 2011 Direct  
Testimony at 2-4.

26 <sup>21</sup> Kroger Ex. 1, Baron November 18, 2001 Direct Testimony at 6.

27 <sup>22</sup> FEA Ex. 1, Blank November 18, 2011 Direct Testimony at 3; FEA Ex. 2, Blank December 2, 2011 Direct Testimony at  
2.

<sup>23</sup> FEA Ex. 2, Blank December 2, 2011 Direct Testimony at 2.

28 <sup>24</sup> AARP Ex. 1, Brockway November 18, 2011 Direct Testimony at iii.

<sup>25</sup> AARP Ex. 2, Brockway December 2, 2011 Direct Testimony at 5.

1 Wal-Mart recommended that if the Commission approves a decoupling mechanism, the  
 2 demand-metered General Service schedules should be excluded, but if not excluded, then decoupling  
 3 should be calculated separately for residential and commercial and industrial customers and there  
 4 should be a cap imposed on the allowed fixed cost recovery for commercial and industrial customers;  
 5 APS should be required to explore rate design changes to the demand-metered General Service  
 6 schedules to improve fixed cost recovery; the ERA should be rejected; and if the ERA and EIA are  
 7 adopted, the Commission should consider the effect of those mechanisms on revenue and earnings  
 8 when setting the rate of return.<sup>26</sup> Wal-Mart did not oppose APS' proposed revenue allocation, but  
 9 made several recommendations concerning rate design.<sup>27</sup>

10 IBEW recommended that the Commission grant sufficient rate relief for APS to address  
 11 recruiting and hiring efforts necessary to address its "aging workforce problem."<sup>28</sup>

12 The AIC supported APS' requested EIA and ERA proposals.<sup>29</sup>

13 NRDC supported APS' proposal for an EIA mechanism which it found to be consistent with  
 14 the Commission's decoupling statement.<sup>30</sup>

15 SWEEP recommended a new energy efficiency performance incentive with changes to the  
 16 cap and the design of the incentive mechanism,<sup>31</sup> and supported the exclusion of only the largest  
 17 customers from full decoupling or lost revenue recovery mechanisms when shown that they do not  
 18 contribute to the recovery of fixed costs.<sup>32</sup> SWEEP supported the revenue per customer decoupling  
 19 mechanism proposed by APS with the exception that SWEEP disagreed with APS' cap and the not as  
 20 timely or current decoupling adjustments APS would make under its mechanism.<sup>33</sup> SWEEP also  
 21 recommended that APS' ERA be rejected and that APS' bill should be redesigned to lessen customer  
 22

23 <sup>26</sup> Wal-Mart Ex. 1, Chriss November 18, 2011 Direct Testimony at 7-8.

24 <sup>27</sup> Wal-Mart Ex. 2, Chriss December 2, 2011 Direct Testimony at 3-4.

25 <sup>28</sup> IBEW Ex. 1, Vandever November 18, 2011 Direct Testimony at 6-12.

26 <sup>29</sup> AIC Ex. 2, Fetter November 18, 2011 Direct Testimony at 23-24; AIC Ex. 2, Hansen November 18, 2011 Direct  
 Testimony at 13.

27 <sup>30</sup> NRDC Ex. 1, Cavanagh November 18, 2011 Direct Testimony at 2-4. ACC Policy Statement Regarding Utility  
 Disincentives to Energy Efficiency and Decoupled Rate Structures signed December 29, 2010 and filed in Docket Nos. E-  
 00000J-08-0314 and G-00000C-08-0314.

28 <sup>31</sup> SWEEP Ex. 1, Schlegel November 18, 2011 Direct Testimony at 8-9.

<sup>32</sup> SWEEP Ex. 2, Schlegel December 2, 2011 Direct Testimony at 4.

<sup>33</sup> SWEEP Ex. 1, Schlegel November 18, 2011 Direct Testimony at 11.

1 confusion and provide customers with more useful information.<sup>34</sup>

2 **Settlement Agreement**

3 The Settlement Agreement is signed by twenty-two parties and partially opposed by two  
4 parties, SWEEP and NRDC.<sup>35</sup> APS filed a Notice of settlement discussions on November 18, 2011  
5 and discussions began on November 30, 2011. According to the Settlement Agreement and the  
6 testimony of witnesses and statements of attorneys, the discussions were “open, transparent, and  
7 inclusive of all parties” who desired to participate. Staff filed a Preliminary Term Sheet on  
8 December 9, 2011, and the Commission held a Special Open Meeting on December 16, 2011 to  
9 discuss the Staff Preliminary Term Sheet. The Settlement Agreement was docketed on January 6,  
10 2012.

11 The Joint Signatories characterize the Settlement Agreement as one that offers broad benefits  
12 to APS and its customers and allows APS to continue to provide reliable electric service and pursue  
13 Arizona’s energy goals, while leaving resolution of policy issues to policy-making dockets.<sup>36</sup> Staff  
14 believes that the Settlement Agreement is designed to continue the momentum resulting from the  
15 Settlement Agreement approved in Decision No. 71448 (improve APS’ financial standing, provide  
16 predictability with rate case filings, and establish a strong commitment in Arizona’s energy future)  
17 while at the same time, preserve the Commission’s flexibility to implement policy objectives in  
18 Energy Efficiency and Renewable Energy.<sup>37</sup> According to Staff, the Settlement Agreement is the  
19 product of “many hours of intense, transparent, and robust negotiations between multiple parties with  
20 divergent interests.”<sup>38</sup> Staff believes that there are significant benefits in the Settlement Agreement  
21 and recommends that it be adopted. SWEEP participated in the settlement discussions, which it  
22 characterized as “open, transparent and inclusive of all parties to the Docket who desired to

23 <sup>34</sup> *Id.* at 13.

24 <sup>35</sup> Interwest filed a statement on January 18, 2012 stating that while it did not sign the Settlement Agreement and would  
25 not be offering testimony, it did believe that the “settlement process was a fair and open process.” WRA filed a statement  
26 that it was not a signatory to the Settlement Agreement and would not be filing testimony. Wickenburg and Gilbert  
27 indicated during the January 19, 2012 Procedural Conference that they would not be filing testimony or cross-examining  
28 witnesses. January 19, 2012 Procedural Conference Tr. at 15. ASBA/AASBO indicated at the January 19, 2012  
Procedural Conference that they did not take a position and did not intend to file testimony. January 19, 2012 Procedural  
Conference Tr. at 13.

<sup>36</sup> Joint Signatories Opening Brief at 4.

<sup>37</sup> Staff Opening Brief at 5-7.

<sup>38</sup> *Id.* at 7.

1 participate.”<sup>39</sup> While SWEEP thinks that “there is a lot to like” in the Settlement Agreement,  
 2 SWEEP is in partial opposition because “(1) the Agreement limits the Commission’s options and  
 3 flexibility for addressing utility financial disincentives to energy efficiency; (2) full revenue  
 4 decoupling was not included in the Settlement Agreement, not even as an option for Commission  
 5 consideration as part of its review of the Agreement; and (3) the energy efficiency performance  
 6 incentive for APS should be addressed in the Energy Efficiency Implementation Plan process rather  
 7 than in this rate case.”<sup>40</sup> The NRDC partially opposes the Settlement Agreement because it does not  
 8 include full revenue decoupling and the NRDC believes that it is inconsistent with Commission  
 9 policy, precedent, and the public interest in enhanced energy efficiency and lower electricity bills.<sup>41</sup>

#### 10 **Terms and Conditions of the Settlement Agreement**

11 The Settlement Agreement contains approximately 22 pages of text describing the terms and  
 12 conditions of the negotiated agreement. The major Sections of the Settlement Agreement are as  
 13 follows:<sup>42</sup>

##### 14 **I. Recitals** – This Section identifies the benefits of the Settlement Agreement as:

- 15 • an overall zero dollar base rate increase;
- 16 • a zero percent bill impact for the remainder of 2012 (Commission-approved adjustors  
 17 (including the possibility of a Four Corners rider pursuant to paragraph 10.2) may  
 18 increase customer bills after December 31, 2012);
- 19 • a four year rate case stay out, in which APS agrees not to raise base rates as a result of  
 20 any new general rate case filing prior to July 1, 2016;
- 21 • a buy-through rate for industrial and large commercial customers;
- 22 • a narrowly-tailored Lost Fixed Cost Recovery (“LFCR”) mechanism that supports  
 23 energy efficiency (“EE”) and distributed generation (“DG”) at any level or pace set by  
 24 this Commission;
- 25 • an opt-out rate design for residential customers who choose not to participate in the

26 \_\_\_\_\_  
 27 <sup>39</sup> SWEEP Opening Brief at 1.

<sup>40</sup> *Id.* at 1-2.

<sup>41</sup> NRDC Opening Brief at 2-4.

28 <sup>42</sup> This is a summary of some, but not all provisions contained in the Settlement Agreement.

1 LFCR;

- 2 • a process for simplifying customers' bill format; and  
3 • bill assistance for additional low income customers, at shareholder expense.

4 This Section also requests that the Commission find the Settlement Agreement's terms and  
5 conditions are just and reasonable and in the public interest and approve the Settlement Agreement  
6 and order that it and its rates become effective July 1, 2012.

7 II. Rate Case Stability Provisions – This Section provides that APS will not file a general rate  
8 case prior to May 31, 2015; that the test year will be no earlier than December 31, 2014; and that no  
9 resulting new base rates will be effective before July 1, 2016.

10 III. Rate Increase – This Section provides that APS' revenue requirement is a zero dollar base  
11 rate increase consisting of (1) a non-fuel base rate increase of \$116.3 million based upon post-test  
12 year plant in service as of March 31, 2012; (2) a fuel base rate decrease of \$153.1 million; and (3) a  
13 transfer of cost recovery from the RES to base rates. This Section determines APS' jurisdictional fair  
14 value rate base to be \$8,167,126,000, and total adjusted test year revenues of \$2,868,858,000.

15 IV. Bill Impact – This Section provides that customers will have on average a 0.0 percent bill  
16 impact when new rates become effective due to the continuation of the negative PSA credit until the  
17 next reset on February 1, 2013; that the annual 4 mill cap will then be applied after the impact of the  
18 expiration of the then-current PSA credit; and that the percentage bill impact spread for General  
19 Service customers among various segments of that customer class will be equal as set forth in  
20 Attachment A.

21 V. Cost of Capital – This Section adopts a capital structure of 46.06 percent debt and 53.94  
22 percent common equity; adopts a return on common equity of 10.0 percent and an embedded cost of  
23 debt of 6.38 percent; and adopts a fair value rate of return of 6.09 percent.<sup>43</sup>

24 VI. Depreciation/Amortization and Decommissioning – This Section adopts APS' proposed  
25 depreciation rates, except for Account Nos. 370.01, 370.02, and 370.03 which retain their current  
26 rates; adopts APS' annual nuclear decommissioning amounts; and requires APS to file a request to  
27

28 <sup>43</sup> The fair value rate of return includes a fair value increment.

1 adjust the System Benefit Charge related to the full funding of Palo Verde Unit 2 so that the  
2 reduction can occur by January 2016.

3 VII. Fuel and Power Supply Adjustment Provisions – This Section adopts a new lower base  
4 fuel rate of \$0.032071 per kWh; withdraws the proposed recovery of chemicals through the PSA;  
5 eliminates the 90/10 sharing provision from the PSA and requires APS to apply interest annually with  
6 different rates for over and under-recoveries; subjects APS to periodic fuel and power procurement  
7 audits performed by Staff-selected consultants and funded by APS in amounts up to \$100,000 per  
8 audit; and includes amendments to the Plan of Administration.

9 VIII. Renewable Energy – This Section provides that the portion of the APS-owned  
10 renewable energy projects currently collected through the RES that have been closed to plant in  
11 service as of March 31, 2012 (as set forth in Attachment D) shall be rate based and the costs  
12 recovered through base rates; that the only capital carrying costs of renewable energy-related capital  
13 investments to be recovered through the RES adjustor will be those APS makes in compliance with  
14 Decision No. 71448 until and unless they are specifically authorized for recovery in another adjustor  
15 or in base rates; that upon the effective date of the new rates, the RES adjustor for 2012 will be  
16 reduced to reflect removal of the projects in Attachment D; the renewable energy-related purchased  
17 power agreement costs that were moved from the RES to the PSA in Decision No. 72737 (January  
18 18, 2012) will be moved back to the RES; and Decision No. 67744's requirement that changes to  
19 RES charges and caps must be allocated between customer classes according to certain set  
20 proportions is eliminated in order that the Commission has greater flexibility in setting RES adjustor  
21 rates and caps.

22 IX. Energy Efficiency/Lost Fixed Cost Recovery/Opt-Out Residential Rate/Large General  
23 Service Customer Exclusion – This Section provides that the signatories support energy efficiency as  
24 a low cost energy resource; they recognize that APS' volumetric rate design recovers a significant  
25 portion of fixed costs of service through kilowatt-hour ("kWh") sales; and that the EE and DG rules'  
26 requirement to sell fewer kWh prevents APS from recovering a portion of fixed costs embedded in  
27 energy rates. The signatories agree that a LFCR mechanism with residential opt-out rates that allows  
28 the Commission the flexibility to adjust the EE and DG requirements and gives APS the opportunity

1 to recover a portion of the distribution and transmission costs associated with those residential,  
2 commercial and industrial customers' verified lost kWh sales attributed to EE and DG requirements  
3 (and not attributable to other factors such as weather or general economic conditions), should be  
4 adopted.

5 The provisions of the LFCR mechanism include:

- 6 • recovery of only a portion of distribution and transmission costs related to sales level  
7 that are reduced by EE and DG and exclusion of the portion of distribution and  
8 transmission costs recovered through the Basic Service Charge ("BSC") and 50  
9 percent of the costs that are recovered through non-generation/non-TCA demand  
10 charges;
- 11 • annual LFCR and compliance filings by January 15;
- 12 • annual adjustments for the unrecovered costs as demonstrated by the Measurement,  
13 Evaluation and Reporting ("MER") conducted for EE programs and by statistical  
14 verification, output profile, or meter data for DG systems until December 31, 2014 and  
15 thereafter by only meter data to calculate DG system savings;
- 16 • annual adjustments must be approved by the Commission, with the first adjustment  
17 occurring no sooner than March 1, 2013;
- 18 • an annual 1 percent year over year adjustment cap based on total Company revenues,  
19 with any excess being deferred with interest to be collected in a future annual  
20 adjustment, and the cap to be evaluated in the next rate case;
- 21 • General Service customers taking service under rate schedules E-32 L, E-32 L TOU,  
22 E-34, E-35 and E-36 XL, and unmetered General Service customers under E-30 and  
23 lighting schedules are excluded, but those rate schedules are modified in Attachment  
24 K to address unrecovered fixed costs through changes in rate design, including  
25 distribution demand and BSC charges and a corresponding adjustment to energy  
26 charges;
- 27 • Residential customers can opt out of the LFCR adjustor by choosing the optional BSC  
28 which is graduated by kWh monthly usage and is designed to replicate the effects of

1 the LFCR;

- 2 • APS shall implement a customer outreach program to inform and educate customers  
3 about the LFCR and the voluntary residential op-out rates, based upon input sought by  
4 APS from stakeholders;
- 5 • The LFCR is subject to Commission review at any time but no later than APS' next  
6 rate case and if the Commission were to suspend, terminate, or materially modify the  
7 LFCR mechanism prior to then without addressing fixed cost erosion, the moratorium  
8 for filing a rate case terminates; and
- 9 • The LFCR is designed to maximize the Commission's policy options regarding EE  
10 and DG and the signatories agree that if the LFCR or other mechanism is not adopted  
11 that will adequately address fixed cost revenue erosion, APS will be "granted relief  
12 from either the relevant EE and DG requirements or the financial impacts of EE and  
13 DG during that time."

14 This Section also includes provisions related to DSM, including: beginning with APS' 2013  
15 DSM Implementation Plan, carrying costs for DSM-related capital investments will not be recovered  
16 through the DSM adjustment Clause (except for DSM-related capital investments already authorized  
17 by the Commission); base rates will continue to collect \$10 million of DSM costs; APS' performance  
18 incentive is modified to (1) eliminate the top two tiers of percentages applied to Net Benefits or  
19 Percent of Program Costs and (2) to change the fourth tier to include any achievement relative to the  
20 energy efficiency standard greater than 105 percent; APS will use Staff's inputs and methodology to  
21 calculate the present value of benefits and costs for DSM measures in its Societal Cost test; APS will  
22 work with Staff and stakeholders to develop and file a new performance incentive structure that  
23 "optimizes the connection between energy efficiency, rates and utility business incentives and that  
24 creates a clear connection between the level of performance incentive and achievement of cost-  
25 effective energy savings" by December 31, 2012, and this docket will remain open to allow for  
26 Commission consideration and approval to include the new performance incentive structure in the  
27 DSM Adjustment Clause; every five years an independent evaluator will review APS' DSM  
28 programs and associated energy savings; and APS will compile a technical reference manual that is

1 updated annually documenting program and measure savings assumptions and incremental costs.

2 X. Rate Treatment Related to any Acquisition by APS of Southern California Edison's Share  
3 of Four Corners Units 4-5 – This Section provides that this docket will remain open until December  
4 31, 2013, for APS to file a request to adjust its rates to reflect the rate base and expense effects  
5 associated with (1) the acquisition of Southern California Edison's ("SCE") ownership interest in  
6 Four Corners Units 4 and 5, and (2) the retirement of Units 1-3, as well as any cost deferral  
7 authorized in the Commission's Decision in the Four Corners acquisition docket; that APS is  
8 authorized to request amendments to the PSA Plan of Administration to include the post-acquisition  
9 Operations and Maintenance expense associated with Four Corners Units 1-3 as a cost of producing  
10 off-system sales until closure of Units 1-3, provided that such costs do not exceed off-system sales  
11 revenue in any given year; that any filing seeking a rate adjustment must include specific schedules  
12 and any proposed adjustment rider must spread the costs on an equal percentage basis across all rate  
13 schedules and will not become effective before July 1, 2013; and that rates are adjusted only if the  
14 Commission finds the Four Corners transaction to be prudent.

15 XI. Modification to Environmental Improvement Surcharge – This Section withdraws the  
16 proposed ERA mechanism; revises the existing Environmental Improvement Surcharge ("EIS") to  
17 recover the capital carrying costs associated with government-mandated environmental controls,  
18 subject to a cap; resets the existing EIS to zero; and revises the EIS Plan of Administration to  
19 implement these changes.

20 XII. Cost Deferral Related to Changes in Arizona Property Tax Rate – This Section allows  
21 APS to defer without interest for future recovery: 25 percent of the prorated property tax rate increase  
22 in 2012, 50 percent in 2013, and 75 percent each year thereafter, and 100 percent of all property tax  
23 rate decreases; recovery will begin after the next general rate case with recovery of a positive balance  
24 spread over 10 years and a negative balance over three years; and the signatories may review the  
25 deferrals for reasonableness and prudence.

26 XIII. Transmission Cost Adjustment Mechanism – This Section provides that the current level  
27 of transmission costs in base rates will remain in base rates; APS will file its revised TCA tariff and  
28 supporting documents by May 15 of each year, and the annual TCA adjustment will become effective

1 June 1 of each year unless Staff requests review or the Commission orders otherwise; and the TCA  
2 Plan of Administration is modified to include the new provisions.

3 XIV. Low Income Programs – This Section provides that funds remaining in the bill  
4 assistance program approved in Decision No. 69663 may be used to assist customers whose incomes  
5 are less than or equal to 200 percent of the Federal Poverty Income Guidelines; and that the billing  
6 method for low income customers will be simplified by including PSA and the Demand Side  
7 Management Adjustor Charge (“DSMAC”) charges to their rate schedule and then applying a  
8 discount to the total bill, such that there will be no bill impact to low income customers as a result of  
9 the billing method change.

10 XV. Service Schedule 3 (Line Extensions) – This Section provides that Version 12 of Service  
11 Schedule 3, as approved in Decision No. 72684 (November 18, 2011), will become effective on the  
12 date that rates set herein are effective.

13 XVI. Bill Presentation – This Section provides that APS will initiate stakeholder meetings  
14 within 90 days that will address issues related to making APS’ bill easier for customers to understand  
15 and requires APS to file an application for any authorization needed to modify its bill presentation  
16 and explain how stakeholder input during the process was included.

17 XVII. Rate Design – This Section provides that APS’ proposed Experimental Rate Schedule  
18 AG-1, a buy-through rate for large commercial and industrial customers (that does not address the  
19 subject of retail competition), should be approved as modified and set forth in Attachment J; that if  
20 there are any unmitigated lost fixed generation costs related to the AG-1 Experimental Rate in APS’  
21 next rate case, APS should explain why and shall not propose to recover such costs from residential  
22 customers; that APS shall file a study in its next rate case to support costs of various charges in  
23 Service Schedule 1, taking into account the impact Smart Grid technology may have on the costs; the  
24 request to establish Service Schedule 9, an economic development schedule is withdrawn in favor of  
25 the use of Commission-approved special contracts; and other rate design issues are resolved in  
26 Attachment K.

27 XVIII. Compliance Matters – This Section provides that within ten days of this Decision,  
28 APS shall file compliance schedules for Staff’s review and that subject to that review, the schedules

1 will become effective on the effective date of new rates; that on or before May 31 each year, APS  
2 shall file a report with the Commission that identifies the extent of the challenges regarding  
3 workforce planning, the specific actions that APS is taking to address the issue, and the progress it is  
4 making toward meeting those goals; and provides that the rating agencies communications report  
5 filing requirement found in Decision No. 70667 is eliminated.

6 XIX. Force Majeure Provision – This Section sets out the conditions whereby APS, the  
7 Commission, or a signatory may request a change in or review of base rates.

8 XX. Commission Evaluation of Proposed Settlement – This Section provides that if the  
9 Commission fails to issue an order adopting all material terms of the Settlement Agreement, any or  
10 all of the signatories may withdraw from the agreement and pursue without prejudice their respective  
11 remedies at law; provides that for purposes of the Settlement Agreement, whether a term is material  
12 is in the discretion of the signatory choosing to withdraw from the Settlement Agreement, and if a  
13 signatory withdraws from the Settlement Agreement and files an application for rehearing, the other  
14 signatories except for Staff, shall support the application for rehearing.

15 XXI. Miscellaneous Provisions – This Section provides that the signatories shall support and  
16 defend the Settlement Agreement and shall make reasonable and good faith efforts to obtain a  
17 Commission order approving the Settlement Agreement; and that to the extent any provision of the  
18 Settlement Agreement is inconsistent with any existing Commission order, rule, or regulation, the  
19 Settlement Agreement shall control and that each term is in consideration of all other terms and the  
20 terms are not severable.

21 **Benefits of the Settlement Agreement as Identified by the Parties**

22 **Staff**

23 Staff finds that the provisions of the proposed Settlement Agreement are in the public interest  
24 and that the Commission should approve it. Staff explains that the goal of the 2009 settlement  
25 agreement approved by the Commission was to improve APS' standing in the investment  
26 community, provide predictability with rate case filings and timing, and establish a strong  
27  
28

1 commitment to Arizona's energy future.<sup>44</sup> This Settlement Agreement is designed to build upon the  
 2 progress toward those goals while preserving the Commission's flexibility to implement policy  
 3 objectives in energy efficiency and renewables. Staff believes that the Settlement Agreement was  
 4 the product of a transparent and open process involving a diverse group of stakeholders, and that the  
 5 end result balances APS' financial stability with benefits to customers.

6 Those benefits include:

- 7 • An overall zero dollar base rate increase;
- 8 • A zero percent bill impact for the remainder of 2012 (Commission-approved adjustors  
 9 (including the possibility of a Four Corners rider pursuant to paragraph 10.3 of the  
 10 Agreement) may increase customer bills after December 31, 2012);
- 11 • An increase in rate stability, including a four year period without base rate increases;
- 12 • A buy-through rate for industrial and large commercial customers that holds  
 13 residential customers harmless in the event that there are stranded fixed costs;
- 14 • A narrowly-tailored Lost Fixed Cost Recovery ("LFCR") mechanism that supports  
 15 energy efficiency ("EE") and distributed generation ("DG") at any level or pace set by  
 16 the Commission;
- 17 • An opt-out rate design for residential customers who choose not to participate in the  
 18 LFCR;
- 19 • A process for simplifying customer bills; and
- 20 • Bill assistance for additional low income customers at shareholder expense.<sup>45</sup>

21 Staff explains that the Signatories intended to provide the Commission with maximum  
 22 flexibility in setting EE and DG policy and therefore, there are no specific EE or RES targets or  
 23 requirements built into the Settlement Agreement. Staff noted that there are components of the  
 24 Settlement Agreement that will allow continued improvement in APS' financial standing, including;  
 25 the settlement itself, which reflects "the positive climate of the Commission's process;"<sup>46</sup> the  
 26 inclusion of 15 months of post test year plant; a 10 percent return on equity; the LFCR; and the other  
 27 parts of the Settlement Agreement that support the Company's ability to accept a four year stay out.

28 <sup>44</sup> Staff's Opening Brief at 5.

<sup>45</sup> Staff Opening Brief at 6.

<sup>46</sup> Tr. at 26, AIC Opening Statement.

1 Staff argues that the Settlement Agreement appropriately balances consumer and shareholder  
2 interests and identifies the following provisions that will benefit consumers:

3 1) Rate Case Filing Moratorium – Staff believes that the four year stay-out whereby APS will  
4 not file its next general rate case before May 31, 2015 and new base rates will not take affect before  
5 July 1, 2016, will provide customers with rate stability while also providing APS with sufficient  
6 revenue to provide safe and reliable electric service. Staff disagrees with SWEEP’s argument that  
7 the stay out provision should be shortened to three years, because Staff believes that stay-out  
8 provisions encourage utilities to control costs, which can lead to lower rates in future rate cases.  
9 Staff also believes that the Settlement Agreement was “crafted to permit maximum flexibility to the  
10 Commission in the implementation of new policy while providing a means to make the Company  
11 whole.”<sup>47</sup>

12 2) No Base Rate Increase – Staff notes that although APS initially proposed a \$95.49 million  
13 total rate increase, the proposed Settlement Agreement provides no base rate increase. The change  
14 to base rates includes a non-fuel base rate increase of \$116.3 million (including post test year plant  
15 in service as of March 31, 2012), a fuel base rate decrease of \$153.1 million, and a transfer of cost  
16 recovery from the RES to base rates in the amount of approximately \$36.8 million. The base cost of  
17 fuel and purchased power will decrease from \$0.037571 per kWh to \$0.032071 per kWh. Staff  
18 believes that even though adjustor mechanisms may continue to fluctuate and increase bills, “the fact  
19 that base rates will remain constant for a four-year period is a significant benefit to customers.”<sup>48</sup>

20 3) A Bill Impact of Zero or Slightly Negative Once New Rates Take Effect for the  
21 Remainder of 2012 - APS has agreed to delay recovery of a portion of its fuel and purchased power  
22 costs until early 2013 and this delay will allow a zero or slightly negative bill impact until February  
23 1, 2013.<sup>49</sup> This benefits customers by not increasing base rates during the summer when usage is  
24 typically higher and by decreasing the frequency of bill impacts associated with the reset of fuel and  
25 purchased power costs which would have occurred in July 2012.

26 4) A Rate of Return on Equity that is 100 Basis Points Below APS’ Existing Return on

27 <sup>47</sup> Staff Opening Brief at 38.

28 <sup>48</sup> *Id.* at 13.

<sup>49</sup> The PSA reset will occur in February 2013 and true-up its recovery of fuel and purchased power expenses.

1 Equity – Staff notes that the return on equity is somewhat lower than recent ROEs authorized in  
 2 other jurisdictions for vertically integrated electric utilities, but combined with APS’ capital  
 3 structure, APS should still be able improve its financial condition and credit ratings over time.  
 4 Customers will benefit from rates based upon lower financing costs for plant.

5 5) The Low Income Provisions Benefit Consumers - Staff believes that expanding the bill  
 6 assistance program to include customers whose incomes are less than 200 percent of the Federal  
 7 Poverty Level Income Guidelines is a benefit of the Settlement Agreement. The other modification  
 8 to the low income program will allow low income customers to benefit from credits when they occur  
 9 with the PSA and the DSMAC adjustors. Currently, low income customers do not pay those  
 10 adjustors, and as a way to simplify billing methods, the low income schedules will be eliminated and  
 11 the customers will instead receive a discount to the total bill (that includes the PSA and DSMAC)  
 12 that will effectuate a zero impact on the bill.

13 6) Lost Fixed Cost Recovery Mechanism and Residential Consumer Opt-Out Provision -  
 14 Staff noted that the Commission had received many comments from consumers in this docket  
 15 opposed to adoption of full revenue decoupling. Staff agrees with APS that the

16  
 17 major difference between decoupling and lost fixed cost recovery is that lost fixed  
 18 cost recovery is tied to measured and approved Corporation Commission  
 19 programs for energy efficiency and for distributed generation. Decoupling is  
 20 indifferent as to what’s causing the effect of the lower or higher sales. And so  
 21 whether it’s economic conditions or weather or energy efficiency or anything else,  
 22 the decoupling mechanism says conceptually, you don’t care now, you’re  
 23 divorced from the effect of sales volumes affecting your revenues.<sup>50</sup>

24 Staff believes that unlike the LFCR, full revenue decoupling shifts all risk of lower per kWh  
 25 sales from the utility to the customers, particularly risks related to weather and the economy.<sup>51</sup>

26 Staff believes that many residential customers have expressed concern with full revenue  
 27 decoupling because of the “potential for widely varying bill impacts from year to year”<sup>52</sup> and that  
 28 the unique opt-out provision of the Settlement Agreement’s LFCR adjustor will benefit those opt-out  
 customers by providing more certainty with their bills. The increased basic service charge will be

<sup>50</sup> Tr. at 203-204.

<sup>51</sup> Staff Opening Brief at 15.

<sup>52</sup> *Id.* at 15.

1 implemented with the first LFCR adjustment in 2013 and will remain fixed for the duration of the  
2 Settlement Agreement. Staff noted that the “opt-out” does not prevent customers from participating  
3 in EE or DG, and that RUCO would not likely have supported the Settlement Agreement without the  
4 opt-out rate.<sup>53</sup>

5 7) A Lower System Benefit Charge in 2016 – Customers pay costs to decommission Palo  
6 Verde Unit 2 via the Systems Benefits Charge (“SBC”) which is part of base rates. Because Unit 2  
7 is anticipated to be fully funded by 2016, APS agreed to seek Commission approval of a  
8 corresponding reduction in the amount collected by the SBC. This will amount to a reduction in the  
9 revenue requirement of approximately \$14 million.

10 8) A Process For Simplifying Customer Bills – APS will begin stakeholder meetings to  
11 gather input on how to make its bill presentation easier for customers to understand. The results will  
12 be presented to the Commission for approval.

13 Staff also identified provisions in the Settlement Agreement that it believes provide important  
14 benefits to APS but also balance the consumer interests, including provisions that are intended to  
15 more closely align the interests of APS and consumers, as follows:

16 1) Energy Efficiency and Distributed Generation and Recouping Lost Fixed Costs – Staff  
17 noted that although the Commission’s December 29, 2010 Policy Statement Regarding Utility  
18 Disincentives to Energy Efficiency and Decoupled Rate Structures (“Policy Statement”) expressed a  
19 preference for full revenue decoupling, it also provided the opportunity for a utility to propose an  
20 alternative mechanism for addressing disincentives in its next general rate case. Staff explained that  
21 the LFCR mechanism adopted in the Settlement Agreement is such an alternative and is similar to  
22 the LFCR mechanism Staff proposed in its original direct testimony in this matter. Staff believes  
23 that the LFCR mechanism is narrowly tailored to allow recovery of certain documented and verified  
24 fixed costs that were not recovered due to reductions in volumetric sales from Commission-  
25 approved EE and DG programs. It excludes recovery of 50 percent of demand charges because if a  
26 customer reduces energy consumption in response to a program, it is not likely there will be a

27  
28 <sup>53</sup> *Id.* at 16.

1 proportional reduction in the demand level. It also excludes generation costs because APS forecasts  
2 that sales will increase in the near future, and because APS has the ability to make off-system, ACC  
3 non-jurisdictional sales to sell any excess energy.<sup>54</sup> According to Staff, not all customers are subject  
4 to the LFCR mechanism, because either no fixed costs will remain unrecovered or other rate designs  
5 will be in place to address lost fixed costs. The LFCR uses existing processes to determine the  
6 applicable sales reductions that are recoverable through the mechanism on an annual basis. Under  
7 the Plan of Administration, APS will file its Annual LFCR Adjustment for the previous year each  
8 January 15<sup>th</sup> and Staff has committed to using its best efforts to process the adjustment by March 1  
9 of each year, with the first LFCR adjustment not appearing on customer bills until approved by the  
10 Commission, and no sooner than to March 1, 2013. Annual adjustments are limited to one percent  
11 of total Company revenues and based upon expected EE and DG programs, Staff testified that  
12 adjustments are estimated to be below that level, so no deferrals are expected.<sup>55</sup>

13 Staff explained that unlike full revenue decoupling, both weather and business risk are not  
14 transferred to customers but stay with APS, so no rate of return adjustment is necessary. Staff  
15 acknowledges that while “the LFCR does not break the incentive to increase sales volumes to  
16 achieve higher revenues, it does break the disincentive to not invest in EE and DG due to lower sales  
17 volumes.”<sup>56</sup> The cumulative impact on customers of the LFCR is expected to be approximately \$16  
18 million in 2014; \$30 million in 2015; and \$40 million in 2016. Comparatively, the cumulative  
19 impacts with full revenue decoupling would be approximately \$26.9 million in 2014; \$49 million in  
20 2015; and \$70 million in 2016.<sup>57</sup>

21 In response to SWEEP and NRDC’s partial opposition, Staff’s witness identified potential  
22 problems with full decoupling, including the “pancaking” of increases; the ability of the utility to  
23 benefit from prolonged outage events; the incentive to game inputs; and the problem of how to  
24 appropriately reflect the level of risk in the cost of equity when setting the Company’s rates. Staff  
25 also disagreed with the NRDC’s suggestion that the Commission is bound by the precedent of the  
26

27 <sup>54</sup> Staff Ex. 12, Solganick January 18, 2012 Direct Settlement Agreement Testimony at 4.

<sup>55</sup> *Id.*; Staff Opening Brief at 20.

<sup>56</sup> Staff Opening Brief at 19.

<sup>57</sup> Tr. at 192-194; Staff Opening Brief at 20-21.

1 Southwest Gas rate case and the Policy Statement, noting that there are different considerations in  
2 each case, and that as administrative agency, the Commission is not bound by the doctrine of *stare*  
3 *decisis*. According to Staff, the residential opt-out of the LFCR mechanism is a benefit that is  
4 critical for some parties and would have been complex and unworkable with full revenue  
5 decoupling.<sup>58</sup> Staff also noted that the LFCR is a “more practical alternative in light of the number  
6 of interests that are opposed to full revenue decoupling.”<sup>59</sup>

7       2) The Proposed Changes to the RES Surcharge Are In the Public Interest – Staff explained  
8 that the Settlement Agreement contains important changes to the RES surcharge. One of those  
9 changes requires APS’ 2013 REST Plan to eliminate recovery of carrying costs for renewable  
10 energy-related capital investments, with the exception of those investments made in compliance with  
11 Decision No. 71448. Staff believes that plant associated with renewable energy projects should be  
12 treated no differently than how other plant investments are treated, and the portion of renewable  
13 projects closed to plant in service as of March 31, 2012 will be recovered through base rates.  
14 Another change is to eliminate Decision No. 67744’s proportionality requirement associated with  
15 the RES adjustor rate and associated caps. This change is designed to give the Commission greater  
16 flexibility in setting the RES adjustor rates and caps.

17       3) The Provisions Relating to APS’ DSM Programs Are In the Public Interest – Staff also  
18 believes that the Settlement Agreement’s provision that the Company’s 2013 DSM Implementation  
19 Plan not include carrying costs for DSM-related capital investments is appropriate because there is  
20 no reason to treat such investment differently from other plant investments. Staff noted that the top  
21 two tiers of percentages in the current performance incentive were eliminated and that APS  
22 “committed in the proposed Agreement to use the inputs and methodology that Staff uses in  
23 calculating the net present value of benefits and costs for DSM measures in its Societal Test.”<sup>60</sup>  
24 Staff explained that the LFCR “makes the Company indifferent to sales lost as a result of DSM and  
25 DG programs” but the purpose of a performance incentive is “to encourage the Company to achieve  
26 the most cost-effective energy savings possible through its DSM programs, which, ultimately, will

27 <sup>58</sup> Staff Opening Brief at 35.

28 <sup>59</sup> *Id.* at 34.

<sup>60</sup> *Id.* at 22.

1 save the ratepayers money.”<sup>61</sup> Staff also cited the Settlement Agreement’s requirement that APS’  
2 DSM programs and savings be independently reviewed every five years by a Staff-selected  
3 evaluator paid for by APS shareholders, and the requirement that APS must create and docket a  
4 DSM technical manual by December 31, 2012, as promoting the public interest. In response to  
5 SWEEP’s proposal that the performance incentive be developed sooner in the Company’s EE  
6 Implementation Plan, Staff explained that because “a performance incentive impacts Company  
7 revenues, a strong argument can be made that any change or adjustments to the performance  
8 incentive structure or DSMAC adjutor plan of administration needs to occur in the context of a rate  
9 case.”<sup>62</sup>

10 4) A Buy-Through Rate For Industrial and Large Commercial Customers – APS’  
11 Experimental Rate Service Rider Schedule AG-1 is a four year program with a buy-through rate for  
12 large commercial and industrial customers offered as an option to standard generation that will give  
13 larger customers greater control over their energy costs. This program was developed in response to  
14 customer input and allows Generation Service Providers (“GSP”) to provide wholesale power to  
15 APS on behalf of specific customers. APS will purchase and manage generation on behalf of the  
16 customer for a management fee of \$.0006 per Kwh. Capped at 200 megawatts, applicants must be  
17 able to aggregate into a 10 megawatt group. A collaborative process will be used to develop  
18 program guidelines including the customer enrollment process, APS’ provision of imbalance energy,  
19 energy scheduling and billing and competitive bidding processes.<sup>63</sup> As explained by  
20 Noble/Constellation/Direct/Shell witness Lynch, the electric service provided under proposed rate  
21 schedule AG-1 differs from retail electric competition in that “the GSP will transfer title to the  
22 electricity the GSP bought, at the direction of an eligible Rate Schedule AG-1 customer, to APS at a  
23 delivery point outside of APS’ network delivery” and “APS remains the load serving entity for the  
24 retail customer providing all services, including the generation delivery and billing under a  
25 Commission approved rate schedule.”<sup>64</sup>

26 <sup>61</sup> *Id.* at 23.

27 <sup>62</sup> *Id.* at 23.

28 <sup>63</sup> Tr. at 615-617; Staff Opening Brief at 25.

<sup>64</sup> Noble/Constellation/Direct/Shell Ex. 1, Lynch January 18, 2012 Direct Testimony in Support of the Settlement Agreement at 10-11.

1           5) Rate Treatment Related to APS Proposed Acquisition of Four Corners – Staff explained  
2 that APS believes that this provision is essential to the four year rate moratorium, noting that the  
3 non-fuel related annual revenue requirement associated with the Four Corners transaction amounts  
4 to approximately \$70 million annually. Staff also explained that the Settlement Agreement would  
5 lower the balance of the cost deferrals, because the costs would begin to be collected sooner.<sup>65</sup> Any  
6 recovery of costs would occur only upon a finding by the Commission that the transaction and costs  
7 were prudent.

8           6) Elimination of the 90/10 Sharing Is In the Public Interest – Staff believes that the  
9 elimination of the 90/10 sharing provision and two new PSA provisions will produce benefits for  
10 customers when there are lower fuel prices and will provide incentives for APS to manage its PSA  
11 balance. The PSA is “a cost tracking mechanism designed to allow APS to recover costs associated  
12 with obtaining power supplies in a more effective manner due to the short-term volatility in power  
13 costs” and tracks how much actual fuel and purchased power costs deviate from the amount  
14 recovered through APS’ base cost of fuel and purchased power collected in base rates.<sup>66</sup> The 90/10  
15 sharing provision splits the over or under collection of fuel costs between ratepayers and the  
16 Company. When actual fuel costs exceed base fuel rates, APS can collect 90 percent of those costs,  
17 and when actual fuel costs are less than base fuel rates, APS can keep 10 percent of those savings.  
18 The PSA sharing mechanism is designed to give APS a financial incentive to prudently plan for and  
19 acquire its purchased power and fuel. Under the Settlement Agreement, the 90/10 sharing provision  
20 is replaced with periodic audits of APS’ fuel and power procurement, with the first audit for  
21 calendar year 2014; and with the application of interest rates that vary depending upon whether there  
22 is an under or over collection of the PSA balance. Staff believes that these provisions will produce  
23 benefits for customers when fuel prices are lower and will provide incentives for APS to better  
24 manage its PSA balances.

25           7) The EIS and Property Tax Deferrals Were Important In Achieving A Longer Stay-Out  
26 And Are In the Public Interest As Well - Staff believes that the changes to the EIS are in the public

27 \_\_\_\_\_  
28 <sup>65</sup> Staff Opening Brief at 27.

<sup>66</sup> Staff Ex. 4, Solganick November 18, 2011 Direct Testimony at 17.

1 interest because now APS will invest its own funds to pay for government-mandated environmental  
 2 controls, and the EIS will only collect the capital carrying costs, subject to a cap equal to the charge  
 3 currently in place for the EIS. The EIS will be reset to zero on the effective date of new rates  
 4 adopted in this Decision. The property tax deferral was an important component of APS' ability to  
 5 agree to a four year stay out, and as Staff explains, the amount to be deferred is limited and any  
 6 positive balance will be recovered over 10 years while any negative balance will be refunded over 3  
 7 years.

8 Staff believes that the Settlement Agreement results in just and reasonable rates and that the  
 9 impact on customers' bills will be reasonable. Staff notes the following bill impacts from adopting  
 10 the Settlement Agreement, and also from various adjustors and surcharges:

- 11 • A modest reduction across customer classes, generally around one percent on the effective  
 12 date of the new rates, expected to be July 1, 2012, resulting from delaying the reset of the  
 13 existing PSA to reflect new base fuel rates;
- 14 • In early 2013 when the PSA resets, average residential customer bills will increase by  
 15 approximately 6.4 percent;
- 16 • If the Four Corners transaction closes in 2012, there would be a reduction in the PSA  
 17 forward component, resulting in a negative 2.9 percent PSA impact, and the February 2013  
 18 PSA reset would be approximately 3.5 percent instead of 6.4 percent;
- 19 • When the first LFCR adjustment is approved by the Commission, a 0.2 percent adjustment to  
 20 bills would occur on March 1, 2013;
- 21 • If the Four Corners transaction closes, then no earlier than July 2013, a 3 percent nonfuel  
 22 increase to the average residential customer bill is possible if approved by the Commission;  
 23 and
- 24 • Other adjustor charges could impact customer bills, including the DSMAC, the TCA, and the  
 25 RES.<sup>67</sup>

26 ...  
 27  
 28 <sup>67</sup> Staff Opening Brief at 31-32. These are estimates and not rates adopted in this Decision.

1 **Joint Signatories**

2 The Joint Signatories believe that the Settlement Agreement represents “many weeks of  
3 extensive, detailed, and often-times contentious negotiations” that serves not only their individual  
4 interests, but the public interest.<sup>68</sup> They believe that several provisions required significant  
5 concessions by APS that could not have resulted from a litigated proceeding and that the result is an  
6 agreement that has broad-ranging benefits to customers and the Company, allows APS to continue to  
7 provide safe and reliable electric service while still pursuing Arizona’s energy goals, and that leaves  
8 the resolution of policy issues to other, policy-making dockets.

9 The Joint Signatories identified the benefits of the Settlement Agreement as follows:

- 10 • Provides base rate stability for customers;
- 11 • Provides customers with additional rate options;
- 12 • Creatively resolves significant customer and stakeholder concerns regarding how to  
13 recover lost fixed costs that result from Commission-authorized energy efficiency and  
14 distributed generation;
- 15 • Protects the low-income members of our community, at shareholder expense;
- 16 • Gathers information useful to future policy and ratemaking discussions;
- 17 • Starts the process of simplifying the APS bill;
- 18 • Supports APS financially, enabling it to continue to provide reliable electric service  
19 and achieve Arizona’s energy goals; and
- 20 • Preserves the Commission’s flexibility to direct energy policy.<sup>69</sup>

21

22 1) Base Rate Stability for Customers – The Joint Signatories identify the primary benefit to  
23 customers as the combination of three provisions impacting the rates customers will pay over the  
24 next four years: 1) a zero dollar base rate increase; 2) a bill decrease on average for all APS  
25 customers through the end of 2012; and 3) the stability of base rates for four years.<sup>70</sup> Witnesses for  
26

27 <sup>68</sup> Joint Signatories Opening Brief at 1.

28 <sup>69</sup> *Id.* at 3.

<sup>70</sup> *Id.* at 5.

1 RUCO, Kroger, Wal-Mart, and AARP testified that this rate stability is beneficial to customers,<sup>71</sup>  
 2 and the FEA believes that the four year stay out will benefit all federal executive agencies,  
 3 especially military installations in Arizona by allowing commanders to more accurately allocate  
 4 budget dollars towards their mission.<sup>72</sup> The Joint Signatories acknowledge that adjustor mechanisms  
 5 will have bill impacts during the four year stay out, but note that most of those would occur even  
 6 without the Settlement Agreement. Further, the bill impacts that result from provisions in the  
 7 Settlement Agreement will be more gradual, and one impact will be a decrease when the SBC is  
 8 reduced when Palo Verde 2's decommissioning is fully funded. In response to SWEEP's concerns  
 9 about the stay-out provision limiting the Commission's ability to implement policy options, the Joint  
 10 Signatories state that the Settlement Agreement's flexibility "substantially minimizes any perceived  
 11 risk that an issue will arise in the EE-policy arena over the next four years that would require a rate  
 12 case to resolve ... [and] the Settlement in no way purports to constrain the Commission's  
 13 ratemaking authority."<sup>73</sup>

14 2) Additional Rate Options for Customers - The combination of the Commission's rules  
 15 related to EE and DG and APS' volumetric rate design creates a scenario where APS may not be  
 16 able to recover some of its fixed costs of service. To address this situation, APS and energy  
 17 efficiency advocates recommended full revenue per customer decoupling, which was opposed by  
 18 many customers and parties in this case. The Joint Signatories believe that the Settlement  
 19 Agreement represents a balanced compromise in how it addresses this issue: a narrowly-tailored  
 20 LFCR mechanism combined with 1) the ability for residential customers to opt-out of the adjustor  
 21 by choosing a higher basic service charge and 2) the exclusion of commercial customers from the  
 22 adjustor. RUCO would not have signed a Settlement Agreement without the opt-out provision;<sup>74</sup>  
 23 AARP would not have signed the Settlement Agreement with full revenue decoupling;<sup>75</sup> the FEA  
 24

25 <sup>71</sup> RUCO Ex. 4, Radigan January 18, 2012 Direct Testimony in Support of Settlement Agreement at 4-5; Kroger Ex. 3,  
 26 Baron January 18, 2012 Direct Testimony in Support of Settlement Agreement at 3; Wal-Mart Ex. 3, Chriss January 18,  
 2012 Direct Testimony in Support of Settlement Agreement at 3-4; and AARP Ex. 3, Brockway January 18, 2012 Direct  
 Testimony Supporting Settlement Agreement at 4.

27 <sup>72</sup> Tr. at 63-65.

<sup>73</sup> Joint Signatories Opening Brief at 36-37.

<sup>74</sup> Tr. at 1120-1121.

<sup>75</sup> Tr. at 491.

1 would consider rejection of the LFCR in favor of full revenue decoupling a “substantive change” to  
2 the Settlement Agreement;<sup>76</sup> and the AIC believes that the LFCR mechanism “was an essential  
3 component of the Settlement Agreement from AIC’s standpoint.”<sup>77</sup>

4 The Joint Signatories believe the following features of the LFCR are beneficial to customers:  
5 recovery is limited to only a portion of the verified lost fixed costs resulting from Commission  
6 authorized-EE and DG programs and does not include the impact of other factors, such as weather or  
7 general economic conditions; the yearly adjustment is capped; residential customers who prefer rate  
8 stability will have the option to pay a higher basic service charge that is designed to recover, on  
9 average, the same amount of revenues as would the LFCR adjustor; customers will have the ability  
10 in the first year to switch between the LFCR mechanism and the opt-out rate one time to help them  
11 decide which rate is best for them, with the ability make further switches after 12 months on a rate;  
12 an outreach program will be developed to help customers understand their rate options; and that the  
13 opt-out rate does not prevent customers from supporting or participating in EE or DG programs and  
14 may help customers gain acceptance of decoupling.<sup>78</sup> Although General Service Customers taking  
15 service under rate schedules E-32L, E-32L TOU, E-34 and E-35 are not included in the LFCR  
16 mechanism, those customers pay a demand charge that recovers a relatively large portion of APS’  
17 fixed costs to provide them service. The Settlement Agreement provides that the rate design for  
18 those customers will be changed so the distribution demand component will recover even more fixed  
19 costs.<sup>79</sup> Smaller commercial customers are included in the LFCR mechanism and the FEA believes  
20 that they will benefit from the LFCR mechanism by not assuming the risks that should be borne by  
21 the Company, such as economic and weather risks.<sup>80</sup> The Joint Signatories believe that NRDC’s  
22 assertion that the LFCR mechanism will encourage DSM programs that may “test well” but not  
23 produce real energy savings, is speculative and that the Settlement Agreement’s provisions requiring  
24 demonstrated actual lost kWh sales attributable to DSM and DG be calculated using the MER results  
25

26 <sup>76</sup> Tr. at 399.

27 <sup>77</sup> AIC Ex. 4 at 3.

28 <sup>78</sup> Joint Signatories Opening Brief at 8-10.

<sup>79</sup> Tr. at 517-518.

<sup>80</sup> Tr. at 65.

1 and metered data for DG eliminate the possibility of such “gaming.”<sup>81</sup>

2       The Joint Signatories believe that the proposed Alternative Generation Rate Schedule (“AG-  
3 1”) provides APS’ large customers increased flexibility to manage their energy costs by creating an  
4 experimental buy-through rate option that will insulate all other customers from any cost shifting.  
5 Customers with an aggregated load of at least 10 MW may select a GSP and negotiate a price  
6 whereby APS will purchase the power from the GSP in a wholesale transaction and deliver the  
7 power to the customer. The program cap of 200 MW and the limited 4 year term will help limit any  
8 under-recovery of fixed costs, and APS is also required to take commercially reasonable steps  
9 (including maximizing off-system sales) to eliminate or mitigate any unrecovered costs resulting  
10 from the program. The Commission retains the ability to decide whether and how any unrecovered  
11 costs should be recognized in APS’ next rate case. The AECC believes that AG-1 has the “potential  
12 to enable Arizona businesses to improve their economic health through energy cost savings- at no  
13 risk to other customers” and although AECC continues to “advocate for the reactivation of direct  
14 access service in Arizona” in the meantime, AG-1 “can provide substantial benefits to customers  
15 through the buy-through option.”<sup>82</sup>

16       The Joint Signatories believe that the 2 new experimental demand response programs will  
17 give customers additional opportunities to manage their energy payments.<sup>83</sup> The new residential  
18 peak time rebate program allows enrolled customers to earn a rebate based upon the amount of  
19 energy a customer saves during notified critical peak periods. APS intends to compare results from  
20 this new program with results from its existing residential critical peak pricing program to see  
21 whether positive or negative reinforcement is more effective in promoting conservation.<sup>84</sup> Extra  
22 large business customers can also subscribe to an experimental interruptible rate rider schedule that  
23 will pay the customer an incentive rebate for reducing consumption during a designated time period,  
24 with the size of the rebate based upon options chosen by the customer related to the amount of  
25 notice required and duration of the interruption.<sup>85</sup>

26 <sup>81</sup> Joint Signatories Opening Brief at 34-35.

27 <sup>82</sup> AECC Ex. 3, Higgins January 18, 2012 Direct Settlement Testimony at 10.

28 <sup>83</sup> Joint Signatories Opening Brief at 13-14.

<sup>84</sup> Tr. at 576-578.

<sup>85</sup> Tr. at 577-578, 607.

1           3) Protection of Low-Income Customers – Ms. Zwick testified that the “poverty rate in  
2 Arizona is currently the second highest in the country, having increased significantly during the last  
3 two years, making the low-income community larger and more vulnerable than ever.”<sup>86</sup> According  
4 to the Joint Signatories, two provisions in the Settlement Agreement are designed to help APS’ most  
5 vulnerable customers: expanding the targeted group of low-income customers to include families  
6 whose incomes fall below 200 percent of the federal poverty level (instead of only between 150-200  
7 percent) in the bill assistance program funded by shareholders and approved in Decision No.  
8 69663,<sup>87</sup> and modifying the low-income rate structure to apply a discount to the total bill, instead of  
9 exempting adjustor mechanisms. Ms. Zwick, a low-income advocate, RUCO, and AARP all support  
10 the change to the low-income rate structure.

11           4) Useful Information is Gathered for Future Policy and Ratemaking Discussions – The  
12 Joint Signatories identify provisions in the Settlement Agreement that will assist the Commission  
13 and interested parties in gathering useful information about: the costs and benefits of buy-through  
14 rates; the performance of the LFCR compared to APS’ original full revenue per customer  
15 decoupling mechanism; certain demographics related to APS’ workforce; how well APS is  
16 performing in areas of fuel and power procurement, and DSM programs and associated energy  
17 savings; and about tiered conservation rates, time-of-use and other demand response rates, plans for  
18 canceling rates, and ideas for new rate offerings and designs.<sup>88</sup>

19           5) The Process is Started to Simplify APS’ Bill – The Joint Signatories believe that APS’ bill  
20 format needs to be revised to make it easier for customers to understand, but they do not necessarily  
21 agree on how it should be done. The Settlement Agreement requires APS to initiate stakeholder  
22 meetings and obtain input with a goal of making the bill more understandable and useful for  
23 customers.

24           6) APS is Supported Financially During the Four Year Stay Out – The Joint Signatories  
25 believe that APS needs to remain financially healthy for customers to benefit from high quality  
26

27 <sup>86</sup> Zwick Ex. 1, Zwick December 2, 2011 Direct Testimony at 3. Arizona’s poverty rate is 21.2 percent, with 31 percent  
of children under 18 living in poverty, as reported by the United State Census Bureau.

28 <sup>87</sup> \$4.7 million of the \$5 million remains to be distributed. Tr. at 529.

<sup>88</sup> Joint Signatories Opening Brief at 21-23.

1 service and for APS to achieve Arizona's energy goals.<sup>89</sup> They identified the following provisions  
 2 as material to APS' financial condition: the LFCR; the 10 percent cost of equity; the Four Corners  
 3 Rate Rider; deferral of Arizona property tax expense; elimination of the PSA 90/10 sharing  
 4 component; modifications to the EIS; inclusion of post-test year plant; and procedural modifications  
 5 to the TCA.

6 The 10 percent cost of equity adopted in the Settlement Agreement is 100 basis points below  
 7 APS' currently authorized 11 percent return on equity, but was proposed by RUCO in its direct  
 8 testimony and is very close to Staff's 9.9 percent original recommendation. APS and the Joint  
 9 Signatories believe that the 10 percent return on equity will be adequate within the context of the  
 10 Settlement Agreement as a whole and will be viewed positively by the financial community.<sup>90</sup> APS  
 11 witness Guldner testified that because of the potential size of deferrals, APS likely could not agree to  
 12 a four year stay out if the Settlement Agreement did not keep this docket open to allow the  
 13 Commission to approve a rate rider for prudently incurred costs associated with the Four Corners  
 14 transaction.<sup>91</sup> APS witness Guldner also explained why the ability to defer a portion of any increase  
 15 in property tax expense related to a tax rate increase is important to APS and its ability to keep base  
 16 rates stable for four years.<sup>92</sup> RUCO's Director agrees that this provision is a benefit to both APS and  
 17 to its customers, because if the tax rate decreases, ratepayers will benefit in the next rate case.<sup>93</sup>  
 18 APS views the elimination of the 90/10 sharing mechanism as a material condition necessary to  
 19 maintain its financial condition over the four year stay out, and other parties who had opposed  
 20 elimination, such as the FEA and RUCO, agreed to the elimination as part of the negotiated  
 21 Settlement Agreement.<sup>94</sup> The Joint Signatories believe that the changes to the EIS will benefit  
 22 customers and protect APS.<sup>95</sup> RUCO's witness, Ms. Jerich, testified that under the Settlement  
 23

24 <sup>89</sup> *Id.* at 24.

<sup>90</sup> AIC Ex. 5, Fetter January 18, 2012 Direct Testimony in Support of Settlement at 2, 8.

25 <sup>91</sup> Tr. at 111-113.

<sup>92</sup> APS' assessed plant values are based upon book values, not market value, and combined with recent significant  
 26 property tax rate increases, APS believes that its property tax expense could continue to increase over the next four years.  
 APS Ex. 2, Guldner January 18, 2012 Direct Settlement Testimony at 27.

27 <sup>93</sup> Tr. at 1118-1119; "[A]ny reductions in property tax expense due to tax rate decreases would be 100% deferred for the  
 future benefit of customers." Joint Signatories Opening Brief at 28.

<sup>94</sup> Tr. at 402; 808-810.

28 <sup>95</sup> Joint Signatories Opening Brief at 32.

1 Agreement, the existing EIS adjustor will be zeroed out on July 1, so the average E-12 customer  
2 paying 11 cents currently will see that decrease to zero.<sup>96</sup> APS will benefit because amounts paid  
3 under the EIS will no longer be treated as contributions-in-aid of construction, but as revenues that  
4 are collected more timely and that will help “the company continue on that path of financial  
5 health.”<sup>97</sup> The Joint Signatories believe that the change to the TCA was discussed in Decision No.  
6 72430 (June 27, 2011) and that allowing annual TCA adjustments to become effective without  
7 affirmative Commission approval unless Staff requests review or the Commission orders otherwise,  
8 is appropriate, given Staff’s “active and diligent participation in FERC formula rate proceedings.”<sup>98</sup>

9 7) Preserves the Commission’s Flexibility to Direct Energy Policy – The Joint Signatories  
10 explain that the Settlement Agreement was designed to respond to the Commission’s interest in  
11 retaining the flexibility to set energy and other policies as it deems appropriate in the future. They  
12 negotiated rate mechanisms that will allow APS to adapt to Commission policies as they are  
13 determined in other, generic policy dockets. Examples of this flexibility cited by the Joint  
14 Signatories include: the resolution of the decoupling issue with the adoption of the LFCR; the  
15 treatment of the DSM Performance Incentive to modify it on an interim basis while keeping the  
16 record open to develop the new Performance Incentive; the treatment of renewable energy cost  
17 recovery issues by giving more flexibility in how RES charges and caps are allocated and reducing  
18 the RES surcharge by moving cost recovery of certain APS-owned renewable resources from the  
19 RES surcharge to base rates; and by undoing the link between a revenue stream and a specific  
20 Commission policy in the area of line extensions.<sup>99</sup>

21 In response to SWEEP’s proposal that the Performance Incentive be modified sooner rather  
22 than on the timeline set forth in the Settlement Agreement, the Joint Signatories note that Staff has  
23 clearly stated that given its workload priorities and staffing level, it is unable to develop and process  
24 a new Performance Incentive before the date set in the Settlement Agreement.<sup>100</sup>

25 \_\_\_\_\_  
26 <sup>96</sup> Tr. at 1118.

27 <sup>97</sup> Tr. at 1144.

28 <sup>98</sup> Joint Signatories Opening Brief at 32.

<sup>99</sup> *Id.* at 17-21.

<sup>100</sup> Staff Ex. 11, Olea January 25, 2012 Responsive Testimony in Support of Settlement Agreement at 4-5; Tr. at 1027-1028.

1 In response to SWEEP's recommendation that the level of energy efficiency funding in base  
2 rates should increase from \$10 million to \$70 million, with the DSM adjustment mechanism  
3 collecting or refunding energy efficiency funding amounts above or below \$70 million, APS  
4 indicated that although it is neutral on the issue, it would affect APS customers in different ways and  
5 that policy arguments support both methods of recovery of these costs. The Joint Signatories did not  
6 attempt to resolve this policy issue, and left the current collection method in place.<sup>101</sup>

7 Finally, in response to SWEEP's proposed adjustment to test year sales to account for the  
8 energy savings and load-reducing effects of the EE Standard requirements, APS responded that  
9 although APS had proposed a similar adjustment in its last two rate cases that was not adopted, it is  
10 not necessary with the LFCR mechanism. The Joint Signatories believe that the LFCR mechanism  
11 is preferable because it is an after-the-fact adjustment for actual, not projected, sales reductions.<sup>102</sup>

## 12 **Opposition to the Settlement Agreement**

### 13 **SWEEP**

14 As discussed above, SWEEP identified three primary reasons why it partially opposed the  
15 proposed Settlement Agreement. According to SWEEP, the Commissioners expressed concerns at  
16 the December 16, 2011 Open Meeting about settlements limiting options and flexibility, and  
17 although the Settlement Agreement leaves decisions about energy efficiency programs and savings  
18 to reduce customers bills to the Commission, SWEEP believes that by not including full revenue  
19 decoupling as an option, the Settlement Agreement limits the Commission's review of other  
20 regulatory policies to address utility disincentives to energy efficiency. SWEEP recommends that  
21 the Commission approve the Settlement Agreement but instead of the LFCR mechanism, substitute  
22 full revenue decoupling as proposed in the original APS application, but with the 3 percent cap  
23 recommended in SWEEP's direct testimony.<sup>103</sup> SWEEP criticizes the LFCR because it represents  
24 an automatic rate increase, it does not provide a credit when actual revenues are higher than  
25 forecasted (for example, when electricity sales increase from an improved economy), and it does  
26

27 <sup>101</sup> Joint Signatories Opening Brief at 37.

<sup>102</sup> *Id.* at 38.

28 <sup>103</sup> The 3 percent cap is a total cap on all decoupling adjustments (revenues relative to the revenue per customer level set in the rate case) in a year. SWEEP Opening Brief at 4.

1 nothing to reduce the utility's financial incentive to increase sales or customer use of more  
 2 electricity, so it fails to align the financial incentives of the utility with the interests of customers.<sup>104</sup>  
 3 SWEEP argues that full revenue decoupling is important not only for utility support for EE  
 4 programs, but also for support of "building codes and appliance standards, broad energy education  
 5 and marketing, state and local government energy conservation efforts and federal energy  
 6 policies."<sup>105</sup>

7 SWEEP cites TEP's current rate case stay-out provision as support for its argument that that  
 8 stay-out provisions can constrain Commission options and actions related to achievement of EE and  
 9 the Commission's review of EE Implementation Plans. SWEEP believes that if the Settlement  
 10 Agreement is adopted, the Commission should either shorten the stay-out period to 3 years, or after  
 11 3 years, initiate a review to determine if APS' rates are just and reasonable and whether to continue  
 12 the stay-out.

13 SWEEP recommends that instead of keeping the record open in this rate case, the new  
 14 Performance Incentive should be developed by mid-2012 and filed by APS as part of its 2013 EE  
 15 Implementation Plan for Commission review. Although Arizona Administrative Code ("A.A.C.")  
 16 R-14-2-2411 allows a Performance Incentive to be proposed in either an implementation plan or in a  
 17 rate case, SWEEP believes that it is critical for the Commission to oversee and modify Performance  
 18 Incentive design during the energy efficiency implementation plan process. In the event that the  
 19 Commission adopts the Settlement Agreement and delays consideration of the Performance  
 20 Incentive until later in the year, SWEEP recommends that the Commission adopt the following  
 21 objectives and design criteria for the Performance Incentive:

22  
 23 Objectives

- 24 1. It encourages the Company to pursue cost-effective energy efficiency;
- 25 2. It is designed in such a way to avoid any perverse incentives;
- 26 3. It is based on clearly-defined goals and activities that are sufficiently monitored,  
 27 quantified, and verified;
- 28 4. It is available only for activities for which the Company plays a distinct and clear role  
 in bringing about the desired outcome; and

<sup>104</sup> SWEEP Opening Brief at 3-5.

<sup>105</sup> *Id.* at 3.

1 5. It is kept as low as possible while balancing and meeting the objectives and principles  
2 mentioned above.<sup>106</sup>

3 Design Criteria

- 4 • Encourage the achievement of energy savings and net benefits for customers through a  
5 performance incentive with an eligible incentive level equivalent to 7 % of net benefits  
6 on a pre-tax basis;
- 7 • Include new components and metrics that emphasize increased comprehensiveness of  
8 energy efficiency program services provided to customers and result in higher percent  
9 savings, encourage cost-efficiency in the use of ratepayer funds (i.e., total net benefits  
10 to customers per dollar of ratepayer funding provided), and target the achievement of  
11 specific performance goals such as serving a targeted number of low income  
12 customers and/or issuing a specific targeted number of residential loans or a targeted  
13 total loan amount; and,
- 14 • Have an absolute dollar cap on the total incentive amount that the Company may earn,  
15 set at 115% of the eligible incentive level (determined at 100% of target performance),  
16 thereby not incenting increased program spending through the design of the  
17 performance incentive mechanism or its incentive cap.<sup>107</sup>

18 SWEEP also recommended that the level of energy efficiency funding in base rates should  
19 increase from \$10 million to \$70 million, with the DSM adjustment mechanism collecting or  
20 refunding energy efficiency funding amounts above or below \$70 million, as needed to implement  
21 and deliver energy efficiency programs to customers.<sup>108</sup> Finally, SWEEP proposed that to insure that  
22 the rate-setting process takes account of Commission-adopted policies, an adjustment to test year  
23 sales to account for the energy savings and load-reducing effects of the EE Standard requirements is  
24 appropriate.

25 NRDC

26 NRDC partially opposes the Settlement Agreement in that it urges the Commission to adopt  
27 the full revenue decoupling mechanism that APS proposed in its original application. NRDC argues  
28 that the full revenue decoupling mechanism is the “very type endorsed and solicited in the Final  
Policy Statement adopted unanimously by the Commission less than a year earlier”<sup>109</sup> and very  
similar to the per-customer decoupling mechanism option included in the Southwest Gas Settlement  
Agreement and adopted by the Commission in the recent rate case. NRDC witness Cavanagh  
testified that revenue decoupling makes more sense for electric utilities than gas utilities because

<sup>106</sup> SWEEP Ex. 6, Schlegel January 18, 2012 Testimony in Partial Opposition to the Proposed Settlement Agreement at 9.

<sup>107</sup> SWEEP Ex. 6, Schlegel January 18, 2012 Testimony in Partial Opposition to the Proposed Settlement Agreement at 9.

<sup>108</sup> *Id.* at 10.

<sup>109</sup> NRDC Opening Brief at 1, referring to the Commission’s Policy Statement.

1 electric utilities recover a higher percentage of fixed costs in variable charges and therefore have a  
 2 significantly stronger link between financial health and commodity sales.<sup>110</sup> By proposing to  
 3 substitute decoupling for the LFCR in the Settlement Agreement, the NRDC is “framing for the  
 4 Commission the same choice it faced in the Southwest Gas case.”<sup>111</sup> NRDC’s witness testified that  
 5 the residential “opt-out” provision requires customers to accept higher fixed charges and would  
 6 discourage efficient energy usage,<sup>112</sup> that the LFCR mechanism is an automatic rate increase, where  
 7 decoupling can either raise or reduce rates,<sup>113</sup> and because the LFCR affects only a portion of  
 8 distribution and transmission costs and does not include generation costs, NRDC argues that “APS  
 9 would be better off financially if it gave up the savings and received instead equivalent increases in  
 10 retail sales.”<sup>114</sup>

#### ANALYSIS AND CONCLUSION

11  
 12 APS is Arizona’s largest and longest serving electric public service corporation and its rates  
 13 and charges affect millions of individuals, businesses, organizations, and governmental entities  
 14 located throughout in the state. It has approximately 6,800 employees and provides service to more  
 15 than 1.1 million retail and wholesale customers in eleven counties in Arizona. APS is the largest  
 16 property tax payer in Arizona, paying about \$128 million in property taxes in 2010.<sup>115</sup> According to  
 17 the Company, its mission is to “safely and efficiently generate and deliver reliable electric power  
 18 and related services to our customers.”<sup>116</sup>

19 APS filed this rate application in compliance with the General Rate Case Filing Plan  
 20 contained in the 2009 Settlement Agreement and adopted by the Commission in Decision No.  
 21 71448. Pursuant to that Decision, rates adopted herein will not become effective until July 1, 2012.  
 22 The 2009 Settlement Agreement was designed to create a balanced rate and stability program that  
 23 would ultimately improve APS’ financial metrics and bond ratings, thereby benefiting customers in  
 24

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25 <sup>110</sup> Tr. at 760-762.

26 <sup>111</sup> NRDC Opening Brief at 5.

27 <sup>112</sup> NRDC Ex. 2, Cavanagh January 18, 2012 Testimony in Partial Opposition to the Proposed Settlement Agreement at 6.

28 <sup>113</sup> *Id.* at 7.

<sup>114</sup> *Id.* at 8.

<sup>115</sup> APS Ex. 4, Robinson June 1, 2011 Direct Testimony at 5.

<sup>116</sup> *Id.* at 6.

1 the long run through lower costs of capital.<sup>117</sup> APS witness Guldner explained that the 2009  
2 Settlement Agreement was viewed positively by the investment community and that APS is now in a  
3 “stronger financial position to attract the approximately \$20 billion in new capital investments that  
4 customers will require between now and 2025.”<sup>118</sup> Mr. Guldner also testified that when APS filed  
5 this rate application, it was “aware of the difficulties our customers face in the current economic  
6 climate” and so it looked to moderate the bill impact to customers.<sup>119</sup>

7 As in all APS rate cases, there are many parties with different perspectives and interests. The  
8 parties to this matter include representatives from all customer classes as well as representatives of  
9 groups or organizations concerned about or interested in specific policy matters or programs. All  
10 parties agree that the Settlement Agreement was the result of an open and transparent process where  
11 every party had the opportunity to participate and provide input. Although not every party signed  
12 the Settlement Agreement, even those in partial opposition found that there was much to like about  
13 the other provisions. It is clear from a comparison of the parties’ positions prior to the Settlement  
14 Agreement and the positions adopted in the Settlement Agreement, that Staff and the Joint  
15 Signatories were able to negotiate a package deal that represented both the requirements and  
16 compromises they each were able to accept as necessary for the public interest to be served.

17 The customer benefits identified by Staff and the Joint Signatories are significant – no base  
18 rate increase for four years at a time when many customers are struggling financially; modifications  
19 to the low-income rates that will allow more customers to qualify for bill assistance and to benefit  
20 from the PSA; a way to continue to fund programs to meet the Commission’s EE and DG rules  
21 while giving APS the opportunity to recover certain verified lost fixed costs due to Commission-  
22 approved programs; the option for residential customers to pay lost fixed costs either through the  
23 LFCR adjustor or through a stable basic service charge; the experimental AG-1 buy-through rate  
24 that will offer large customers the opportunity to explore other generation sources; the opportunity  
25 to develop a new Performance Incentive tied to the achievement of cost-effective energy savings;

26  
27 <sup>117</sup> Decision No. 71448, Exhibit A, Settlement Agreement Section 1.15 at 7-8.

<sup>118</sup> APS Ex. 4, Guldner June 1, 2011 Direct Testimony at 6.

<sup>119</sup> *Id.*

1 the new demand response programs for both residential and commercial customers; and the start of  
2 the process to make APS' bill easier for customers to understand.

3 The provisions of the Settlement Agreement that benefit APS include changes to the PSA that  
4 will improve collection of prudently incurred fuel and purchased power costs; a 10 percent return on  
5 equity; the LFCR mechanism that will allow APS to recover certain verified lost fixed costs due to  
6 reduced sales from Commission-approved energy efficiency or distributed generation programs; the  
7 opportunity to seek recovery of the Four Corners transaction costs through a rider prior to the next  
8 rate case; modifications to the environmental improvement surcharge; the ability to defer property  
9 tax expense related to tax rate increases; the modification to the transmission cost adjustor; the  
10 inclusion of post-test year plant in rate base; and the various requirements to provide information  
11 that will assist the Commission and parties, including the workforce planning report.

12 These benefits are clear and substantial. Although the Settlement Agreement is partially  
13 opposed by two parties, that opposition was at least partly intended to give the Commission the  
14 opportunity to choose full revenue per customer decoupling instead of the LFCR. Witnesses for  
15 Staff and the Joint Signatories have testified why full revenue decoupling is not appropriate for APS  
16 customers at this time, specifically arguing that the risks associated with weather and the economy  
17 should not be shifted from shareholders to ratepayers.

18 Energy efficiency raises not only issues of what costs should be recovered, but how to recover  
19 those costs without either penalizing the utility or creating an undeserved windfall for APS at  
20 ratepayers' expense. The advocates for full revenue per customer decoupling argue that the LFCR  
21 does not break the link between increased sales and increased earnings. The advocates for the LFCR  
22 argue that full revenue per customer decoupling burdens ratepayers by making them pay for  
23 economic and weather-related risks in addition to energy efficiency savings. While the Policy  
24 Statement adopted by the Commission expressed a preference for full revenue decoupling, it did not  
25 require it, but instead allowed for alternatives to be proposed in rate cases. Conceptual discussions  
26 of policies can help with understanding issues, address problems, and plan for the future, but until a  
27 policy is applied to an actual situation, it is difficult to foresee or understand all implications of the  
28 policy and how it will affect those involved.

1 We believe that the decision on the appropriate method to address the revenue impacts of  
2 energy efficiency should be made on a case-by-case basis, based upon the unique circumstances of  
3 each utility and the service it provides. We agree with Staff and the Joint Signatories that the LFCR  
4 mechanism is the appropriate mechanism for APS at this time. Although it may not eliminate the  
5 incentive for APS to increase sales volumes to increase earnings, it does reduce the disincentive for  
6 APS to not invest in EE and DG due to reduced sales. Because the Settlement Agreement requires  
7 that the annual lost fixed costs APS proposes to recover from its ratepayer must be documented and  
8 verified, customers will have confidence that the funds they pay for EE and DG are being  
9 appropriately and well spent. The LFCR allows residential customers a choice as to how they pay  
10 the lost fixed costs and will give them some experience to help them understand how energy  
11 efficiency savings affect a utility. It will address lost fixed cost recovery for large customers  
12 through rate design changes. APS' annual compliance filing reports will allow us to compare the  
13 revenue recovered through the LFCR to the revenue that would have been recovered through the  
14 Company's original full revenue per customer decoupling proposal. This information will assist us  
15 in assessing how lost fixed cost recovery may be addressed in the future.

16 The Settlement Agreement provides that the LFCR mechanism will adjust "annually to  
17 account for the unrecovered costs associated with a portion of distribution and transmission costs  
18 resulting from EE programs as demonstrated by the Measurement, Evaluation and Reporting  
19 ("MER") conducted for EE programs and from DG as demonstrated pursuant to the means described  
20 in Section 9.5 below."<sup>120</sup> This is the basis for the Joint Signatories and Staff's argument that the  
21 LFCR recovery is "narrowly tailored" and is "tied to measured and approved Corporation  
22 Commission programs for energy efficiency and for distribution."<sup>121</sup> As explained by APS witness  
23 Snook, the LFCR mechanism does not currently have a balancing account, because they took a  
24 "simplifying approach."<sup>122</sup> We believe that a balancing account is necessary if APS is to recover its  
25 verified lost fixed costs as allowed in the Settlement Agreement and will require APS to clarify its  
26 Plan of Administration to include a balancing account to insure that it recovers the costs allowed in

27 <sup>120</sup> Staff Ex. 16, January 6, 2012 Settlement Agreement Section 9.4 at 11.

28 <sup>121</sup> Staff Opening Brief at 19.

<sup>122</sup> Tr. at 886.

1 the Settlement Agreement.<sup>123</sup>

2 We find that an important ratepayer benefit of the Settlement Agreement is the four year stay  
3 out provision. Pursuant to Decision No. 71448, APS could file a rate case after June 1, 2013, less  
4 than a year after rates in this matter go into effect. The Settlement Agreement does not allow APS  
5 to file a general rate case until May 31, 2015. Although SWEEP recommended that a three year stay  
6 out was appropriate, APS, Staff and the Joint Signatories believe that the provisions of the  
7 Settlement Agreement will allow APS to remain financially stable and able to provide reliable and  
8 safe electric service, while preserving the Commission's flexibility to implement policy as it  
9 chooses. We agree.

10 While we appreciate the ability and opportunity to develop new performance incentives tied  
11 to energy efficiency, we believe that Performance Incentives, just like the implementation plans that  
12 they are parcel of, should be reviewed and established on an annual or periodic basis as part of the  
13 DSMAC. As conditions change for each implementation plan, there should be flexibility in how  
14 performance incentives are structured, including the flexibility to eliminate Performance Incentives  
15 for any given year. Therefore, performance incentive formulas will be deliberated and determined  
16 in each implementation plan. We find that SWEEP's list of Performance Incentive objectives is a  
17 good starting point for discussions about modifications to the Performance Incentive, and encourage  
18 Staff and the parties to work cooperatively to address the Performance Incentive. The issue of  
19 moving an additional \$60 million of energy efficiency funding in base rates was not supported by  
20 the Joint Signatories, apparently because it would affect different customers differently. We have  
21 insufficient testimony and evidence in this docket to decide whether and how a change to efficiency  
22 energy funding should be accomplished. We also believe that the LFCR mechanism that collects  
23 actual, verified and documented lost fixed cost savings with a balancing account is more accurate  
24 and appropriate than using an adjustment to test year sales as recommended by SWEEP.

25 \_\_\_\_\_  
26 <sup>123</sup> The LFCR is to be collected through a percentage applied to a customer's bill. Without a balancing account, if annual  
27 sales decrease, the total lost fixed cost revenue for the previous year would not recovered; and if annual sales increase, the  
28 total lost fixed cost revenues for the previous year would be over-recovered, and the risk related to non-LFCR factors  
would have inappropriately shifted from shareholders to customers. Clearly, Staff and the Joint Signatories desired the  
LFCR to recover the appropriate revenues, as it allows deferral of amounts in excess of the one percent cap for recovery  
in another year. APS' PSA employs a balancing account that works well.

1 The Settlement Agreement eliminates the 90/10 Sharing provision in the PSA. We believe it  
2 would be helpful information to know what would have been the impact on the PSA if the 90/10  
3 Sharing had not been eliminated. Therefore, we direct APS to docket information as to what would  
4 have been the impact on the PSA if the 90/10 Sharing provision had not been eliminated when APS  
5 makes its yearly PSA filing next year through 2015.

6 We believe that customers who benefit by receiving incentives under the REST rules should  
7 provide an equitable contribution to future REST benefits for other customers. We will therefore  
8 require that residential, small commercial, large commercial and industrial customers who receive  
9 incentives under the REST rules pay a fixed cost, the monthly REST cap. This payment shall begin  
10 when APS reprograms its billing system to accomplish this, or with the March 2013 billing,  
11 whichever is sooner. This requirement shall only apply to renewable systems installed on and after  
12 July 1, 2012.

13 Accordingly, based upon the testimony and evidence presented in this matter, we find that the  
14 Settlement Agreement and its provisions as discussed herein, are in the public interest and should be  
15 approved.

16 \* \* \* \* \*

17 Having considered the entire record herein and being fully advised in the premises, the  
18 Commission finds, concludes, and orders that:

19 **FINDINGS OF FACT**

20 1. APS is a public service corporation principally engaged in furnishing electricity in the  
21 State of Arizona. APS provides either retail or wholesale electric service to substantially all of  
22 Arizona, with the major exceptions of the Tucson metropolitan area and about one-half of the  
23 Phoenix metropolitan area. APS also generates, sells, and delivers electricity to wholesale customers  
24 in the western United States.

25 2. APS' current rates and charges were established in Decision No. 71448 (December 30,  
26 2009).

27 3. On June 1, 2011, APS filed with the Commission an application for a rate increase,  
28 seeking a \$95.5 million net increase in base rates.

1           4.       On June 28, 2011, APS filed a revised Residential Rate Schedule ECT-1R, L, which  
2 corrected the bundled and unbundled rates, and also filed its revised Standard Filing Requirements H-  
3 3 and H-4.

4           5.       On July 1, 2011, Staff filed a Letter of Sufficiency indicating that the application had  
5 met the sufficiency requirements of A.A.C. R14-2-103 and classifying the Company as a Class A  
6 utility.

7           6.       By Procedural Order issued July 29, 2011, the hearing was set to commence on  
8 January 19, 2012, and other procedural timeframes were established.

9           7.       Notice of the application and hearing was mailed to customers and published in the  
10 *Arizona Republic*, the *Casa Grande Dispatch*, the *Yuma Sun*, the *Sierra Vista Herald*, the *Bisbee*  
11 *Daily Review*, and the *Prescott Daily Courier* on August 23 and 27, 2011; in the *Market Place (TMC)*  
12 on August 24, 2011; and in the *Arizona Daily Sun* on August 27 and September 15, 2011.<sup>124</sup>

13           8.       Intervention was granted to Freeport-McMoRan; AECC; RUCO; Wickenburg;  
14 Barbara Wyllie-Pecora; WRA; SWEEP; Kroger; AAR; Gilbert; TEP; Cynthia Zwick; AIC; the FEA;  
15 the Alliance; IBEW Locals; SWPG/Bowie; NRDC; ASBA/AASBO; AzAg Group; Wal-Mart;  
16 Noble/Constellation/Direct/Shell; AARP; and Interwest.

17           9.       On October 7, 2011, the Commission held a public comment session in Sun City,  
18 Arizona.

19           10.      On November 18, 2011, the Commission issued Decision No. 72684, approving  
20 Version 12 of APS Service Schedule 3 as set forth in the Decision, to become effective upon the  
21 effective date of rates set in this docket.<sup>125</sup>

22           11.      On December 9, 2011, Staff filed a Preliminary Term Sheet and requested that the  
23 Commission schedule an open meeting for discussion.

24           12.      On December 14, 2011, APS filed its Statement of Position; AIC filed its Position  
25 Statement in Support of the Preliminary Term Sheet; WRA filed its Comments on Preliminary Term  
26 Sheet; and Wal-Mart filed its Statement in Support of Settlement Agreement.

27 \_\_\_\_\_  
28 <sup>124</sup> APS certification of mailing/publication filed on September 26, 2011.

<sup>125</sup> Docket No. E-01345A-11-0207.

1           13.    On December 15, 2011, Ms. Zwick filed her Statement in Support of Settlement  
2 Agreement; Kroger filed its Statement in Support of Settlement Agreement; the Alliance filed its  
3 Comments on the Preliminary Term Sheet; and AECC filed its Statement in Support of the  
4 Preliminary Settlement Term Sheet.

5           14.    On December 16, 2011, Interwest filed its Statement in Support of Settlement  
6 Agreement.

7           15.    On December 16, 2011, the Commission held a Special Open Meeting to discuss the  
8 Preliminary Term Sheet.

9           16.    On December 19, 2011, Staff filed a Notice of Errata, correcting portions of the direct  
10 testimony of its witness, Michael J. McGarry.

11           17.    On December 22, 2011, Staff filed a Request for a Modification to the Procedural  
12 Schedule requesting that the date for filing a settlement agreement be extended until January 6, 2012  
13 and also proposing other changes to the procedural schedule.

14           18.    By Procedural Order issued December 23, 2011, the hearing was rescheduled to  
15 commence on January 26, 2012, and the date for filing any settlement agreement was extended until  
16 January 6, 2012.

17           19.    On January 6, 2012, Staff filed a proposed Settlement Agreement entered into by APS,  
18 Staff, RUCO, Ms. Zwick, the FEA, Kroger, Freeport-McMoRan, AECC, Wal-Mart, IBEW, AzAg,  
19 the Alliance, AARP, AAR, Ms. Wyllie-Pecora, AIC, SWPG/Bowie, and Noble/Constellation/ Direct/  
20 Shell.

21           20.    On January 19, 2012, the record was opened for public comments and a pre-hearing  
22 conference was held at the Commission's offices.

23           21.    On January 19, 2012, a Motion to Associate Samuel Miller as Counsel Pro Hac Vice  
24 was filed and granted during the pre-hearing conference.

25           22.    On January 20, 2012, Staff filed Notice of Rate Case Hearing.

26           23.    The evidentiary hearing was held on January 26, 27, 30, 31, and February 1, 2, and 3,  
27 2012. Jeffrey Guldner, Charles Meissner, and Leland Snook testified on behalf of APS; Stephen  
28 Baron testified on behalf of Kroger; Larry Blank testified on behalf of the FEA; Nancy Brockway

1 testified on behalf of AARP; Mary Lynch testified on behalf of Noble/Constellation/Direct/Shell;  
2 Chris Hendrix and Steve Chriss testified on behalf of Wal-Mart; Ms. Zwick testified on her own  
3 behalf; Jeff Schlegel testified on behalf of SWEEP; Ralph Cavanagh testified on behalf of NRDC;  
4 Frank Radigan and Jodi Jerich testified on behalf of RUCO; Steven Fetter and Gary Yaquinto  
5 testified on behalf of AIC; Kevin Higgins testified on behalf of Freeport-McMoRan and AECC; G.  
6 David Vandever testified on behalf of IBEW; Tom Farley testified on behalf of AAR; and Steve Olea  
7 and Howard Solganick testified on behalf of Staff.

8 24. On February 1, 2012, Staff filed its Request for Clarification.

9 25. On February 8, 2012, APS filed its Late-Filed Exhibit 17.

10 26. On February 9, 2012, Jody Kyler was admitted pro hac vice on a permanent basis on  
11 behalf of Kroger.<sup>126</sup>

12 27. On February 9, 2012, APS filed a revision to its Late-Filed Exhibit 17.

13 28. On February 29, 2012, the Joint Initial Post-Hearing Brief of Parties Supporting the  
14 Settlement (Except Commission Staff), SWEEP's Opening Brief, and Staff's Opening Brief were  
15 filed. On March 1, 2012, the NRDC's Opening Brief was filed.

16 29. On March 2, 2012, Chairman Pierce docketed a letter to the parties.

17 30. On March 7, 2012, APS on behalf of the Joint Initial Brief Signatories; SWEEP; and  
18 Staff each filed Notices indicating that they would not be filing Reply Briefs.

19 31. On March 9, 2012, NRDC filed its Notice that it would not be filing a Reply Brief.

20 32. The settlement discussions were open, transparent, and inclusive of all parties who  
21 desired to participate. All parties were notified of the settlement proceedings and had the opportunity  
22 to be heard and have their issues fairly considered.

23 33. The Settlement Agreement and its provisions are in the public interest and should be  
24 approved as set forth herein.

25 34. The LFCR Plan of Administration should include a balancing account as set forth  
26 herein.

27

28 <sup>126</sup> Ms. Kyler was granted temporary admission on January 26, 2012.

1 35. APS' original cost rate base is \$5,662,998,000 and the fair value of APS'  
2 jurisdictional rate base for the test year ending December 31, 2010 is \$8,167,126,000.

3 36. APS' total adjusted test year revenue is \$2,868,858,000.

4 37. A capital structure comprised of 46.06 percent debt and 53.94 percent common equity  
5 is appropriate for establishing rates in this matter.

6 38. A return on common equity of 10.0 percent and an embedded cost of debt of 6.38  
7 percent are appropriate estimates of the cost of capital for purposes of this Settlement Agreement.

8 39. A fair value rate of return of 6.09 percent on APS' fair value rate base produces rates  
9 that are just and reasonable.

10 40. APS should be authorized a zero dollar base rate increase comprised of an increase in  
11 its non-fuel base rates by \$116.3 million; a fuel base rate decrease of \$153.1 million; and a transfer of  
12 cost recovery from the RES to base rates as described in the Settlement Agreement in Paragraph VIII.

13 41. A Base Cost of Fuel and Power of \$0.032071 per kWh is appropriate under the terms  
14 of the Settlement Agreement.

15 42. The record in this matter should remain open as described herein.

16 **CONCLUSIONS OF LAW**

17 1. APS is a public service corporation within the meaning of Article XV of the Arizona  
18 Constitution, A.R.S. §§ 40-203, -204, -221, -250, -251, and -361, and A.A.C. R14-2-801 et. seq.

19 2. The Commission has jurisdiction over APS and the subject matter of the application.

20 3. Notice of the application and hearing was provided in accordance with the law.

21 4. Adoption of the Settlement Agreement as discussed herein is in the public interest.

22 5. The rates and charges produced by the Settlement Agreement are just and reasonable.

23 **ORDER**

24 IT IS THEREFORE ORDERED that the Settlement Agreement dated January 6, 2012 and  
25 attached to this Decision as Exhibit A, is hereby approved as discussed herein.

26 IT IS FURTHER ORDERED that Arizona Public Service Company is hereby directed to file  
27 with the Commission on or before June 29, 2012, revised schedules of rates and charges and Plans of  
28 Administration consistent with Exhibit A and the findings herein.

1 IT IS FURTHER ORDERED that this rate case shall be held open to allow Arizona Public  
2 Service Company to seek to amend the PSA Plan of Administration in order to reflect the inclusion of  
3 FERC Account 509 so as to permit Arizona Public Service Company to offset solely the cost of CO2  
4 allowances needed for off-system sales to California against revenues received from such sales as  
5 recorded in FERC Account 509.

6 IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective  
7 for all service rendered on and after July 1, 2012.

8 IT IS FURTHER ORDERED that Arizona Public Service Company shall notify its affected  
9 customers of the revised schedules of rates and charges authorized herein by means of an insert in its  
10 next regularly scheduled billing and by posting on its website, in a form acceptable to the  
11 Commission's Utilities Division Staff.

12 IT IS FURTHER ORDERED that Arizona Public Service Company shall implement and  
13 comply with the terms of the Settlement Agreement, including filing all reports, studies, and plans as  
14 set forth in the Settlement Agreement and herein.

15 IT IS FURTHER ORDERED that the record in this matter shall remain open to allow Arizona  
16 Public Service Company to file by December 31, 2012, an application for consideration and approval  
17 of a new Performance Incentive structure in the Demand Side Management Adjustor Clause, as  
18 discussed herein.

19 IT IS FURTHER ORDERED that the record in this matter shall remain open to allow Arizona  
20 Public Service Company to file by December 31, 2013, an application for approval to adjust its rates  
21 to reflect the acquisition of Four Corners Units 4 and 5, as discussed in Decision No. 73130 and  
22 herein.

23 IT IS FURTHER ORDERED that Version 12 of Service Schedule 3, as approved in Decision  
24 No. 72684 (November 18, 2011) is effective as of July 1, 2012.

25 IT IS FURTHER ORDERED that the reporting requirement contained in Decision No. 70667  
26 (December 24, 2008) is eliminated as of July 1, 2012.

27 IT IS FURTHER ORDERED that performance incentives, tied to the achievement of cost-  
28 effective energy savings, be reviewed, established and approved on an annual or periodic basis as part

1 of the Commission's Energy Efficiency Implementation Plan proceeding.

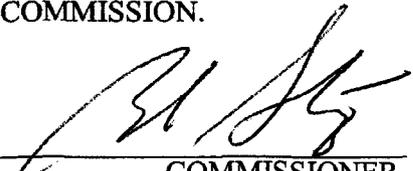
2 IT IS FURTHER ORDERED that for 2013, Arizona Public Service Company shall develop,  
3 with the involvement of Staff and interested parties, and file a revised Performance Incentive for  
4 Commission review in the 2013 Energy Efficiency Implementation Plan proceeding.

5 IT IS FURTHER ORDERED that Arizona Public Service Company shall docket information  
6 as to what would have been the impact on the PSA if the 90/10 Sharing provision had not been  
7 eliminated when Arizona Public Service Company makes its yearly PSA filing next year through  
8 2015.

9 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

10  
11 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

12  
13   
14 CHAIRMAN

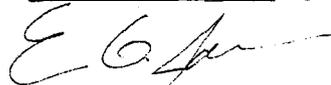
  
COMMISSIONER

15   
16 COMMISSIONER

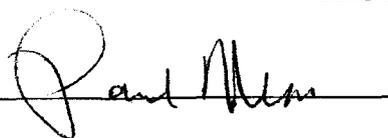
COMMISSIONER

  
COMMISSIONER

17  
18 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
19 Executive Director of the Arizona Corporation Commission,  
20 have hereunto set my hand and caused the official seal of the  
21 Commission to be affixed at the Capitol, in the City of Phoenix,  
22 this 24<sup>th</sup> day of May 2012.



23 ERNEST G. JOHNSON  
24 EXECUTIVE DIRECTOR

25 DISSENT 

26 DISSENT \_\_\_\_\_

1 SERVICE LIST FOR:

ARIZONA PUBLIC SERVICE COMPANY

2 DOCKET NO.:

E-01345A-11-0224

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**EXHIBIT A**

**ARIZONA PUBLIC SERVICE COMPANY**

**PROPOSED SETTLEMENT AGREEMENT**

**DOCKET NO. E-01345A-11-0224**

**January 6, 2012**

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**PROPOSED SETTLEMENT AGREEMENT OF DOCKET NO.  
E-01345-A-11-0224 ARIZONA PUBLIC SERVICE COMPANY REQUEST  
FOR RATE ADJUSTMENT**

The purpose of this Settlement Agreement ("Agreement") is to settle disputed issues related to Docket No. E-01345A-11-0224, Arizona Public Service Company's ("APS" or "Company") application to increase rates. This Agreement is entered into by the following entities:

Arizona Corporation Commission Utilities Division ("Staff")  
Arizona Public Service Company ("APS")  
Residential Utility Consumer Office ("RUCO")  
Cynthia Zwick  
Federal Executive Agencies ("FEA")  
Kroger Co. ("Kroger")  
Freeport-McMoRan Copper & Gold Inc. ("Freeport-McMoRan")  
Arizonans for Electric Choice and Competition ("AECC")  
Wal-Mart Stores, Inc. and Sam's West, Inc. ("Wal-Mart")  
IBEW Locals 387, 640, 769 ("IBEW")  
AzAg Group ("AzAG")  
Arizona Competitive Power Alliance ("AzCPA")  
AARP ("AARP")  
Arizona Association of Realtors ("AAR")  
Barbara Wyllie-Pecora ("Wyllie-Pecora")  
Arizona Investment Council ("AIC")  
Southwestern Power Group II, LLC ("SWPG")  
Bowie Power Station, LLC ("Bowie")  
Noble Americas Energy Solutions LLC ("Noble")  
Constellation NewEnergy, Inc. ("Constellation")  
Direct Energy, LLC ("Direct")  
Shell Energy North America (US), L.P. ("Shell")

These entities shall be referred to collectively as "Signatories;" a single entity shall be referred to individually as a "Signatory."

**I. RECITALS**

- 1.1 APS filed the rate application underlying Docket No. E-01345A-11-0224 on June 1, 2011. Staff found the application sufficient on July 1, 2011.
- 1.2 Subsequently, the Arizona Corporation Commission ("Commission") approved applications to intervene filed by AARP, Arizona Association of Realtors, AzCPA, AIC, ASBA, Association of School Business Officials, AZAg Group, Barbara Wyllie-Pecora, Cynthia Zwick, FEA, Freeport-McMoRan and AECC (collectively "AECC"), IBEW Locals 387, 640 and 769, Interwest, Kroger, Mel Beard, Noble et al, NRDC, RUCO, SWEEP, SWPG, Bowie, TEP, the Town of Gilbert, the Town of Wickenburg, Wal-Mart and Sam's Club, and WRA. Mel Beard subsequently withdrew as an intervenor in the case.
- 1.3 APS filed a notice of settlement discussions on November 18, 2011. Settlement discussions began on November 30, 2011. The settlement discussions were open, transparent, and inclusive of all parties to this Docket who desired to participate. All parties to this Docket were notified of the settlement discussion process, were encouraged to participate in the negotiations, and were provided with an equal opportunity to participate. Commission Staff filed a Preliminary Term Sheet regarding this matter on December 9, 2011, which was discussed in a Special Open Meeting held on December 16, 2011.
- 1.4 The terms of this Agreement are just, reasonable, fair, and in the public interest in that they, among other things, establish just and reasonable rates for APS customers; promote the convenience, comfort and safety, and the preservation of health, of the employees and patrons of APS; resolve the issues arising from this Docket; and avoid unnecessary litigation expense and delay.
- 1.5 The Signatories believe that this Agreement balances the interests of both APS and its customers. These benefits include:
  - an overall zero dollar base rate increase;
  - a zero percent bill impact for the remainder of 2012 (Commission-approved adjustors (including the possibility of a Four Corners rider pursuant to paragraph 10.3) may increase customer bills after December 31, 2012);

- a four year rate case stay out, in which APS agrees not to raise base rates as a result of any new general rate case filing prior to July 1, 2016;
  - a buy-through rate for industrial and large commercial customers;
  - a narrowly-tailored Lost Fixed Cost Recovery (“LFCR”) mechanism that supports energy efficiency (“EE”) and distributed generation (“DG”) at any level or pace set by this Commission;
  - an opt-out rate design for residential customers who choose not to participate in the LFCR;
  - a process for simplifying customers’ bill format; and
  - bill assistance for additional low income customers, at shareholder expense.
- 1.6 The Signatories agree to ask the Commission (1) to find that the terms and conditions of this Agreement are just and reasonable and in the public interest, along with any and all other necessary findings, and (2) to approve the Agreement and order that it and the rates contained herein become effective on July 1, 2012.

## **TERMS AND CONDITIONS**

### **II. RATE CASE STABILITY PROVISION**

- 2.1 APS agrees not to file its next general rate case prior to May 31, 2015. The test year end date for the base rate increase filing contemplated in this section shall be no earlier than December 31, 2014 but need not coincide with the end of a calendar year. No new base rates resulting from APS’s next general rate case will be effective before July 1, 2016.

### **III. RATE INCREASE**

- 3.1 APS shall receive a base rate increase of zero dollars (“revenue requirement”). This amount is comprised of: (1) a non-fuel base rate increase of \$116.3 million, which includes providing for a return on and of plant that is in service as of March 31, 2012 (“Post-Test Year Plant”); (2) a fuel base rate decrease of

\$153.1 million; and (3) a transfer of cost recovery from the Renewable Energy Surcharge ("RES") to base rates described in Paragraph VIII herein.

- 3.2 The Company's jurisdictional fair value rate base used to establish the rates agreed to herein is \$8,167,126,000. The Company's total adjusted Test Year revenue is \$2,868,858,000.

#### **IV. BILL IMPACT**

- 4.1 When new rates become effective, customers will have on average a 0.0% bill impact or less. This zero percent or slightly negative bill impact will be achieved by allowing the negative credit that exists in the Company's Power Supply Adjustor ("PSA") to continue until February 1, 2013, at which time it will reset. The annual 4 mill cap will be applied after the impact of the expiration of the then-current PSA credit.
- 4.2 Subsequent to the PSA reset for General Service customers in February 2013, the percentage bill impact spread resulting from this Settlement among the various segments of that customer class shall be equal. This shall be accomplished as set forth in Attachment A.
- 4.3 A zero percent bill impact will continue for the remainder of 2012 (Commission-approved adjustors (including the possibility of a Four Corners rider pursuant to paragraph 10.3) may increase customer bills after December 31, 2012).

#### **V. COST OF CAPITAL**

- 5.1 A capital structure comprised of 46.06% debt and 53.94% common equity shall be adopted.
- 5.2 A return on common equity of 10.0% and an embedded cost of debt of 6.38% shall be adopted.
- 5.3 A fair value rate of return of 6.09%, which includes a return on the fair value rate base increment of 1.0%, shall be adopted.
- 5.4 The provisions set forth herein regarding the quantification of cost of capital, fair value rate base, fair value rate of return, and the revenue requirement are made for purposes of settlement only and should not be construed as admissions against interest or waivers of litigation positions related to other or future cases.

**VI. DEPRECIATION/AMORTIZATION AND DECOMMISSIONING**

- 6.1 With the exception of Uniform System of Accounts 370.01 (electronic meters), 370.02 (electro-mechanical meters), and 370.03 (AMI meters), the depreciation and amortization rates proposed by APS and contained in Attachment REW-2 to Dr. Ron White's Pre-filed Direct Testimony shall be adopted until further order of the Commission. For Accounts 370.01, 370.02 and 370.03, the current depreciation rates will be retained, as proposed by Commission Staff Witness Ralph Smith.
- 6.2 The annual nuclear decommissioning amounts reflected in the rates agreed to herein are those shown in APS Witness Jason LaBenz workpaper JCL\_WP22, page 4, attached hereto as Attachment B.
- 6.3 APS shall file a request that the Commission adjust the Company's System Benefit Charge ("SBC") and reduce such charge to reflect a corresponding reduction of the decommissioning trust funding obligations collected through the SBC related to the full funding of Palo Verde Unit 2. Such filing shall be made in sufficient time for the reduction to occur by January 2016.

**VII. FUEL AND POWER SUPPLY ADJUSTMENT PROVISIONS**

- 7.1 The base fuel rate shall be lowered from \$0.037571 per kWh as set in Commission Decision No. 71448 to \$0.032071 per kWh. This change shall take effect on the effective date of the new rates contained in this Agreement, in accordance with the current approved Plan of Administration for the Power Supply Adjustor ("PSA").
- 7.2 For purposes of this case, APS will withdraw its request to recover through the PSA the cost of chemicals required for environmental compliance at APS's power plants, and APS shall not raise this request before its next general rate case.
- 7.3 The 90/10 sharing provision in APS's PSA will be eliminated. The PSA shall be modified to require APS to apply interest on the PSA balance annually, rather than monthly, at the following rates: any over-collection existing at the end of the PSA year will accrue interest at a rate equal to the Company's authorized ROE or APS's then-existing short term borrowing rate, whichever is greater, and will be refunded to customers over the following 12 months; any under-collection existing at the end of the PSA year will accrue interest at a rate

equal to the Company's authorized ROE or APS's then-existing short term borrowing rate, whichever is less, and will be recovered from customers over the following 12 months. APS may, at any time during the PSA year, request to reduce the PSA rate through the Transition Component. Any such request shall become effective beginning with the first billing cycle of the month following the filing date of the request.

- 7.4 To incent prudent fuel and power procurement and use, APS shall be subject to periodic audits. The first audit shall be for calendar year 2014. Commission Staff shall select a consultant to perform this audit and subsequent audits. Each audit shall be funded by APS in an amount not to exceed \$100,000 per audit.
- 7.5 The PSA Plan of Administration shall be amended as set forth in Attachment C.

### VIII. RENEWABLE ENERGY

- 8.1 APS currently collects the costs associated with certain APS-owned renewable energy projects through the RES. Consistent with the treatment of other Post-Test Year Plant adopted in this Agreement, the portion of those renewable projects that have been closed to plant in service as of March 31, 2012, shall be rate based and recovery of those costs shall be accomplished through base rates. The specific projects to be rate based pursuant to this Section are identified in Attachment D.
- 8.2 Effective with the date of the Commission's order in this matter, the capital carrying costs<sup>1</sup> for any APS renewable energy-related capital investments shall not be recovered through the RES adjustor, except that capital carrying costs for renewable energy-related capital investments that APS makes in compliance with Commission Decision No. 71448 shall be recovered in the RES adjustor unless and until specifically authorized for recovery in another adjustor or in base rates.
- 8.3 On the effective date of the new rates contained in this Agreement, the RES adjustor rate established for 2012 in Docket No. E-01345A-11-0264 shall be reduced to reflect the removal of the projects identified in Attachment D. At the same time, the renewable energy-related purchased power agreement costs that were moved from the RES to the PSA pursuant to the Commission's

<sup>1</sup> Capital carrying costs include (1) a return at the Company's Weighted Average Cost of Capital approved by the Commission in this rate case; (2) depreciation expense; (3) income taxes; (4) property taxes; (5) deferred taxes and tax credits where appropriate; and (6) associated O&M.

Decision in Docket No. E-01345A-11-0264, shall be transferred back to the RES.

- 8.4 To provide the Commission with greater flexibility in setting RES adjustor rates and related caps, the requirement established in Decision No. 67744 that any changes to RES charges and caps must be allocated between customer classes according to certain set proportions shall be eliminated.

**IX. ENERGY EFFICIENCY/LOST FIXED COST RECOVERY/OPT-OUT RESIDENTIAL RATE/LARGE GENERAL SERVICE CUSTOMER EXCLUSION**

- 9.1 The Signatories support energy efficiency as a low cost energy resource. The Signatories also recognize that, under APS's current volumetric rate design, the Company recovers a significant portion of its fixed costs of service through kilowatt-hour ("kWh") sales. Commission rules related to EE and Distributed Generation ("DG") require APS to sell fewer kWh, which, in turn, prevents the Company from being able to recover a portion of the fixed costs of service embedded in its energy rates.
- 9.2 The Signatories also recognize the Commission's interest in directing EE and DG policy. In signing this Agreement, the Signatories intend that a Lost Fixed Cost Recovery ("LFCR") mechanism with residential opt-out rates shall be adopted that allows APS relief from the financial impact of verified lost kWh sales attributable to Commission requirements regarding EE and DG while preserving maximum flexibility for the Commission to adjust EE and DG requirements, either upward or downward, as the Commission may deem appropriate as a matter of policy. Nothing in this Agreement is intended to bind the Commission to any specific EE or DG policy or standard.
- 9.3 To address the goals of Sections 9.1 and 9.2, the Signatories propose that the Commission adopt for APS an LFCR, similar to that recommended by Staff in this proceeding. The LFCR shall recover a portion of distribution and transmission costs associated with residential, commercial and industrial customers when sales levels are reduced by EE and DG. It shall not recover lost fixed costs attributable to other potential factors, such as weather or general economic conditions. The LFCR mechanism shall exclude the portion of distribution and transmission costs that is recovered through the Basic Service Charge ("BSC") and fifty (50) percent of such costs recovered through non-generation/non-TCA demand charges.

- 9.4 The LFCR shall be adjusted annually to account for the unrecovered costs associated with a portion of distribution and transmission costs resulting from EE programs as demonstrated by the Measurement, Evaluation and Reporting ("MER") conducted for EE programs and from DG as demonstrated pursuant to the means described in Section 9.5 below. An annual 1% year over year cap based on Total Company revenues will be applied to the adjustment. Any amount in excess of the 1% cap will be deferred (with interest at the nominal one-year Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15 or its successor publication) for collection until the first future adjustment period in which including such costs, would not cause the annual increase to exceed the 1% cap. The amount of any cap level set herein shall be evaluated in APS's next rate case.
- 9.5 For the purpose of the LFCR mechanism, APS shall be allowed to use statistical verification, output profile, or meter data for DG systems until December 31, 2014. Beginning January of 2015, APS shall only use meter data to calculate DG system savings
- 9.6 APS will file with the Commission to adjust its LFCR by January 15 of each year, and Staff will use its best efforts to process the matter by March 1 of each year. Each annual LFCR adjustment will not go into effect unless approved by the Commission. The annual adjustment will use actual data for the period through September and forecast data for the remainder of the year. The following year's adjustment shall be trued-up for verified EE MER and metered or otherwise verified DG results. The first adjustment will not occur before March 1, 2013. The March 1, 2013 adjustment shall include reduced sales from EE and DG for 2012 and will be pro-rated from the date rates become effective pursuant to a Commission decision on this Agreement. Subsequent adjustments shall reflect the full impact of reduced sales in the prior year plus the cumulative impact from previous adjustments, subject to the cap described in Section 9.4 herein.
- 9.7 The LFCR mechanism shall not apply to large General Service customers taking service under rate schedules E-32 L, E-32 L TOU, E-34, E-35 and E-36 XL, or to unmetered General Service customers under E-30 and lighting schedules. These rate schedules shall be modified in accordance with Attachment K to address unrecovered fixed costs through changes in rate design with enhanced distribution demand and BSC charges and a corresponding adjustment to energy charges.

- 9.8 Residential customers shall have a rate schedule choice to opt out of the LFCR by electing an optional BSC, graduated by kWh monthly usage. That option is attached hereto as Attachment E. The optional BSC will be incorporated into each residential rate schedule to provide customers with the maximum flexibility to opt out without requiring a shift to a different rate schedule. The purpose of this opt out rate is to replicate, on average, the effects of the LFCR.
- 9.9 APS shall seek stakeholder input regarding the development of a customer outreach program to inform and educate customers about both the LFCR and voluntary opt-out rates and shall implement this outreach program.
- 9.10 On January 15 of each year, APS shall file compliance reports with the Commission consistent with the schedules attached to the LFCR Plan of Administration. These reports shall include a comparison of the revenues recovered through the LFCR to those that would have been recovered had the Company's revenue per customer decoupling (full decoupling) proposal been adopted.
- 9.11 The LFCR shall be subject to Commission review at any time, the first to occur no later than APS's next general rate case. If the Commission decides to suspend, terminate, or materially modify the LFCR mechanism prior to the Company's next general rate case, and does not provide alternative relief that adequately addresses fixed cost revenue erosion, the moratorium for filing general rate case applications shall terminate.
- 9.12 The LFCR Plan of Administration is attached hereto as Attachment F.
- 9.13 The LFCR was designed to be a flexible means to maximize the policy options available to the Commissioners and to customers, allowing the pursuit of EE and DG programs at any level or pace directed by the Commission. The Signatories agree that if the Commission declines to adopt the LFCR or an alternative mechanism that adequately addresses fixed cost revenue erosion in this case, APS shall be granted relief from either the relevant EE and DG requirements or the financial impacts of EE and DG during that time.
- 9.14 For future Demand-Side Management ("DSM") Implementation Plan filings:
- (a) Beginning with APS's 2013 DSM Implementation Plan (filed in 2012), and excluding DSM-related capital investments already authorized by the

Commission, carrying costs for DSM-related capital investments shall not be recovered through the DSM Adjustment Clause.

- (b) APS's performance incentive shall be modified (1) to eliminate the top two tiers of percentages to be applied to Net Benefits or Percent of Program Costs based on APS's achievement relative to the EE Standard, and (2) to change the fourth tier to include any achievement greater than 105%. The first three tiers remain unchanged.

<u>Achievement Relative to the Energy Efficiency Standard</u>	<u>Performance Incentive as % of Energy Efficiency Net Benefits</u>	<u>Performance Incentive Capped at % of Energy Efficiency Program Costs</u>	<u>Proposed Change from Current</u>
<u>&lt;85%</u>	<u>0%</u>	<u>0%</u>	<u>No Change</u>
<u>85% to 95%</u>	<u>6%</u>	<u>12%</u>	<u>No Change</u>
<u>96% to 105%</u>	<u>7%</u>	<u>14%</u>	<u>No Change</u>
<u>&gt;105%</u>	<u>8%</u>	<u>16%</u>	<u>New</u>
<u><del>106% to 115%</del></u>	<u><del>8%</del></u>	<u><del>16%</del></u>	<u>Eliminated</u>
<u><del>116% to 125%</del></u>	<u><del>9%</del></u>	<u><del>18%</del></u>	<u>Eliminated</u>
<u><del>&gt;125%</del></u>	<u><del>10%</del></u>	<u><del>20%</del></u>	<u>Eliminated</u>

- (c) APS shall use the inputs and methodology that Commission Staff uses when calculating the present value of benefits and costs for DSM measures in its Societal Cost test. Commission Staff will regularly re-evaluate such inputs

and methodologies, considering comments from APS and other stakeholders.

(d) APS will work with stakeholders and Staff to develop and file for Commission consideration a new performance incentive structure by December 31, 2012 that optimizes the connection between energy efficiency, rates and utility business incentives and that creates a clear connection between the level of performance incentive and achievement of cost-effective energy savings. This rate case shall be held open to allow for Commission approval of including the new performance incentive structure in the DSM Adjustment Clause. At that time, the Commission should determine the plan year to which the new performance incentive structure shall apply. The Signatories shall recommend that any new performance incentive structure adopted should apply to the first plan year filed after its adoption.

(e) APS's DSM programs and associated energy savings shall be independently reviewed every five years by an evaluator selected by Staff and paid for by APS in an amount not to exceed \$100,000. The first review shall occur in APS's next general rate case or within five (5) years of a Commission order in this case, whichever is sooner.

9.15 APS shall compile and make available to all parties of the docket a technical reference manual documenting program and measure saving assumptions and incremental costs no later than December 31, 2013. This manual would be updated on an annual basis as part of the DSM implementation plan process and would serve as a reference tool for the LFCR analysis.

9.16 APS currently collects \$10 million of DSM costs in base rates, which level will be retained.

9.17 The DSM Adjustment Clause Plan of Administration shall be modified to reflect the terms of this Agreement as set forth in Attachment G.

**X. RATE TREATMENT RELATED TO ANY ACQUISITION BY APS OF SOUTHERN CALIFORNIA EDISON'S SHARE OF FOUR CORNERS UNITS 4-5.**

- 10.1 In Docket No. E-01345A-10-0474, APS has sought Commission permission to pursue acquisition of Southern California Edison's ("SCE") current ownership interest in Four Corners Units 4 and 5 and to retire Four Corners Units 1-3 (the "proposed Four Corners transaction").
- 10.2 Except as provided in Section 9.14(d), this rate case shall remain open for the sole purpose of allowing APS to file a request, no later than December 31, 2013, that its rates be adjusted to reflect the proposed Four Corners transaction, should the Commission allow APS to pursue the acquisition and should the transaction thereafter close. Specifically, APS may within ten (10) business days after any Closing Date but no later than December 31, 2013, file an application with the Commission seeking to reflect in rates the rate base and expense effects associated with the acquisition of SCE's share of Units 4 and 5, the rate base and expense effects associated with the retirement of Units 1-3, and any cost deferral authorized in Docket No. E-01345A-10-0474. APS shall also be permitted to seek authorization to amend the PSA Plan of Administration to include in the PSA the post-acquisition Operations and Maintenance expense associated with Four Corners Units 1-3 as a cost of producing off-system sales until closure of Units 1-3, provided that such costs do not exceed off-system sales revenue in any given year. APS's rates shall be adjusted only if the Commission finds the Four Corners transaction to be prudent.
- 10.3 Any filing seeking a rate adjustment pursuant to Section 10.2 shall include at a minimum the following schedules: (1) the most current APS balance sheet at the time of filing; (2) the most current APS income statement at the time of filing; (3) an earnings schedule that demonstrates that the operating income resulting from the rate adjustment does not result in a return on rate base in excess of that authorized by this Agreement in the period after the rate adjustment becomes effective; (4) a revenue requirement calculation, including the amortization of any deferred costs; (5) an adjustment rider that recovers the rate base and non-PSA related expenses associated with any Four Corners acquisition on an equal percentage basis across all rate schedules which shall not become effective before July 1, 2013; (6) an adjusted rate base schedule; and (7) a typical bill analysis under present and filed rates.

- 10.4 The Signatories shall not raise any issues in the rate adjustment proceeding other than those specifically described in Section 10.2. The Signatories shall use good faith efforts to process this rate adjustment request within a reasonable time.
- 10.5 If, at any time, APS determines that the Four Corners Transaction will not close, it shall so inform the Commission and the Signatories by filing a Notice to that effect in this Docket.

**XI. MODIFICATION TO ENVIRONMENTAL IMPROVEMENT SURCHARGE**

- 11.1 For purposes of this proceeding, APS shall withdraw its request for approval of the proposed Environmental and Reliability Account (“ERA”) mechanism, and APS shall not raise this request before its next general rate case.
- 11.2 APS shall implement a revised version of the existing Environmental Improvement Surcharge (“EIS”). As amended, APS shall no longer receive customer dollars through the EIS to pay for government-mandated environmental controls. However, when APS invests capital to fund any government-mandated environmental controls, the EIS will recover the associated capital carrying costs, subject to a cap equal to the charge currently in place for the EIS. Adjustments to the EIS shall become effective each April 1<sup>st</sup> unless Staff requests Commission review or unless otherwise ordered by the Commission. APS will not request a change in the rate cap prior to its next general rate case.
- 11.3 APS will be held responsible for demonstrating that the environmental controls were government-mandated and represented a reasonable and prudent option available to the Company at that time sufficient to meet the environmental requirements.
- 11.4 The EIS Plan of Administration shall be revised as set forth in Attachment H.
- 11.5 The existing EIS will be reset to zero on the effective date of the new rates contained in this Agreement.

**XII. COST DEFERRAL RELATED TO CHANGES IN ARIZONA PROPERTY TAX RATE**

- 12.1 APS shall be allowed to defer for future recovery, in accordance with the provisions of Accounting Standards Codification (“ASC”) 980 (formerly SFAS

No. 71), the following portions of Arizona property tax expense above or below the test year level of \$141.5 million caused by changes to the applicable Arizona composite property tax rate (not changes in the assessed value of property).

(a) When the property tax rate increases:

- For 2012: 25% (prorated with an assumed July 1 rate effective date);
- For 2013: 50%; and
- For 2014 and all subsequent years: 75%.

(b) When the property tax rate decreases: 100% in all years.

No interest shall be applied to the deferred balance.

12.2 Beginning with the effective date of the Commission decision resulting from APS's next general rate case, any final property tax rate deferral that has a positive balance will be recovered from customers over 10 years and any deferral that has a negative balance will be refunded to customers over 3 years.

12.3 The Signatories reserve the right to review APS's property tax deferrals for reasonableness and prudence such that the deferrals can be recognized in accordance with the provisions of ASC-980 (formerly SFAS No. 71).

### **XIII. TRANSMISSION COST ADJUSTMENT MECHANISM**

13.1 The level of transmission costs presently in APS's base rates will remain in base rates until further order of the Commission.

13.2 The annual TCA adjustment will become effective June 1 of each year without the need for affirmative Commission approval, unless Staff requests Commission review or unless otherwise ordered by the Commission.

13.3 APS shall file a notice with Docket Control that includes its revised TCA tariff, along with a copy of its FERC information filing of its annual update of transmission service rates pursuant to its Open Access Transmission tariff ("OATT"). This notice shall be filed with the Commission by May 15 of each year.

13.4 The TCA Plan of Administration shall be modified as set forth in Attachment I.

**XIV. LOW INCOME PROGRAMS**

- 14.1 In Section 16.3 of the 2009 Settlement, APS committed to augment the bill assistance program approved in Decision No. 69663 by funding \$5 million to assist customers whose incomes exceed 150% of the Federal Poverty Income Guidelines but are less than or equal to 200% of the Federal Poverty Income Guidelines. This Agreement provides that any funds remaining of that \$5 million funding requirement may be used to so assist customers whose incomes are less than or equal to 200% of the Federal Poverty Income Guidelines.
- 14.2 PSA and DSMAC adjustor rates shall apply to low-income customers. The billing method for low income customers shall be simplified by transferring customers to their corresponding non-low income rate schedule and applying the PSA and DSMAC rate schedules to those bills, but then applying a discount to the total bill such that low income customers, like other APS customers, will have no bill impact in this case as a result of the billing method change.

**XV. SERVICE SCHEDULE 3 (LINE EXTENSIONS)**

- 15.1 Version 12 of Service Schedule 3, as approved in Decision No. 72684 (November 18, 2011), shall become effective on the date that rates from this case become effective.

**XVI. BILL PRESENTATION**

- 16.1 Within 90 days following approval of this Agreement, APS will initiate stakeholder meetings to address issues related to the APS bill presentation with a goal of making the bill easier for customers to understand. APS shall thereafter file an application with the Commission for any authorization needed to modify its bill presentation. Such application shall explain how the APS bill presentation proposal reflects the input of stakeholders during the stakeholder meeting process.

**XVII. RATE DESIGN**

- 17.1 The Company's proposed Experimental Rate Schedule AG-1, a buy through rate for large commercial and industrial customers, should be capped at 200 MW and should be approved as modified herein, as should corresponding changes to the PSA. Proposed Experimental Rate Schedule AG-1 is set forth in Attachment J. Proposed Experimental Rate Schedule AG-1 does not address the subject of retail electric competition.

- 17.2 APS shall make commercially reasonable efforts to eliminate or mitigate all unrecovered costs resulting from the AG-1 experimental program established in this docket. If there are any lost fixed generation costs related to the AG-1 experimental rate, in its next general rate case, APS shall provide testimony that explains why it was unable to eliminate all lost fixed generation costs. Because AG-1 is an experimental program that may benefit certain General Service customers, and because residential customers cannot participate in the program, any APS proposal in APS's next general rate case that seeks to collect lost fixed generation costs related to the AG-1 experimental rate shall not propose to recover such costs from residential customers.
- 17.3 As recommended by Staff Witness McGarry, APS shall file a study in its next General Rate Case Application to support the cost basis of the various charges in Service Schedule 1, taking into account the impact Smart Grid technology may have on these costs.
- 17.4 APS shall withdraw its request to establish Service Schedule 9, an economic development service schedule. In its place, APS is authorized to pursue economic development opportunities through the use of Commission-approved special contracts.
- 17.5 The remaining rate design issues presented by this case shall be resolved as set forth in Attachment K.

## **XVIII. COMPLIANCE MATTERS**

- 18.1 Within ten days after the Commission issues a written order in this matter, APS shall file compliance schedules associated with this Docket for Staff review. Subject to Staff review, such compliance schedules will become effective on the effective date of the new rates contained in this Agreement.
- 18.2 APS shall report to the Commission identifying the extent of the challenges regarding workforce planning, the specific actions that APS is taking to address the issue, and the progress APS is making toward meeting those goals. The workforce planning report, which shall be filed on an annual basis in this docket on or before May 31, shall be limited to the following job classifications: Electrician-Journeyman, Lineman-Journeyman, Technician-E&I, and Operator-Power Plant (a/k/a Auxiliary Operators and Control Operators). At a minimum, the workforce planning report shall set forth: (1) the number of employees then currently holding these positions; (2) the present mean and median ages of APS's workforce with respect to those job

classifications; (3) the share of retirement-eligible employees, both as a percentage and in absolute terms, in each of these job classifications; and (4) anticipated hiring and attrition levels for each of these job classifications.

- 18.3 Decision No. 70667, as a compliance item, requires APS to periodically file with the Commission certain communications with rating agencies. It is appropriate to eliminate this filing requirement at this time.

#### **XIX. FORCE MAJEURE PROVISION**

- 19.1 Nothing in this Agreement shall prevent APS from requesting a change to its base rates in the event of conditions or circumstances that constitute an emergency. For the purposes of this Agreement, the term "emergency" is limited to an extraordinary event that, in the Commission's judgment, requires base rate relief in order to protect the public interest. This provision is not intended to preclude APS from seeking rate relief or any Signatory from petitioning the Commission to examine the reasonableness of APS's rates pursuant to this Section in the event of significant developments that materially impact the financial results expected under the terms of this Agreement. This provision is not intended to preclude any party, including any Signatory to this Agreement, from opposing an application for rate relief filed by APS pursuant to this paragraph. Nothing in this provision is intended to limit the Commission's ability to change rates at any time pursuant to its lawful authority.

#### **XX. COMMISSION EVALUATION OF PROPOSED SETTLEMENT**

- 20.1 All currently filed testimony and exhibits shall be offered into the Commission's record as evidence.
- 20.2 The Signatories recognize that Staff does not have the power to bind the Commission. For purposes of proposing a settlement agreement, Staff acts in the same manner as any party to a Commission proceeding.
- 20.3 This Agreement shall serve as a procedural device by which the Signatories will submit their proposed settlement of APS's pending rate case, Docket No. E-01345A-11-0224, to the Commission.
- 20.4 The Signatories recognize that the Commission will independently consider and evaluate the terms of this Agreement. If the Commission issues an order adopting all material terms of this Agreement, such action shall constitute

Commission approval of the Agreement. Thereafter, the Signatories shall abide by the terms as approved by the Commission.

- 20.5 If the Commission fails to issue an order adopting all material terms of this Agreement, any or all of the Signatories may withdraw from this Agreement, and such Signatory or Signatories may pursue without prejudice their respective remedies at law. For purposes of this Agreement, whether a term is material shall be left to the discretion of the Signatory choosing to withdraw from the Agreement. If a Signatory withdraws from the Agreement pursuant to this paragraph and files an application for rehearing, the other Signatories, except for Staff, shall support the application for rehearing by filing a document with the Commission that supports approval of the Agreement in its entirety. Staff shall not be obligated to file any document or take any position regarding the withdrawing Signatory's application for rehearing.

## **XXI. MISCELLANEOUS PROVISIONS**

- 21.1 This case has attracted a large number of participants with widely diverse interests. To achieve consensus for settlement, many participants are accepting positions that, in any other circumstances, they would be unwilling to accept. They are doing so because this Agreement, as a whole, is consistent with their long-term interests and with the broad public interest. The acceptance by any Signatory of a specific element of this Agreement shall not be considered as precedent for acceptance of that element in any other context.
- 21.2 No Signatory is bound by any position asserted in negotiations, except as expressly stated in this Agreement. No Signatory shall offer evidence of conduct or statements made in the course of negotiating this Agreement before this Commission, any other regulatory agency, or any court.
- 21.3 Neither this Agreement nor any of the positions taken in this Agreement by any of the Signatories may be referred to, cited, or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except to secure approval of this Agreement and enforce its terms.
- 21.4 To the extent any provision of this Agreement is inconsistent with any existing Commission order, rule, or regulation, this Agreement shall control.
- 21.5 Each of the terms of this Agreement is in consideration of all other terms of this Agreement. Accordingly, the terms are not severable.

- 21.6 The Signatories shall make reasonable and good faith efforts necessary to obtain a Commission order approving this Agreement. The Signatories shall support and defend this Agreement before the Commission. Subject to paragraph 20.5, if the Commission adopts an order approving all material terms of the Agreement, the Signatories will support and defend the Commission's order before any court or regulatory agency in which it may be at issue.
- 21.7 This Agreement may be executed in any number of counterparts and by each Signatory on separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which taken together shall constitute one and the same instrument. This Agreement may also be executed electronically or by facsimile.

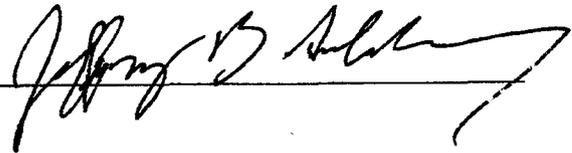
ARIZONA CORPORATION COMMISSION

By

A handwritten signature in black ink, appearing to be "Jeffrey B. Sullivan", written over a horizontal line.

ARIZONA PUBLIC SERVICE COMPANY

By

A handwritten signature in black ink, appearing to be "Jeffrey B. Sullivan", written over a horizontal line.

RESIDENTIAL UTILITY CONSUMER OFFICE

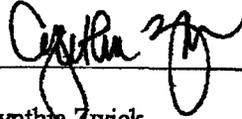
By

A handwritten signature in black ink, appearing to be "Jodi A. Smith", written over a horizontal line.

DOCKET NO. E-01345A-11-0224.

Docket No. E-01345A-11-0224

By



Cynthia Zwick

DATED: January 5, 2012

DECISION NO. 73183

DOCKET NO. E-01345A-11-0224.

Docket No. E-01345A-11-0224

By Karen S. White  
Karen S. White  
Federal Executive Agencies

DATED: January 6, 2012

DECISION NO. 73183

DOCKET NO. E-01345A-11-0224.

Docket No. E-01345A-11-0224

By K Boehm  
Kurt J. Boehm, Esq.  
Attorney for Kroger Co.

DATED: 1-6-12, 2012

DECISION NO. 73183

DOCKET NO. E-01345A-11-0224.

Docket No. E-01345A-11-0224

By   
C. Webb Crockett  
Patrick J. Black  
Fennemore Craig, P.C.  
Attorneys for Freeport-McMoRan Copper & Gold Inc.

DATED: January 6, 2012

DECISION NO. 73183

DOCKET NO. E-01345A-11-0224.

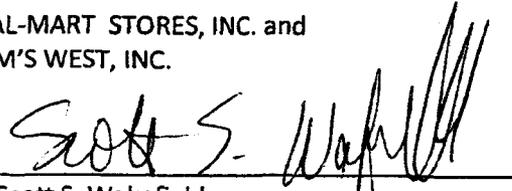
Docket No. E-01345A-11-0224

By   
C. Webb Crockett  
Patrick J. Black  
Fennemore Craig, P.C.  
Attorneys for Arizonans for Electric Choice and Competition

DATED: January 6, 2012

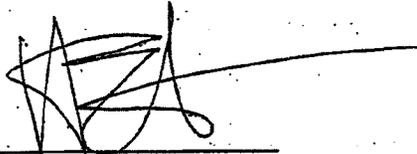
DECISION NO. 73183

WAL-MART STORES, INC. and  
SAM'S WEST, INC.

By: 

Scott S. Wakefield  
Ridenour, Hienton & Lewis, PLLC  
201 N. Central Ave., Suite 3300  
Phoenix, AZ 85004  
Attorneys for Wal-Mart Stores, Inc. and  
Sam's West, Inc.

Dated: January 6, 2012

By:   
Nicholas J. Enoch, Esq.  
Attorney for Intervenors IBEW Locals 387, 640 & 769

DATED: January 6, 2012

**AZAG GROUP**

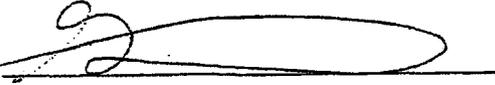
By: \_\_\_\_\_



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DATED: January 6, 2012

DOCKET NO. E-01345A-11-0224.  
Docket No. E-01345A-11-0224

By 

Greg Patterson  
Arizona Competitive Power Alliance  
Director:

DATED: January 6, 2012

DECISION NO. 73183

Docket No. E-01345A-11-0224

By Craig A. Mark  
Craig A. Mark  
AARP

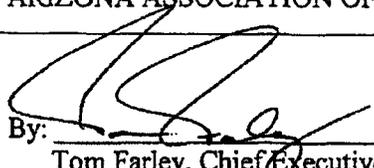
DATED: 1/6, 2012

DOCKET NO. E-01345A-11-0224.

Docket No. E-01345A-11-0224

ARIZONA ASSOCIATION OF REALTORS, INC.

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By:   
Tom Farley, Chief Executive Officer

DATED: January 6, 2012

DECISION NO. 73183

Docket No. E-01345A-11-0224

By Barbara Wyllie Tecora  
BARBARA WYLLIE - TECORA

DATED: 1-6-12, 2012

DOCKET NO. E-01345A-11-0224.

Docket No. E-01345A-11-0224

By   
Gary Yaquinto, Its President  
Arizona Investment Council

DATED: , 2012

DECISION NO. 73183

DOCKET NO. E-01345A-11-0224.

Docket No. E-01345A-11-0224

By Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.

On behalf of Southwestern Power Group II, L.L.C.

DATED: January 6, 2012

DECISION NO. 73183

DOCKET NO. E-01345A-11-0224.

Docket No. E-01345A-11-0224

By Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.

On behalf of Bowie Power Station, L.L.C.

DATED: January 6, 2012

DECISION NO. 73183

DOCKET NO. E-01345A-11-0224.

Docket No. E-01345A-11-0224

By Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.

On behalf of Noble Americas Energy Solutions  
LLC

DATED: January 6, 2012

DECISION NO. 73183

DOCKET NO. E-01345A-11-0224.

Docket No. E-01345A-11-0224

By Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.

On behalf of Constellation NewEnergy, Inc.

DATED: January 6, 2012

DECISION NO. 73183

DOCKET NO. E-01345A-11-0224.

Docket No. E-01345A-11-0224

By Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.

On behalf of Direct Energy, LLC

DATED: January 6, 2012

DECISION NO. 73183

DOCKET NO. E-01345A-11-0224.

Docket No. E-01345A-11-0224

By Lawrence V. Robertson, Jr.

Lawrence V. Robertson, Jr.

On behalf of Shell Energy North America (US),  
L.P.

DATED: January 6, 2012

DECISION NO. 73183

Attachment A

Arizona Public Service Company  
 Equalize Impact of Transferring Fuel from Base Rates to PSA  
 Across General Service Rate Classes

153,087,000 Fuel transfer to PSA  
 27,689,606,547 Test Year Retail kWh  
 0.00553 PSA impact /kWh

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
	Adjusted kWh	Adjusted Present Revenue (\$)	PSA Impact (\$)	PSA Impact (%)	Equal % PSA Impact (%)	Equal % PSA Impact (\$)	PSA Delta (\$)	Equalization Charge \$/kWh	Base Rate Increase (%)
E-20	36,664,060	\$ 3,885,908	\$ 202,752	5.218%	5.82%	\$ 226,004	\$ 23,252	0.00063	0.60%
E-32 XS	1,418,941,092	199,176,817	7,846,744	3.940%	5.82%	11,584,124	3,737,380	0.00263	1.88%
E-32 S	2,551,982,755	290,020,650	14,112,465	4.866%	5.82%	16,867,601	2,755,136	0.00108	0.95%
E-32 M	3,279,541,910	317,315,278	18,135,867	5.715%	5.82%	18,454,236	318,369	0.00010	0.10%
E-32 L	3,647,138,613	303,798,301	20,168,677	6.639%	5.82%	17,668,909	(2,499,768)	(0.00069)	-0.82%
E-32 TOU XS	4,608,869	632,665	25,487	4.029%	5.82%	36,796	11,309	0.00245	1.79%
E-32 TOU S	41,567,188	4,454,447	229,867	5.160%	5.82%	259,071	29,204	0.00067	0.66%
E-32 TOU M	69,936,556	6,385,132	386,749	6.057%	5.82%	371,359	(15,390)	(0.00022)	-0.24%
E-32 TOU L	295,613,941	22,916,517	1,634,745	7.133%	5.82%	1,332,825	(301,920)	(0.00103)	-1.32%
E-34	1,086,047,211	80,597,093	6,005,841	7.452%	5.82%	4,687,527	(1,318,314)	(0.00121)	-1.64%
E-35	1,673,368,627	112,009,467	9,253,729	8.262%	5.82%	6,514,471	(2,739,258)	(0.00163)	-2.45%
	14,105,410,822	\$ 1,341,192,275	\$ 78,002,923	5.816%	5.82%	\$ 78,002,923	\$ -		

## Attachment B

ARIZONA PUBLIC SERVICE COMPANY  
Palo Verde Decommissioning/ISFSI Trust Amounts  
Test Year 12 Months Ended 12/31/10  
(Dollars in Thousands)

YEAR	<u>6/1/2045</u>	<u>4/24/2046</u>	<u>11/25/2047</u>	TOTAL	ACC
	UNIT 1	UNIT 2	UNIT 3		Jurisdictional Amount <sup>[1]</sup>
2011	\$ 4,558	\$ 6,047	\$ 5,414	\$ 16,019	\$ 15,630
2012	449	14,968	1,832	17,249	16,830
2013	449	14,968	1,832	17,249	16,830
2014	449	14,968	1,832	17,249	16,830
2015	449	14,968	1,832	17,249	16,830
2016	449	-	1,832	2,281	2,226
2017	449	-	1,832	2,281	2,226
2018	449	-	1,832	2,281	2,226
2019	449	-	1,832	2,281	2,226
2020	449	-	1,832	2,281	2,226
2021	449	-	1,832	2,281	2,226
2022	449	-	1,832	2,281	2,226
2023	449	-	1,832	2,281	2,226
2024	449	-	1,832	2,281	2,226
2025	449	-	1,832	2,281	2,226
2026	449	-	1,832	2,281	2,226
2027	449	-	1,832	2,281	2,226
2028	449	-	1,832	2,281	2,226
2029	449	-	1,832	2,281	2,226
2030	449	-	1,832	2,281	2,226
2031	449	-	1,832	2,281	2,226
2032	449	-	1,832	2,281	2,226
2033	449	-	1,832	2,281	2,226
2034	449	-	1,832	2,281	2,226
2035	449	-	1,832	2,281	2,226
2036	449	-	1,832	2,281	2,226
2037	449	-	1,832	2,281	2,226
2038	449	-	1,832	2,281	2,226
2039	449	-	1,832	2,281	2,226
2040	449	-	1,832	2,281	2,226
2041	449	-	1,832	2,281	2,226
2042	449	-	1,832	2,281	2,226
2043	449	-	1,832	2,281	2,226
2044	449	-	1,832	2,281	2,226
2045	225	-	1,832	2,056	2,006
2046	-	-	1,832	1,832	1,787
2047	-	-	1,832	1,832	1,787
	\$ 19,604	\$ 65,919	\$ 71,360	\$ 156,883	\$ 153,071

[1] ACC Jurisdictional share is approximately 97.57%

**Power Supply Adjustment  
Plan of Administration**

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**1. General Description**

This document describes the plan for administering the Power Supply Adjustment mechanism (“PSA”) approved for Arizona Public Service Company (“APS”) by the Commission on June 28, 2007 in Decision No. 69663, amended by the Commission on December 30, 2009 in Decision No. 71448, and as further amended by the Commission on [insert date] in Decision No. xxxxx. The PSA provides for the recovery of fuel and purchased power costs, to the extent that actual fuel and purchased power costs deviate from the amount recovered through APS’ Base Cost of Fuel and Purchased Power (\$0.032071 per kWh) authorized in Decision No. xxxxx, from [insert date]. It also provides for refund or recovery of the net margins from sales of emission allowances, to the extent the actual sales margins deviate from the base rate amount of (\$0.000001) per kWh<sup>1</sup>.

The PSA described in this Plan of Administration (“POA”) uses a forward-looking estimate of fuel and purchased power costs and margins on the sales of emission allowances (“PSA Costs”) to set a rate that is then reconciled to actual costs experienced.

This PSA includes a limit of \$0.004 per kilowatt-hour (kWh) on the amount the PSA rate may change in any one year absent express approval of the Commission. This PSA also provides a mechanism for mid-year rate adjustment in the event that conditions change sufficiently to cause extraordinarily high balances to accrue under application of this PSA.

<sup>1</sup> (\$0.000001) per kWh is the result of the following: (2010 net gains from sales of SO<sub>2</sub> allowances of \$21,178)/(2010 test year native load sales of 28,075,248 MWh)/1000.

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## 2. PSA Components

The PSA Rate will consist of three components designed to provide for the recovery of actual, prudently incurred PSA Costs. Those components are:

1. The Forward Component, which recovers or refunds differences between expected PSA Year (each February 1 through January 31 period shall constitute a PSA Year) PSA Costs and those embedded in base rates.
2. The Historical Component, which tracks the differences between the PSA Year's actual fuel and purchased power costs and those recovered through the combination of base rates and the Forward Component, and which provides for their recovery during the next PSA Year.
3. The Transition Component, which provides for:
  - a. The opportunity to seek mid-year changes in the PSA rate in cases where variances between the anticipated recovery of fuel and purchased power costs for the PSA Year under the combination of base rates and the Forward Component become so large as to warrant recovery/refund, should the Commission deem such an adjustment to be appropriate.
  - b. The tracking of balances resulting from the application of the Transition Components, in order to provide a basis for the refund or recovery of any such balances.

Except for circumstances when the Commission approves new base rates, a PSA Year begins on February 1 and ends on the ensuing January 31. In the event that new base rates become effective on a date other than February 1, the Commission may, at its discretion, adjust any or all of the PSA components to reflect the new base rates.

On or before September 30 of each year, APS will submit a PSA Rate filing, which shall include a calculation of the three components of the proposed PSA Rate. This filing shall be accompanied by such supporting information as Staff determines to be required. APS will supplement this filing with Historical Component and Transition Component filings on or before December 31 in order to replace estimated balances with actual balances, as explained below.

### a. Forward Component Description

The Forward Component is intended to refund or recover the difference between: (1) PSA Costs embedded in base rates and (2) the forecast PSA Costs over a PSA Year that begins on February 1 and ends on the ensuing January 31. APS will submit, on or before September 30 of each year, a forecast for the upcoming calendar year (January 1-December 31) of its PSA Costs. It will also submit a forecast of kWh sales for the same calendar year, and divide the forecast costs by the forecast sales to produce the cents/kWh unit rate required to collect those costs over those sales. The result of subtracting the Base PSA Costs from this unit rate shall be the Forward Component.

APS shall maintain and report monthly the balances in a Forward Component Tracking Account, which will record APS' over/under-recovery of its actual PSA Costs as compared to the Base PSA Costs recovered in revenue. The balance calculated as a result of these steps is then reduced

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by the current month's collection of Forward Component revenue. This account will operate on a PSA Year basis (i.e.; February to January), and its balances will be used to administer this PSA's Historical Component, which is described immediately below.

**b. Historical Component Description**

The Historical Component in any current PSA Year is intended to refund or recover the balances accumulated in the Forward Component Tracking Account (described above) and Historical Component Tracking Account (described below) during the immediately preceding PSA Year. The sum of the projected Forward Component Tracking Account balance on January 31 of the following calendar year and the projected Historical Component Tracking Account balance on January 31 of the following calendar year is divided by the forecast kWh sales used to set the Forward Component for the coming PSA Year. That result comprises the proposed Historical Component for the coming PSA year.

APS shall maintain and report monthly the balances in a Historical Component Tracking Account, which will reflect monthly collections under the Historical Component and the amounts approved for use in calculating the Historical Component.

Each annual September 30 APS filing will include an accumulation of Forward Component Tracking Account balances and Historical Component Tracking Account balances for the preceding February through August and an estimate of the balances for September through January (the remaining five months of the current PSA Year). The APS filing shall use these balances to calculate a preliminary Historical Component for the coming PSA Year<sup>2</sup>. On or before December 31, APS will submit a supplemental filing that recalculates the preliminary Historical Component. This recalculation shall replace estimated monthly balances with those actual monthly balances that have become available since the September 30 filing.

The September 30 filing's use of estimated balances for September through January (with supporting workpapers) is required to allow the PSA review process to begin in a way that will support its completion and a Commission decision, if necessary, prior to February 1. The December 31 updating will allow for the use of the most current balance information available prior to the time when a Commission decision, if necessary, is expected. In addition to the December 31 update filing, APS monthly filings (for the months of September through December) of Forward Component Tracking Account balance information and Historical Component Tracking Account balance information will include a recalculation (replacing estimated balances with actual balances as they become known) of the projected Historical Component unit rate required for the next PSA Year.<sup>3</sup>

The Historical Component Tracking Account will measure the changes each month in the Historical Component balance used to establish the current Historical Component as a result of collections under the Historical Component in effect. It will subtract each month's Historical

<sup>2</sup> For example, the September 30, 2008 filing would include actual balances for February through August of 2008 and estimated balances for September 2008 through January 2009.

<sup>3</sup> This updating to replace estimated with actual information will allow for the Commission to use the latest available balance information in determining what Historical Component is appropriate to establish for the coming PSA Year.

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Component collections from the Historical Component balance. The Historical Component Account will also include Applicable Interest on any balances. APS shall file the amounts and supporting calculations and workpapers for this account each month.

### **c. Transition Component Description**

The Transition Component will be used as the method for incorporating any future, approved mid-year changes to the PSA rate. APS or Staff may request at any time a change in the PSA rate through an adjustment to the Transition Component to address a significant imbalance between anticipated collections and costs for the PSA Year under the Forward Component element of this PSA. After the review of such request, the Commission may provide for the refund or collection of such balance (through a change to the Transition Component Balance) over such period as the Commission determines appropriate through a unit rate (\$/kWh) imposed as part of the Transition Component. The Commission on its own motion may also change the PSA rate as described above.

Notwithstanding the preceding paragraph, APS may at any time during the PSA Year request to reduce the PSA through the Transition Component, which request shall become effective beginning with the first billing cycle of the month following the filing of such a request, provided APS files the request within the first 15 days of a month and Staff does not file opposition to the request.

A Transition Component Tracking Account will measure the changes each month in the Transition Component balance. APS, Staff, or the Commission on its own motion may request that the balance in any Transition Component Tracking Account at the end of the period set for recovery be included in the establishment of the Transition Component for the coming PSA Year.

The Transition Component Account will also include Applicable Interest as determined by the Commission. APS shall file the amounts and supporting calculations and workpapers for this account each month.

As it must do for the Historical Component filing, APS shall file on or before September 30 of each year an accumulation of Transition Component Tracking Account balances for the preceding February through August and an estimate of the balances for September through January (the remaining five months of the prior PSA Year). Those balances will form the basis for setting the preliminary Transition Component for the coming PSA Year. On or before December 31, APS will submit a supplemental filing to update the Transition Component calculation in the same manner as required for the Historical Component.

### **3. Calculation of the PSA Rate**

The PSA rate is the sum of the three components; *i.e.*, Forward Component, Historical Component, and Transition Component. The PSA rate shall be applied to customer bills. Unless the Commission has otherwise acted on a new PSA rate by February 1, the proposed PSA rate (as amended by the updated December 31 filing) shall go into effect. However, the PSA rate may

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not change from the prior year's PSA rate by more than plus or minus \$0.004 per kWh without an offsetting change in the Base Cost of Fuel and Purchased Power. The PSA rate shall be applicable to APS' retail electric rate schedules (with the exception of E-36 XL, AG-1, Direct Access service and any other rate that is exempt from the PSA) and is adjusted annually. The PSA Rate shall be applied to the customer's bill as a monthly kWh charge that is the same for all customer classes.

The PSA rate shall be reset on February 1 of each year, and shall be effective with the first February billing cycle unless suspended by the Commission. It is not prorated.

#### **4. Filing and Procedural Deadlines**

##### **a. September 30 Filing**

APS shall file the PSA rate with all Component calculations for the PSA year beginning on the next February 1, including all supporting data, with the Commission on or before September 30 of each year. That calculation shall use a forecast of kWh sales and of PSA Costs for the coming calendar year, with all inputs and assumptions being the most current available for the Forward Component. The filing will also include the Historical Component calculation for the year beginning on the next February 1, with all supporting data. That calculation shall use the same forecast of sales used for the Forward Component calculation. The Transition Component filing shall also include a proposed method for addressing the over or under recovery of any Transition Component balances that result from changes in the sales forecasts or recovery periods set or any additions to or subtractions from Transition Component balances reviewed or approved by the Commission since the last February 1 resetting of the new PSA.<sup>4</sup>

##### **b. December 31 Filing**

APS shall by December 31 update the September 30 filing. This update shall replace estimated Forward Component Tracking Account balances, the Historical Component Tracking Account balances, and the Transition Component Tracking Account balances with actual balances and with more current estimates for those months (December and January) for which actual data are not available. Unless the Commission has otherwise acted on the APS calculation by February 1, the PSA rate proposed by APS shall go into effect with the first February billing cycle.<sup>5</sup>

##### **c. Additional Filings**

APS shall also file with the Commission any additional information that the Staff determines it requires to verify the component calculations, account balances, and any other matter pertinent to the PSA.

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<sup>4</sup> This method assumes that the Commission defers the recovery of any approved Transition Component Balance changes until the next February 1 PSA resetting. The Commission may also, as part of the approval of any such Transition Component Balance change, make a PSA change effective on dates and across periods as it determines to be appropriate when it approves such a Transition Component Balance change.

<sup>5</sup> No reference in this plan to effectiveness in the absence of Commission action shall be interpreted as precluding the normal application of the balance reconciliation provisions generally established for the PSA.

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The Commission Staff and interested parties shall have an opportunity to review the September 30 and December 31 forecast, balances, and supporting data on which the calculations of the three PSA components have been based. Any objections to the September 30 calculations shall be filed within 45 days of the APS filing. Any objections to the December 31 calculations shall be filed within 15 days of the APS filing.

**5. Verification and Audit**

The amounts charged through the PSA shall be subject to periodic audit to assure their completeness and accuracy and to assure that all fuel and purchased power costs were incurred reasonably and prudently. The Commission may, after notice and opportunity for hearing, make such adjustments to existing balances or to already recovered amounts as it finds necessary to correct any accounting or calculation errors or to address any costs found to be unreasonable or imprudent. Such adjustments, with appropriate interest, shall be recovered or refunded through the Transition Component.

**6. Definitions**

**Applicable Interest** – Interest is applied on the PSA balance annually at the following rates: any over-collection existing at the end of the PSA year will be credited an amount equal to interest at a rate equal to the Company's authorized Return on Equity ("ROE") or APS's then-existing short term borrowing rate, whichever is greater, and will be refunded to customers over the following 12 months; any under-collection existing at the end of the PSA Year will be debited an amount equal to interest at a rate equal to the Company's authorized ROE or APS's then-existing short term borrowing rate, whichever is less, and will be recovered from customers over the following 12 months.

**Base Cost of Fuel and Purchased Power** - An amount generally expressed as a rate per kWh, which reflects the fuel and purchased power cost embedded in the base rates as approved by the Commission in APS's most recent rate case. The Base Cost of Fuel and Purchased Power recovered in base revenue is the approved rate per kWh times the applicable sales volumes. Decision No. xxxxx set the base cost at \$0.032071 per kWh effective on [insert date].

**Base Net Margins on the Sale of Emission Allowances** - An amount generally expressed as a rate per kWh, which reflects the net margins on sales of SO<sub>2</sub> emission allowances embedded in the base rates as approved by the Commission in APS's most recent rate case. The Base Net Margins on the Sale of Emission Allowances is set at (\$0.000001) per kWh effective on [insert date].

**Base PSA Costs** - A rate equal to the sum of Base Cost of Fuel and Purchased Power and the Base Net Margins on the Sale of Emission Allowances.

**Forward Component** - An amount generally expressed as a rate per kWh charge that is updated annually on February 1 of each year and effective with the first billing cycle in February. The Forward Component for the PSA Year will adjust for the difference between the forecast PSA

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Costs generally expressed as a rate per kWh less the Base PSA Costs generally expressed as a rate per kWh embedded in APS's base rates. The result of this calculation will equal the Forward Component, generally expressed as a rate per kWh.

Forward Component Tracking Account - An account that records on a monthly basis APS's over/under-recovery of its actual PSA Costs as compared to the actual Base PSA Costs recovered in revenue and Forward Component revenue, plus Applicable Interest. The balance of this account as of the end of each PSA Year is, subject to periodic audit, reflected in the next Historical Component calculation. APS files the balances and supporting details underlying this Account with the Commission on a monthly basis.

Historical Component - An amount generally expressed as a rate per kWh charge that is updated annually on February 1 of each year and effective with the first billing cycle in February unless suspended by the Commission. The purpose of this charge is to provide for a true-up mechanism to reconcile any over or under-recovered amounts from the preceding PSA Year tracking account balances to be refunded/collected from customers in the coming year's PSA rate.

Historical Component Tracking Account - An account that records on a monthly basis the account balance to be collected via the Historical Component rate as compared to the actual Historical Component revenues; plus Applicable Interest; The balance of which at the close of the preceding PSA Year is, subject to periodic audit, then reflected in the next Historical Component calculation. APS files the balances and supporting details underlying this Account with the Commission on a monthly basis.

ISFSI - Costs associated with the Independent Spent Fuel Storage Installation that stores spent nuclear fuel.

Mark-to-Market Accounting - Recording the value of qualifying commodity contracts to reflect their current market value relative to their actual cost.

Native Load - Native load includes customer load in the APS control area for which APS has a generation service obligation and PacifiCorp Supplemental Sales.

Net Margins on the Sale of Emission Allowances - Revenues incurred from the sale of emission allowances net of the costs incurred to produce the excess allowances.

PacifiCorp Supplemental Sales - The PacifiCorp Supplemental Sales agreement is a long-term contract from 1990 which requires APS to offer a certain amount of energy to PacifiCorp each year. It is a component of the set of agreements that led to the sale of Cholla Unit 4 to PacifiCorp and the establishment of the seasonal diversity exchange with PacifiCorp.

Preference Power - Power allocated to APS wholesale customers by federal power agencies such as the Western Area Power Administration.

PSA - The Power Supply Adjustment mechanism approved by the Commission in Decision No. 69663, amended by the Commission in Decision No. 71448, and further amended by the

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Commission in Decision No. xxxxx, which is a combination of three rate components that track changes in the cost of obtaining power supplies based upon forward-looking estimates of PSA Costs that are eventually reconciled to actual costs experienced. This PSA allows for special Commission consideration of extreme volatility in costs or recovery by means of a mid-year rate correction, and provides for a reconciliation between actual and estimated costs of the last two months of estimated costs used in Historical Component calculations.

PSA Costs - The combination of System Book Fuel and Purchased Power Costs net of the System Book Off-System Sales Revenues as adjusted herein for Rate Schedule AG-1 plus the Net Margins on the Sales of Emission Allowances.

PSA Year - A consecutive 12-month period generally beginning each February 1.

Rate Schedule AG-1 - Experimental Alternative Generation Rate Schedule approved by the Commission in Decision No. XXXXX. Resale of capacity and energy displaced by Rate Schedule AG-1 shall be excluded from the PSA on a pro-rata basis, by dividing the amount of monthly metered sales to AG-1 customers by the net monthly total of off-system sales and multiplying that result by total off-system sales margins. The portion of capacity and energy sales margins that is not the result of displacement from Rate Schedule AG-1 will continue to be a credit to the PSA.

System Book Fuel and Purchased Power Costs - The costs recorded for the fuel and purchased power used by APS to serve both Native Load and off-system sales, less the costs associated with applicable special contracts, E-36 XL, AG-1, RCDAC-1, ISFSI, and Mark-to-Market Accounting adjustments. Wheeling costs are included; broker fees are included up to the level in the Base Cost of Fuel and Purchased Power authorized in Decision No. xxxxx.

System Book Off-System Sales Revenue - The revenue recorded from sales made to non-Native Load customers, for the purpose of optimizing the APS system, using APS-owned or contracted generation and purchased power, less Mark-to-Market Accounting adjustments.

Traditional Sales-for-Resale - The portion of load from Native Load wholesale customers that is served by APS, excluding the load served with Preference Power.

Transition Component - An amount generally expressed as a rate per kWh charge to be applied when necessary to provide for significant changes between estimated and actual costs under the Forward Component.

Transition Component Tracking Account - An account that records on a monthly basis the account balance to be collected via the Transition Component as compared to the actual Transition Component revenues, plus applicable interest; the balance of which upon Commission consideration may then be reflected in the next Transition Component calculation. APS files the balances and supporting details underlying this Account with the Commission on a monthly basis.

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Wheeling Costs (FERC Account 565, Transmission of Electricity by Others) - Amounts payable to others for the transmission of APS's electricity over transmission facilities owned by others.

### **7. Schedules**

Samples of the following schedules are attached to this Plan of Administration

- Schedule 1 Power Supply Adjustment (PSA) Rate Calculation
- Schedule 2 PSA Forward Component Rate Calculation
- Schedule 3 PSA Year Forward Component Tracking Account
- Schedule 4 PSA Historical Component Rate Calculation
- Schedule 5 Historical Component Tracking Account
- Schedule 6 PSA Transition Component Rate Calculation
- Schedule 7 PSA Transition Tracking Account

### **8. Compliance Reports**

APS shall provide monthly reports to Staff's Compliance Section and to the Residential Utility Consumer Office detailing all calculations related to the PSA. An APS Principal Officer, as listed in the Company's annual report filed with the Commission's Corporations Division, shall certify under oath that all information provided in the reports itemized below is true and accurate to the best of his or her information and belief. These monthly reports shall be due within 30 days of the end of the reporting period.

The publicly available reports will include at a minimum:

1. The PSA Rate Calculation (Schedule 1); Forward Component, Historical Component, and Transition Component Calculations (Schedules 2, 4, and 6); Annual Forward Component, Historical Component, and Transition Component Tracking Account Balances (Schedules 3, 5, and 7). Additional information will provide other relative inputs and outputs such as:
  - a. Total power and fuel costs.
  - b. Margins on the sale of excess emission allowances.
  - c. Off-system sales margins attributable to capacity freed up due to Rate Schedule AG-1.
  - d. Customer sales in both MWh and thousands of dollars by customer class.
  - e. Number of customers by customer class.
  - f. A detailed listing of all items excluded from the PSA calculations.
  - g. A detailed listing of any adjustments to the adjustor reports.
  - h. Total off-system sales revenues.
  - i. System losses in MW and MWh.
  - j. Monthly maximum retail demand in MW.
2. Identification of a contact person and phone number from APS for questions.

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APS shall provide to Commission Staff monthly reports containing the information listed below. These reports shall be due within 30 days of the end of the reporting period. All of these additional reports will be provided confidentially.

A. Information for each generating unit shall include the following items:

1. Net generation, in MWh per month, and 12 months cumulatively.
2. Average heat rate, both monthly and 12-month average.
3. Equivalent forced-outage rate, both monthly and 12-month average.
4. Outage information for each month including, but not limited to, event type, start date and time, end date and time, and a description.
5. Total fuel costs per month.
6. The fuel cost per kWh per month.

B. Information on power purchases shall include the following items per seller (information on economy interchange purchases may be aggregated):

1. The quantity purchased in MWh.
2. The demand purchased in MW to the extent specified in the contract.
3. The total cost for demand to the extent specified in the contract.
4. The total cost of energy.

C. Information on off-system sales shall include the following items:

1. An itemization of off-system sales margins per buyer.
2. Details on negative off-system sales margins.

D. Fuel purchase information shall include the following items:

1. Natural gas interstate pipeline costs, itemized by pipeline and by individual cost components, such as reservation charge, usage, surcharges and fuel.
2. Natural gas commodity costs, categorized by short-term purchases (one month or less) and longer term purchases, including price per therm, total cost, supply basin, and volume by contract.

E. APS will also provide:

1. Monthly projections for the next 12-month period showing estimated (Over)/under-collected amounts.
2. A summary of unplanned outage costs by resource type.
3. A summary of the net margins on the sale of emission allowances.
4. The data necessary to arrive at the System and Off-System Book Fuel and Purchased Power cost reflected in the non-confidential filing.
5. The data necessary to arrive at the Native Load Energy Sales MWh reflected in the non-confidential filing.

Work papers and other documents that contain proprietary or confidential information will be provided to the Commission Staff under an appropriate confidentiality agreement. APS will keep fuel and purchased power invoices and contracts available for Commission review. The Commission has the right to review the prudence of fuel and power purchases and any

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calculations associated with the PSA at any time. Any costs flowed through the PSA are subject to refund if those costs are found to be imprudently incurred.

### **9. Allowable Costs**

#### **a. Accounts**

The allowable PSA costs include fuel and purchased power costs incurred to provide service to retail customers. And, the prudent direct costs of contracts used for hedging system fuel and purchased power will be recovered under the PSA. Additionally, the net margins on the sale of emission allowances will also be refunded or recovered through the PSA. The allowable cost components include the following Federal Energy Regulatory Commission ("FERC") accounts:

- 501 Fuel (Steam)
- 518 Fuel (Nuclear) less ISFSI regulatory amortization
- 547 Fuel (Other Production)
- 555 Purchased Power
- 565 Wheeling (Transmission of Electricity by Others)
- 411 O&M (Margins on the Sale of Emission Allowances)

Additionally, broker fees recorded in FERC account 557 are allowable up to the limit set in Decision No. xxxxx.

These accounts are subject to change if the Federal Energy Regulatory Commission alters its accounting requirements or definitions.

#### **b. Directly Assignable Power Supply Costs Excluded**

Decision No. 66567 provides APS the ability to recover reasonable and prudent costs associated with customers who have left APS standard offer service, including special contract rates, for a competitive generation supplier and then return to standard offer service. For administrative purposes, customers who were direct access customers since origination of service and request standard offer service would be considered to be returning customers. A direct assignment or special adjustment may be applied that recognizes the cost differential between the power purchases needed to accommodate the returning customer and the power supply cost component of the otherwise applicable standard offer service rate. This process is described in the Returning Customer Direct Access Charge rate schedule and associated Plan for Administration filed with the Commission.

In addition, if APS purchases power under specific terms on behalf of a standard offer special contract customer, the costs of that power may be directly assigned. In both cases, where specific power supply costs are identified and directly assigned to a large returning customer or standard offer special contract customer or group of customers, these costs will be excluded from the Adjustor Rate calculations. Schedule E-36 XL, and AG-1 customers are directly assigned power supply costs based on the APS system incremental cost at the time the customer is consuming power from the APS system so their power supply costs and kWh usage are excluded from the PSA.

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Effective Date XX/XX/XXXX  
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ARIZONA PUBLIC SERVICE COMPANY

Schedule 1

Power Supply Adjustment (PSA) Rate Calculation

(\$/kWh)

Line No.	PSA Rate Calculation	Current February 1, XXXX	Proposed February 1, XXXX <sup>1</sup>	Increase/(Decrease) \$/kWh	%
1	Forward Component Rate - FC (Schedule 2, L13)	\$ -	\$ -	N/A	N/A
2	Historical Component Rate - HC (Schedule 4, L5) <sup>2</sup>	\$ #####	\$ -	N/A	N/A
3	PSA Transition Component Rate (Schedule 6, L3) <sup>3</sup>	\$ -	\$ -	N/A	N/A
4	<b>PSA Rate (L1+ L2 + L3)</b>	<b>\$ #####</b>	<b>\$ -</b>	<b>N/A</b>	<b>N/A</b>

Notes:

<sup>1</sup> Proposed levels of the PSA rate components are provided in the September 30 filing and updated in the December 31 filing of each year.

<sup>2</sup> A Historical Component is a true up related to respective prior period PSA activity.

<sup>3</sup> Provides for Mid-Period Corrections when necessary.

**ARIZONA PUBLIC SERVICE COMPANY**  
**Schedule 2**

**PSA Forward Component Rate Calculation**

(\$ in thousands; Forward Component Rate in \$/kWh)

Line No.	PSA Forward Component Rate - Calculation	Current February 1, XXXX \$ #,###,###	Proposed February 1, XXXX <sup>1</sup> \$ -	Increase/(Decrease) \$ Values N/A	% N/A
1	Projected Fuel and Purchased Power Costs	\$ #,###,###	\$ -	N/A	N/A
2	Projected Off-System Sales Revenue	\$ #,###,###	\$ -	N/A	N/A
3	PSA Adjustments to Fuel and Purchased Power Costs <sup>2</sup>	\$ (#,###,###)	\$ -	N/A	N/A
4	Net Fuel and Purchased Power Cost (L1 through L3)	\$ #,###,###	\$ -	N/A	N/A
5	Projected Net Margins on the Sale of Emission Allowances	-	-	N/A	N/A
6	Projected Billed Native Load Sales, excluding E-36XL, AG-1 (MWhs) <sup>3</sup>	##,###,###	-	N/A	N/A
7	Projected Average Net Fuel Cost \$/kWh (L4 / L6)	#####	\$ -	N/A	N/A
8	Projected Average Margin on Emission Allowances \$/kWh (L5 / L6)	\$ -	\$ -	N/A	N/A
9	Total Projected Average PSA Cost \$/kWh (L7+L8)	#####	\$ -	N/A	N/A
10	Authorized Base Cost of Fuel and Purchased Power Rate \$/kWh <sup>4</sup>	\$ 0.032071	\$ -	N/A	N/A
11	Authorized Base Net Margins on the Sale of Emission Allowances Rate \$/kWh <sup>*</sup>	\$ (0.000001)	\$ -	N/A	N/A
12	Total Authorized Base Cost \$/kWh	\$ 0.032070	\$ -	N/A	N/A
13	Forward Component Rate \$/kWh (L9 - L12)	#####	\$ -	N/A	N/A

**Notes:**

<sup>1</sup> Proposed levels are provided in the September 30 filing and updated in the December 31 filing of each year.

<sup>2</sup> Includes costs associated with E-36XL, AG-1 and other direct assignment customers, (SFS), and mark-to-market accounting adjustments.

<sup>3</sup> The Projected Billed Native Load Sales of XXX,XXX MWhs for the Current Rate represent forecast sales for XXXX as of December 30th, XXXX. They exclude ED 3 and City of Williams wholesale contracts that are excluded from the Proposed sales and fuel costs.

<sup>4</sup> Base Cost of Fuel and Purchased Power established in Decision No. \_\_\_\_\_.

Schedule presentation will appear to round up to \$000s and MWh; however, calculations are performed on an actual \$ and kWh basis with resultant Rates/kWh rounded up to \$0.000000/kWh.



**ARIZONA PUBLIC SERVICE COMPANY**  
Schedule 4  
**PSA Historical Component Rate Calculation**  
(\$ in thousands; Historical Component Rate in \$/kWh)

Line No.	PSA Historical Component Rate Calculation	Current February 1, XXXX #,###	Proposed February 1, XXXX <sup>1</sup> \$	Increase/(Decrease) \$ Values N/A	% N/A
1	Forward Component Tracking Account Balance (Schedule 3, L26 + L27)	#,###	-	N/A	N/A
2	Historical Component Tracking Account Balance (Schedule 5, L9 + L10) <sup>2</sup>	#,###	-	N/A	N/A
3	Total Historical Amount to be (Refunded)/Collected Balance (L1+L2)	#,###	\$	N/A	N/A
4	Projected Billed Retail Energy Sales without E-36 XL, AG-1 (MWh)	###,###,###	-	N/A	N/A
5	Applicable Historical Component Rate (L3 / L4)	#####	\$	N/A	N/A

Notes:

- <sup>1</sup> Proposed levels are provided in the September 30 filing and updated in the December 31 filing of each year.
- <sup>2</sup> The Current Rate Projected Billed Retail Energy Sales are for February XXXX through January XXXX.

Schedule presentation will appear to round up to \$000s; however, calculations are performed on an actual \$ and kWh basis with resultant Rates/kWh rounded up to \$0.000000/kWh.

ARIZONA PUBLIC SERVICE COMPANY

Schedule 5

Historical Component Tracking Account in Effect Feb. 1, XXXX through Jan. 31, XXXX

(\$ in thousands Historical Component Rate in \$/kWh)

Line No.	XXXX Data												
	January	February	March	April	May	June	July	August	September	October	November	December	January
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													
	\$												

- 1 Projected HC Tracking Account Balance at Dec. 31, XXXX
- 2 Projected FC Tracking Account Balance at Dec. 31, XXXX
- 3 True-up from December - January Estimate<sup>1</sup>
- 4 Prior Month's Ending Balance
- 5 HC Adjusted Beginning Balance (L1 + L2 + L3 + L4)
- 6 Applicable Historical Component Rate (\$/kWh)<sup>2</sup>
- 7 Retail Billed Sales Excluding E-36XL, AG-1 Sales (MWh)<sup>3</sup>
- 8 Less Revenue from Applicable HC (L6 x L7)<sup>4</sup>
- 9 HC Ending Balance (L5 - L8)
- 10 Annual Interest (Calculated only in January)

Notes:  
<sup>1</sup> True-up is the result of using estimated revenue and deferral for December and January since the actual amount was not available at the time of prior period PSA filing.  
<sup>2</sup> Historical Component, Schedule 4, Line 5  
<sup>3</sup> Sales amounts are for energy billed each period.  
<sup>4</sup> Generally, Line 7 x Line 6 = Line 8; however, differences may occur due to billing adjustments.

Schedule presentation will amount to round up to 000's and MWh; however, calculations are performed on an actual \$ and kWh basis with resultant deficits/wh rounded up to 000's/000kWh.

ARIZONA PUBLIC SERVICE COMPANY

Schedule 6

PSA Transition Component Rate Calculation

(\$ in thousands; Transition Component Rate(s) in \$/kWh)

Line No.	Description	Current		Proposed		Increase/(Decrease)	
		February 1, XXXX <sup>1</sup>	N/A	February 1, XXXX <sup>1</sup>	N/A	\$ Values	%
1	PSA Transition - Approved (Refundable)/Collection Amount <sup>1</sup>		N/A		N/A	N/A	0.00%
2	Projected Energy Sales without E-36XL, AG-1 (MWh) XXX, X, XX to XXX, X, XX		N/A		N/A	N/A	0.00%
3	PSA Transition Component (Refundable)/Collection Rate (L1 / L2)		N/A		N/A	N/A	0.00%

Notes:

<sup>1</sup> Commission Decision No. XXXXXXXXXXXX

Schedule presentation will appear to round up to \$000s and MWh; however, calculations are performed on an actual \$ and kWh basis with resultant Rates/kWh rounded up to \$0.000000/kWh.

ARIZONA PUBLIC SERVICE COMPANY  
Schedule 7

PSA Transition Tracking Account in Effect XX 1, 20XX through XX 31, 20XX  
(\$ in thousands; Transition Component Rate in \$/kWh)

Line No.	20XX Data													
	January	February	March	April	May	June	July	August	September	October	November	December	20XX January	
1														
2														
3														
4														
5														
6														
7														

1 Transferred balance from FC Tracking Acct Per Decision No. XXXXX  
 2 Prior Month's Ending Balance  
 3 Transition Component TA Adjusted Beginning Balance (L1+L2)  
 4 Applicable Transition TA Component Rate (\$/kWh)<sup>1</sup>  
 5 Retail Billed Sales Excluding E-36XL, AG-1 Sales (MWh)<sup>2</sup>  
 6 Less Revenue from Applicable Transition Component (L4 x L5)<sup>3</sup>  
 7 Ending Balance: (L3 - L6)

Notes:  
 1 Transition Component, Schedule 6, Line 3  
 2 Sales amounts are for energy billed each period.  
 3 Generally, Line 4 x Line 5 = Line 6; however, differences may occur due to billing adjustments.

Schedule presentation will appear to round up to \$999.99 and MWh; however, calculations are performed on an actual \$ and MWh basis with resultant rates/kWh rounded up to \$0.0000000001/kWh.

ARIZONA PUBLIC SERVICE COMPANY  
Schedule 8  
Summary of Monthly Calculations  
Mo YYYY  
(\$ in thousands)

Line No.	January	February	March	April	May	June	July	August	September	October	November	December	XXXX January
<b>XXXX Forward Component Tracking Account</b>													
1	Beginning Balance												
2	Transfers to XXXX Historical Component Tracking Account												
3	Post-Sharing (Over)/Under Collection												
4	Less Revenue from Applicable Forward Component Rate												
5	Annual Interest (Calculated only in January)												
6	Ending Balance (Line 1 + Line 2 + Line 3 - Line 4 + Line 5)												
<b>XXXX Historical Component Tracking Account</b>													
7	Beginning Balance												
8	Transfers from XXXX Forward Component Tracking Account												
9	Less Revenue from Applicable Historical Component Rate												
10	Annual Interest (Calculated only in January)												
11	Ending Balance (Line 7 + Line 8 - Line 9 + Line 10)												
12	Combined Balance (Line 6 + Line 11) <sup>1</sup>												
13	Annual Interest Rate												

<sup>1</sup> Schedule presentation will appear to round up to \$0.0000 and \$0.0000, however, calculations are performed on an actual \$ and kWh basis with resultant rates/kwh rounded up to \$0.00000000/kwh.

**ARIZONA PUBLIC SERVICE COMPANY**  
Schedule 9  
**YYYY Native Load Customer Counts, Sales and Revenue**  
Mo YYYY

Line No.	Class	January	February	March	April	May	June	July	August	September	October	November	December	Total <sup>1</sup>
<b>Customers</b>														
1	Residential													#DIV/0!
2	Commercial													#DIV/0!
3	Industrial													#DIV/0!
4	Irrigation													#DIV/0!
5	Sales for Resale <sup>2</sup>													#DIV/0!
6	Streetlights & Other Public Authority													#DIV/0!
7	Less E-36XL, AG-1, ED 3 and CoW (includes adj. to prior mth)													#DIV/0!
8	Total													#DIV/0!
<b>Sales (MWh)</b>														
9	Residential													
10	Commercial													
11	Industrial													
12	Irrigation													
13	Sales for Resale <sup>2</sup>													
14	Streetlights & Other Public Authority													
15	Less E-36XL, AG-1, ED 3 and CoW (includes adj. to prior mth)													
16	Total													
<b>Revenue (\$000)</b>														
17														\$
18	Commercial													\$
19	Industrial													\$
20	Irrigation													\$
21	Sales for Resale <sup>2</sup>													\$
22	Streetlights & Other Public Authority													\$
23	Less E-36XL, AG-1, ED 3 and CoW (includes adj. to prior mth)													\$
24	Total													\$
<b>Est. System Losses and Peak</b>														
25	Est. Native Load Sys. Losses (MWh)													
26	Est. Native Load Sys. Losses (MW)													
27	Est. Native Load Sys. Peak (MW) <sup>3</sup>													

<sup>1</sup> The Customers total is the average of the customer class' monthly totals.  
<sup>2</sup> Includes traditional sales for resale, PacifiCorp supplemental sales, ED 3, City of Williams (CoW), and other non-ACC jurisdictional sales. Off-System interchange customers, sales and revenue are excluded from Sales for Resale.  
<sup>3</sup> The Preliminary Native Load System Peak totals will be updated each month.

## Attachment D

**Renewable Energy Projects Transferred from the Renewable  
Energy Surcharge ("RES") to Base Rates**

<b>Project Name</b>	<b>Project Description</b>	<b>In-Service Date</b>
Paloma	17 MW photovoltaic utility-scale solar generating facility pursuant to AZ Sun Program approved in Decision No. 71502	September 2011
Hyder I	Phase I or 11 MW of a 16 MW photovoltaic utility-scale solar generating facility pursuant to AZ Sun Program approved in Decision No. 71502	October 2011
Hyder II	Phase II or 5 MW of a 16 MW photovoltaic utility-scale solar generating facility pursuant to AZ Sun Program approved in Decision No. 71502	March 2012
Cotton Center	17 MW photovoltaic utility-scale solar generating facility pursuant to AZ Sun Program approved in Decision No. 71502	October 2011
Schools & Government Program	0.7 MW of small solar systems on schools and government facilities pursuant to program approved in Decision No. 72174	As Built
Community Power Project - Flagstaff	1.35 MW of distributed renewable energy systems pursuant to the program approved in Decision No. 71646	As Built

**ACC Jurisdiction of 15-Months of Solar Generation Post-Test Year Plant Additions:**

Gross Utility Plant in Service	\$ 232.573M
Less: Accumulated Depreciation & Amortization	3.391M
Net Utility Plant in Service	229.182M
Less: Total Deductions	2.476M
Total Additions	-
<b>Total Rate Base</b>	<b>\$ 226.706M</b>

## Attachment E

## Settlement BSC for Residential Rates

kWh per Month	Total \$ Bill	BSC Standard	BSC Opt-Out	Delta	Total % Bill
<b>Rate E-12 (Non-Time of Use)</b>					
0-400	49.70	8.55	9.15	0.60	1.21%
401-800	96.55	8.55	9.75	1.20	1.24%
801-2000	252.37	8.55	11.30	2.75	1.09%
2001+	652.67	8.55	15.05	6.50	1.00%
<b>Rate ET-1 &amp; ET-2 (Time of Use)</b>					
0-400	58.06	16.68	17.28	0.60	1.03%
401-800	97.07	16.68	17.88	1.20	1.24%
801-2000	214.07	16.68	19.43	2.75	1.28%
2001+	506.49	16.68	23.18	6.50	1.28%
<b>Rate ECT-1R &amp; ECT-2 (Time of Use with Demand Charge)</b>					
0-400	71.12	16.68	17.28	0.60	0.84%
401-800	100.60	16.68	17.88	1.20	1.19%
801-2000	177.81	16.68	19.43	2.75	1.55%
2001+	337.05	16.68	23.18	6.50	1.93%

These Opt-Out BSCs will remain fixed throughout the four-year rate period and until new rates are set.



PLAN OF ADMINISTRATION  
LOST FIXED COST RECOVERY

Lost Fixed Cost Recovery (“LFCR”)  
Plan of Administration

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1. General Description

This document describes the plan of administration for the LFCR mechanism approved for Arizona Public Service Company (“APS” or “Company”) by the Arizona Corporation Commission (“ACC”) on [insert date] in Decision No. XXXXX. The LFCR mechanism provides for the recovery of lost fixed costs, as measured by revenue, associated with the amount of energy efficiency (“EE”) savings and distributed generation (“DG”) that is authorized by the Commission and determined to have occurred. Costs to be recovered through the LFCR include the portion of transmission costs included in base rates and a portion of distribution costs, other than what is already recovered by (1) the Basic Service Charge and (2) 50% of demand revenues associated with distribution and the base rate portion of transmission.

2. Definitions

Applicable Company Revenues – The amount of revenue generated by sales to retail customers, for all applicable rate schedules, less the amount of revenue attributable to sales to Opt-Out residential customers.

Current Period – The most recent adjustment year.

Demand Stability Factor – Fifty percent of distribution and transmission demand-based revenue produced by base rates.

DG Savings – The amount of MWh sales reduced by DG. APS shall use statistical verification, output profile, or meter data for DG systems until December 31, 2014. Beginning January 2015, APS shall only use meter data to calculate DG system savings. Each year, APS will use actual data through September and forecast data for the remainder of the calendar year to calculate the savings. The calculation of DG Savings will consist of the following by class:

1. Current Period: The annual energy production (MWh) produced by the cumulative total of DG installations since the effective date of APS’s most recent general rate case.
2. Excluded MWh Production: The reduction of recoverable DG Savings calculated as follows: (1) for residential Opt-Out customers by either, dividing the number of Opt-Out residential customers by the total number of residential customers and multiplying that result by total residential DG Savings or using actual metered production, and (2) for commercial and industrial customers, by subtracting the amount of DG produced by customers on Excluded Rate Schedules.



**PLAN OF ADMINISTRATION  
LOST FIXED COST RECOVERY**

3. **True-Up Prior Period:** The reconciliation of APS's forecast data of DG sales reductions for the three months in the Prior Period to verified DG sales reductions in the Prior Period.

Distribution Revenue – The amount determined at the conclusion of a rate case by multiplying both residential and general service adjusted test year billing determinants (kW and kWh) by their approved delivery charges. Any demand (kW) based delivery revenue will be reduced by the Demand Stability Factor.

EE Programs – Any program approved in APS's annual implementation plan.

EE Savings – The amount of sales, expressed in MWh, reduced by EE as demonstrated by the Measurement, Evaluation, and Reporting ("MER") conducted for EE programs. EE Savings shall be pro-rated for the number of days that new base rates are in effect during the initial implementation of the LFCR. The calculation of EE Savings will consist of the following by class:

1. **Cumulative Verified:** The cumulative total MWh reduction as determined by the MER using the effective date of APS's most recent general rate case as a starting point.
2. **Current Period:** The annual EE related sales reductions (MWh). Each year, APS will use actual MER data through September and forecast data for the remainder of the year to calculate savings.
3. **Excluded MWh reduction:** The reduction of recoverable EE Savings calculated as follows: (1) for residential Opt-Out customers by, dividing the number of Opt-Out residential customers by the total number of residential customers and multiplying that result by Current Period Savings, and (2) for commercial and industrial customers, by subtracting the amount of EE Savings actually achieved by customers on Excluded Rate Schedules.
4. **True-Up Prior Period:** The reconciliation of APS's forecast data of EE sales reductions for the three months in the Prior Period to verified EE sales reductions in the Prior Period.

Excluded Rate Schedules – The LFCR mechanism shall not apply to large general service customers taking service under rate schedules E-32 L, E-32 L TOU, E-34, E-35 and E-36 XL, or to unmetered General Service customers under E-30 and lighting schedules.

LFCR Adjustment – An amount calculated by dividing Lost Fixed Cost Revenue by the Applicable Company Revenues. This adjustment percentage will be applied to all customer bills, excluding both those that have chosen to Opt-Out and those on Excluded Rate Schedules.

Lost Fixed Cost Rate – A rate determined at the conclusion of a rate case by taking the sum of allowed Distribution Revenue and base rate Transmission Revenue for each rate class and dividing each by their respective class adjusted test year kWh billing determinants.



PLAN OF ADMINISTRATION  
LOST FIXED COST RECOVERY

Lost Fixed Cost Revenue – The amount of fixed costs not recovered by the utility because of EE and DG during the period. This amount is calculated by multiplying the Lost Fixed Cost Rate by Recoverable MWh Savings, by rate class.

Opt-Out – The rate schedule choice for residential customers to opt out of the LFCR in the form of an optional BSC. The number of Opt-Out customers will be expressed as the annual average number of customers “Opting-Out” over the Current Period. The LFCR mechanism shall not be applied to residential customers who choose the Opt-Out provision. This rate will be made available to customers at the time of the first LFCR adjustment.

Prior Period – The 12 months preceding the Current Period.

Recoverable MWh Savings – The sum of EE Savings and DG Savings by rate class.

Total Fixed Revenue – The total of Transmission Revenue and Distribution Revenue by Class.

Transmission Revenue – The amount of revenue determined at the conclusion of a general rate case by multiplying both residential and general service adjusted test year billing determinants (kW and kWh) by the approved base rate transmission charge within their respective rate schedules. Any demand (kW) base rate Transmission Revenue will be reduced by the Demand Stability Factor.

### 3. LFCR Annual Incremental Cap

The LFCR Adjustment will be subject to an annual 1% year over year cap based on Applicable Company Revenues. If the annual LFCR Adjustment results in a surcharge and the annual incremental increase exceeds 1% of Applicable Company Revenues, any amount in excess of the 1% cap will be deferred for collection until the first future adjustment period in which including such costs would not cause the annual increase to exceed the 1% cap. The one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15 or its successor publication will be applied annually to any deferred balance. The interest rate shall be adjusted annually and shall be that annual rate applicable to the first business day of the calendar year.

### 4. Filing and Procedural Deadlines

APS will file the calculated Annual LFCR Adjustment, including all Compliance Reports, with the Commission for the previous year by January 15<sup>th</sup>. The new LFCR Adjustment will not go into effect until approved by the Commission .

### 5. Compliance Reports

APS will provide comprehensive compliance reports to Staff and the Residential Utility Consumer Office. The information contained in the Compliance Reports will consist of the following schedules:

- Schedule 1: LFCR Annual Adjustment Percentage
- Schedule 2: LFCR Annual Incremental Cap Calculation
- Schedule 3: LFCR Calculation



**PLAN OF ADMINISTRATION  
LOST FIXED COST RECOVERY**

- 
- Schedule 4: LFCR Test Year Rate Calculation
  - Schedule 5: Distribution and Transmission Revenue Calculation – General Service
  - Schedule 6: Distribution and Transmission Revenue Calculation – Residential

Schedules 1 through 6, attached hereto, will be submitted with APS's annual compliance filing.

Arizona Public Service Company  
Lost Fixed Cost Recovery Mechanism  
Schedule 1: LFCR Annual Adjustment Percentage  
(\$000)

Line No.	(A) Annual Percentage Adjustment	(B) Reference	(C) Total
1.	Total Lost Fixed Cost Revenue for Current Period	Schedule 2, Line 13	\$ -
2.	Applicable Company Revenues	Schedule 2, Line 1	-
3.	% Applied to Customer's Bills	(Line 1 / Line 2)	0.0000%

Note: For the Current Period, the full revenue per customer decoupling mechanism that was proposed in APS's June 1, 2011 rate application (including all customers and offering no residential Opt-Out alternative) would have resulted in a total revenue adjustment of \$X and average customer bill impact of Y%.

Arizona Public Service Company  
Lost Fixed Cost Recovery Mechanism  
Schedule 2: LFCR Annual Incremental Cap Calculation  
(\$000)

Line No.	(A) LFCR Annual Incremental Cap Calculation	(B) Reference	(C) Totals
1.	Applicable Company Revenues		\$ -
2.	Allowed Cap %		1.00%
3.	Maximum Allowed Incremental Recovery	(Line 1 * Line 2)	\$ -
4.	Total Lost Fixed Cost Revenue	Schedule 3, Line 38, Column C Previous Filing, Schedule 2, Line 11, Column C	\$ -
5.	Total Deferred Balance from Previous Period		-
6.	Annual Interest Rate		0.00%
7.	Interest Accrued on Deferred Balance	(Line 5 * Line 6)	-
8.	Total Lost Fixed Cost Revenue Current Period	(Line 4 + Line 5 + Line 7)	\$ -
9.	Lost Fixed Cost Revenue from Prior Period	Previous Filing, Schedule 2, Line 13, Column C	\$ -
10.	Total Incremental Lost Fixed Cost Revenue for Current Year	(Line 8 - Line 9)	\$ -
11.	Amount in Excess of Cap to Defer	(Line 10 - Line 3)	\$ -
12.	Incremental Period Adjustment as %	[(Line 10 - Line 11) / Line 1]	0.00%
13.	Total Lost Fixed Cost Revenue for Current Period	(Line 8 - Line 11)	\$ -

Arizona Public Service Company  
Lost Fixed Cost Recovery Mechanism  
Schedule 3: LFCR Calculation  
(\$000)

Line No.	(A) Lost Fixed Cost Revenue Calculation	(B) Reference	(C) Totals	(D) Units
<b>Residential</b>				
<b>Energy Efficiency Savings</b>				
1.	Current Period		-	MWh
2.	% of Residential Customers on Opt-Out		0.0%	
3.	Excluded MWh reduction	(Line 1 * Line 2)	-	MWh
4.	Net - Current Period	(Line 1 - Line 3)	-	MWh
5.	Prior Period	Previous Filing, Schedule 3, Line 4, Column C	-	MWh
6.	Verified - Prior Period		-	MWh
7.	True-Up Prior Period	(Line 6 - Line 5)	-	MWh
8.	Cumulative Verified	(Previous Filing, Schedule 3, Line 8, Column C + Line 6)	-	MWh
9.	Total Recoverable EE Savings	(Line 4 + Line 7 + Line 8)	-	MWh
<b>Distributed Generation Savings</b>				
10.	Current Period		-	MWh
11.	Excluded MWh Production		-	MWh
12.	Net - Current Period	(Line 10 - Line 11)	-	MWh
13.	Prior Period	Previous Filing, Schedule 3, Line 12, Column C	-	MWh
14.	Verified - Prior Period		-	MWh
15.	True-Up Prior Period	(Line 14 - Line 13)	-	MWh
16.	Total Recoverable DG Savings	(Line 12 + Line 15)	-	MWh
17.	Total Recoverable MWh Savings	(Line 9 + Line 16)	-	MWh
18.	Residential - Lost Fixed Cost Rate	Schedule 4, Line 5, Column C	\$	\$/kWh
19.	Residential - Lost Fixed Cost Revenue	(Line 17 * Line 18)	\$	-
<b>C&amp;I</b>				
<b>Energy Efficiency Savings</b>				
20.	Current Period		-	MWh
21.	Excluded MWh reduction		-	MWh
22.	Net - Current Period	(Line 20 - Line 21)	-	MWh
23.	Prior Period	Previous Filing, Schedule 3, Line 22, Column C	-	MWh
24.	Verified - Prior Period		-	MWh
25.	True-Up Prior Period	(Line 24 - Line 23)	-	MWh
26.	Cumulative Verified	(Previous Filing, Schedule 3, Line 26, Column C + Line 24)	-	MWh
27.	Total Recoverable EE Savings	(Line 22 + Line 25 + Line 26)	-	MWh
<b>Distributed Generation Savings</b>				
28.	Current Period		-	MWh
29.	MWh DG Savings from Rate Schedules Excluded from LFCR		-	MWh
30.	Net - Current Period	(Line 28 - Line 29)	-	MWh
31.	Prior Period	Previous Filing, Schedule 3, Line 30, Column C	-	MWh
32.	Verified - Prior Period		-	MWh
33.	True-Up Prior Period	(Line 32 - Line 31)	-	MWh
34.	Total Recoverable DG Savings	(Line 30 + Line 33)	-	MWh
35.	Total Recoverable MWh Savings	(Line 27 + Line 34)	-	MWh
36.	C&I - Lost Fixed Cost Rate	Schedule 4, Line 10, Column C	\$	\$/kWh
37.	C&I - Lost Fixed Cost Revenue	(Line 35 * Line 36)	\$	-
38.	Total Lost Fixed Cost Revenue	(Line 19 + Line 37)	\$	-

Arizona Public Service Company  
Lost Fixed Cost Recovery Mechanism  
Schedule 4: LFCR Test Year Rate Calculation  
(\$000)

Line No.	(A) Lost Fixed Cost Rate Calculation	(B) Reference	(C) Total
<b>Residential Customers</b>			
1.	Distribution Revenue	Schedule 6, Line 13, Column H	\$ -
2.	Transmission Revenue	Schedule 6, Line 13, Column I	\$ -
3.	Total Fixed Revenue	(Line 1 + Line 2)	\$ -
4.	MWh Billed	Schedule 6, Line 12, Column C / 1,000	-
5.	Lost Fixed Cost Rate	(Line 3 / Line 4)	\$ -
<b>C &amp; I Customers</b>			
6.	Distribution Revenue	Schedule 5, Line 13, Column H	\$ -
7.	Transmission Revenue	Schedule 5, Line 13, Column I	\$ -
8.	Total Fixed Revenue	(Line 6 + Line 7)	\$ -
9.	MWh Billed	Schedule 5, Line 12, Column C / 1,000	-
10.	Lost Fixed Cost Rate	(Line 8 / Line 9)	\$ -

Arizona Public Service Company  
Lost Fixed Cost Recovery Mechanism  
Schedule 5: Distribution and Transmission Revenue Calculation  
General Service

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	
Line No.	Rate Schedule	Tariff Component	Adjusted Test Year Billing Determinants	Units	Delivery Charge	Transmission Charge	Demand Stability Factor	C*E*(1-G)	C*F*(1-G)	H+I
1.	General Service Rate Schedule 1									
2.			- kW	\$	- \$	-	50%	\$	- \$	- \$
3.			- kWh	\$	- \$	-	0%	\$	- \$	- \$
4.		Sub Total	- kW					\$	- \$	- \$
5.			- kWh					\$	- \$	- \$
6.	General Service Rate Schedule 2									
7.			- kW	\$	- \$	-	50%	\$	- \$	- \$
8.			- kWh	\$	- \$	-	0%	\$	- \$	- \$
9.		Sub Total	- kW					\$	- \$	- \$
10.			- kWh					\$	- \$	- \$
11.	Total kW		- kW					\$	- \$	- \$
12.	Total kWh		- kWh					\$	- \$	- \$
13.	Total							\$	- \$	- \$

Arizona Public Service Company  
Lost Fixed Cost Recovery Mechanism  
Schedule 6: Distribution and Transmission Revenue Calculation  
Residential

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	
Line No.	Rate Schedule	Tariff Component	Adjusted Test Year Billing Determinants	Units	Delivery Charge	Transmission Charge	Demand Stability Factor	C*E*(1-G) Distribution Revenue	C*F*(1-G) Transmission Revenue	H+I Total Revenue
1.	Residential Rate Schedule 1									
2.			- kW	\$	- \$	-	50% \$	- \$	- \$	-
3.			- kWh	\$	- \$	-	0% \$	- \$	- \$	-
4.		<b>Sub Total</b>	- kW				\$	- \$	- \$	-
5.			- kWh				\$	- \$	- \$	-
6.	Residential Rate Schedule 2									
7.			- kW	\$	- \$	-	50% \$	- \$	- \$	-
8.			- kWh	\$	- \$	-	0% \$	- \$	- \$	-
9.		<b>Sub Total</b>	- kW				\$	- \$	- \$	-
10.			- kWh				\$	- \$	- \$	-
11.	<b>Total kW</b>		- kW				\$	- \$	- \$	-
12.	<b>Total kWh</b>		- kWh				\$	- \$	- \$	-
13.	<b>Total</b>						\$	- \$	- \$	-



**DEMAND SIDE MANAGEMENT ADJUSTMENT CHARGE  
PLAN OF ADMINISTRATION  
XXXX-XX-XX**

**1. GENERAL DESCRIPTION:**

This document describes the plan for administering the Demand Side Management Adjustment Charge ("DSMAC") approved for Arizona Public Service Company ("APS") by the Arizona Corporation Commission ("Commission") in Decision No. 67744, and later revised by the Commission in Decision Nos. 71448 and XXXXXX. The DSMAC provides for the recovery of Demand Side Management ("DSM") program costs, including energy efficiency and demand response programs, and energy efficiency performance incentives. The DSMAC is applied to Standard Offer or Direct Access customer's bills as a monthly kilowatt-hour charge (for Residential customers and General Service customers served in accordance with non-demand billed rate schedules) or kilowatt demand charge (for General Service customers served in accordance with demand billed rate schedules). The charge will be filed with the Commission annually when APS submits the Energy Efficiency Implementation Plan ("EEIP") for approval. This will occur July 15, 2009 for the 2010 program year, and on June 1<sup>st</sup> of all subsequent years. If approved by the Commission, the charge will be effective each year beginning with billing cycle 1 of the March revenue month and will not be prorated.

Recovery of all applicable programs costs and incentives will be allowed for all programs that have been approved by the Commission.

**2. RATE SCHEDULE APPLICABILITY:**

The DSMAC shall be applied monthly to every retail Standard Offer or Direct Access service.

**3. ALLOWABLE COSTS:**

The types of allowable costs are as follows:

**A. Program Costs (PC)**

Allowable expenses include, but are not limited to:

Program development, implementation, promotion, administrative and general, training and technical assistance, marketing and communications, evaluation costs, monitoring and metering costs, advertising, educational expenditures, customer incentives, research and development, data collection (such as end-use), tracking systems, self direction costs, measurement evaluation and research (MER), demonstration facilities and all other activities required to design and implement cost-effective DSM programs (energy efficiency and demand response) that are approved by the Commission in the EEIP. For those DSM programs that generate revenue, the revenue, if any, will be credited back to the DSMAC. Unrecovered fixed costs will not be recoverable through the DSMAC.

**B. Performance Incentives (PI)**

Represents a percentage share of the net economic benefits (benefits minus costs) from approved energy-efficiency programs based on a graduated scale that is capped at a percentage of EE PC.

Achievement Relative to the Energy Efficiency Standard	Performance Incentive as % of Energy Efficiency Net Benefits	Performance Incentive Capped at % of Energy Efficiency Program Costs
< 85%	0%	0%
85% to 95%	6%	12%
96% to 105%	7%	14%
>105%	8%	16%

**4. DETERMINATION OF TRUE-UP:**

The actual allowable cost recovered for approved DSM programs will be compared to the actual revenues received by the Company through the DSMAC. The True-Up (TU) will be based on the amount in the TU balancing account. This balance will include past period PC, PI and DSMAC revenue collection accruals as of April 30th of the filing year. Past period PC and PI are found on Schedule 2 of the DSMAC



**DEMAND SIDE MANAGEMENT ADJUSTMENT CHARGE  
PLAN OF ADMINISTRATION  
XXXX-XX-XX**

calculations. Past period DSMAC revenue is found in Schedule 1 of the DSMAC calculations. The TU balancing account computation will be provided annually in Schedule 3 of the DSMAC calculations.

In the event that PC or PI are more or less than DSMAC revenues collected as of the last billing cycle of February, the over or under collection will be subtracted from or added to the DSMAC calculation in the subsequent period. Any over collection will accrue interest charges. Under collections will not accrue interest.

**Illustrative Table of Events**

Date	Included Items
7/15/2009 DSMAC includes:	File 2010 EEIP with 2010 DSMAC 2010 forecast of PC and PI 2009 forecast of PC and PI TU balancing account as of the last billing cycle of February
3/1/2010	DSMAC start from 2010 EEIP
6/1/2010 DSMAC includes:	File 2011 EEIP with 2011 DSMAC 2011 forecast of PC and PI TU balancing account as of the last billing cycle of February
3/1/2011	DSMAC start from 2011 EEIP
6/1/2011 DSMAC includes:	File 2012 EEIP with 2012 DSMAC 2012 forecast of PC and PI TU balancing account as of the last billing cycle of February

**5. DETERMINATION OF THE ADJUSTOR CHARGE:**

By July 15, 2009 and on June 1<sup>st</sup> of each subsequent year, APS will file a revised DSMAC with supporting documentation in the EEIP. The DSMAC will be calculated by projecting PC and PI for the upcoming year, adjusted by the over or under collection of previous periods. This calculation will be provided in the annual DSMAC calculation on Schedule 4.

The DSMAC for purposes of recovering PC and PI under the DSM Program will be developed based on the following formula:

$$\text{DSMAC} = \frac{\text{PC} + \text{PI} + \text{TU} + \text{I}}{\text{Sales}}$$

Where:

- PC = Program Costs as defined in section 3 forecast for the upcoming year.
- PI = Performance Incentives as defined in section 3 forecast for the upcoming year.
- TU = Any "true-up" balance as defined in section 4.
- I = Interest associated on any over recovery of DSMAC costs for the prior period. The interest rate is based on the one-year Nominal Treasury Maturities rate from the Federal Reserve H-15 or its successor publication. The interest rate shall be adjusted annually on the first business day of the calendar year.
- Sales = Forecast energy (kWh) sales under applicable electric rate schedules during the Adjustor Period in which this adjustor will be effective.
- Adjustor Period = The 12 month period beginning with the first billing cycle during March of the current year and ending with the last billing cycle of February of the next year.



**DEMAND SIDE MANAGEMENT ADJUSTMENT CHARGE  
PLAN OF ADMINISTRATION  
XXXX-XX-XX**

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The DSMAC for General Service customers that are billed on demand will be calculated as a per kW charge. The DSMAC for General Service customers that are not billed on demand will be calculated as a per kWh charge. To calculate the per kW charge, the recoverable costs shall first be allocated to the General Service class based upon the number of kWh consumed by that class. The remainder of the recoverable costs allocated to the General Service class shall then be divided by the kW billing determinants for the demand billed customers in that class to determine the per kW DSMAC.

For residential billing purposes, the DSMAC and the Renewable Energy Surcharge ("RES") are combined and will appear on customer bills as the "Environmental Benefits Surcharge". For the billing of general service and other non-residential customers, the Company may, but is not required to, provide for such combined billing of the RES and DSMAC. In any event, each adjustor shall have separate rate schedules and will be kept separate in the Company's books, records, and reports to the Commission.

6. **REVIEW PROCESS:**

The proposed DSMAC for use during a specific Adjustor Period will be calculated as shown in Section 4. APS will file an updated adjustor charge each year with its EEIP. The first filing will be July 15, 2009, and June 1<sup>st</sup> each year thereafter. If approved by the Commission, changes in the DSMAC will go into effect on the first billing cycle of March in the Adjustor Period.

**ATTACHMENT 1**

**ESTIMATED**

ARIZONA PUBLIC SERVICE COMPANY  
DEMAND SIDE MANAGEMENT PROGRAM  
JUNE 20XX FILING

Line No.	(A) True-Up Period DSMAC Revenue for March 20XX - February 20XX
1	Total

1 Recovery period is March 20XX-February 20XX for costs associated with the 20XX program year.

**ATTACHMENT 1**  
**ESTIMATED**

ARIZONA PUBLIC SERVICE COMPANY  
DEMAND SIDE MANAGEMENT PROGRAM  
JUNE 20XX FILING

Line No.	Program	(A) True-Up Period 20XX <sup>1</sup>	(B) Forecast Period 20XX <sup>2</sup>
1	Energy Efficiency (EE) Program Costs (PC)	\$ -	0
2	Performance Incentives (PI)	\$ -	0
3	Sub Total	\$ -	-
4	Demand Response (DR) PC	\$ -	0
5	Total	\$ -	-

- 1 Total 20XX EE and DR costs of \$XX,XXX,XXX less \$10,000,000 recovered in base rates
- 2 Projected costs of 20XX Implementation Plan less \$10,000,000 recovered in base rates.

**ATTACHMENT 1**  
**ESTIMATED**

ARIZONA PUBLIC SERVICE COMPANY  
DEMAND SIDE MANAGEMENT PROGRAM  
JUNE 20XX FILING

Line No.	Date Period	Cost, Collection and Interest	Reference	Amount
1	March 20XX - February 20XX	DSMAC Revenue - TU	Schedule 1, Line 1, Column A	\$ -
2	January 20XX - December 20XX	DSMAC Program Costs - TU	Schedule 2, Line 5, Column A	\$ -
3a		Sub Total	(Line 1 - Line 2)	\$ -
3b	Treasury constant maturities rate January 20XX <sup>1</sup>	Interest Rate		0.00%
4		Interest Amount	(Line 3a * 3b)	\$ -
5		Total TU Balance Account	(Line 3a + Line 4)	\$ -

<sup>1</sup> Interest is only applied to over-collections

**ATTACHMENT 1**  
**ESTIMATED**

ARIZONA PUBLIC SERVICE COMPANY  
DEMAND SIDE MANAGEMENT PROGRAM  
JUNE 20XX FILING

Line No.	DSMAC Calculations	Reference	Amount	Units
1	Program forecast costs for adjutor period in 20XX	Schedule 2, Line 5, Column B	\$ -	-
2A	Recovery of True-Up Account (over) under collection	Schedule 3, Line 5	\$ -	-
2B	Credit for Gains from Asset Sales (over) under collection		\$ -	-
3	Total amount to be collected	(Line 1 + Line 2)	\$ -	Total Revenue Requirements
4	Forecast retail kWh sales for adjutor period		\$ -	0 kWh
5	Proposed kWh adjutor charge for adjutor period <sup>1</sup>	(Line 3 / Line 4)	\$ -	per kWh
6	Forecast General Service kWh sales for adjutor period <sup>2</sup>		\$ -	0 kWh
7	Amount to be collected from General Service demand metered customers for adjutor period	(Line 5 * Line 6)	\$ -	-
8	Forecast General Service demand billed customer kW		\$ -	0 kW
9	Proposed kW adjutor charge for forecast period <sup>3</sup>	(Line 7 / Line 8)	\$ -	per kW

1 \$/kWh charge for all Residential customers and General Service customers with no demand charge  
 2 Forecast General Service kWh for customers with demand charges  
 3 \$/kW charge for General Service customers with demand charges



PLAN OF ADMINISTRATION  
ENVIRONMENTAL IMPROVEMENT SURCHARGE

**Environmental Improvement Surcharge  
Plan of Administration**

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 3. *Qualified FERC Accounts*..... 2  
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 6. *Filing and Procedural Deadlines* ..... 3

*1. General Description*

This document describes the plan for administering the Environmental Improvement Surcharge (“EIS”) approved for the Arizona Public Service Company (“APS”) by the Arizona Corporation Commission (“ACC” or “Commission”) on [insert date] in Decision No. XXXXX. The EIS provides for the recovery of the capital carrying costs effect of actual environmental investments made by APS and not already recovered in base rates approved in Decision No. XXXXX or recovered through another Commission approved adjustment. The EIS will be calculated annually based on the EIS Qualified Investments closed to plant-in-service during the preceding calendar year.

*2. Definitions*

EIS Qualified Investments – Investments in Qualified Environmental Improvement Projects. Each EIS Qualified Investments must: (1) be classified in one or more of the FERC plant accounts as listed in Section 3 of this document, or any other successor FERC account, upon going into service, (2) be tracked by a specific project number.

Qualified Environmental Improvement Projects - Projects designed to comply with established environmental standards required by federal, state, tribal, or local laws and regulations. These standards and criteria for water, waste, and air include but are not limited to limits for carbon dioxide (CO2), sulfur oxide (SOx), nitrogen oxide (NOx), particulate matter (PM), volatile organic compounds (VOC), and toxics such as mercury (Hg), coal ash management, and requirements under the clean and safe drinking water acts.

Total kWh Sales – The total prior calendar year energy (kWh) sales served under applicable ACC jurisdictional electric rate schedules, except Rate Schedules E-36 XL and AG-1, as reported in the Company’s FERC Form No. 1.

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PLAN OF ADMINISTRATION  
ENVIRONMENTAL IMPROVEMENT SURCHARGE

### 3. *Qualified FERC Accounts*

#### 1. Steam Production

- FERC Account 310 – Land and Land Rights
- FERC Account 311 – Structures and Improvements
- FERC Account 312 – Boiler Plant Equipment
- FERC Account 313 – Engines and Engine-Driven Generators
- FERC Account 314 – Turbogenerator Units
- FERC Account 315 – Accessory Electric Equipment
- FERC Account 316 – Miscellaneous Power Plant Equipment

#### 2. Nuclear Production

- FERC Account 320 – Land and Land Rights
- FERC Account 321 – Structures and Improvements
- FERC Account 322 – Reactor Plant Equipment
- FERC Account 323 – Turbogenerator Units
- FERC Account 324 – Accessory Electric Equipment
- FERC Account 325 – Miscellaneous Power Plant Equipment

#### 3. Other Production

- FERC Account 340 – Land and Land Rights
- FERC Account 341 – Structures and Improvements
- FERC Account 342 – Fuel Holders, Products, and Accessories
- FERC Account 343 – Prime Movers
- FERC Account 344 – Generators
- FERC Account 345 – Accessory Electric Equipment
- FERC Account 346 – Miscellaneous Power Plant Equipment

Please note this list may expand to include other accounts approved by the ACC in the future.

### 4. *Calculation of EIS Capital Carrying Costs*

EIS capital carrying costs used in calculating the EIS \$ per kWh rate will include: (1) Return on EIS Qualified Investments based on the Company's Weighted Average Cost of Capital ("WACC") approved by the Commission in Decision No. XXXXX; (2) depreciation expense; (3) income taxes; (4) property taxes; (5) deferred income taxes and tax credits where appropriate; and (6) associated O&M. EIS Qualified Projects and the EIS capital carrying costs calculation will be submitted by the Company to the ACC in the form of Schedule 1 and Schedule 2 as attached to this document.



PLAN OF ADMINISTRATION  
ENVIRONMENTAL IMPROVEMENT SURCHARGE

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*5. Calculation of EIS \$ per kWh rate*

The EIS rate to be applied to customers' bills will be calculated by dividing the total EIS Capital Carrying Costs by Total kWh Sales. The EIS rate will not exceed \$0.00016 per kWh. The initial EIS rate will be set to zero.

*6. Filing and Procedural Deadlines*

APS will file the calculated EIS rate including all supporting data, with the Commission for the previous year on or before February 1<sup>st</sup>. See Schedules 1 and 2, attached.

The Commission Staff and interested parties shall have the opportunity to review the EIS filing and supporting data in the adjustor calculation. Unless the Commission has otherwise acted or Staff has filed an objection by April 1<sup>st</sup>, the new EIS rate proposed by APS will go into effect with the first billing cycle in April (without proration) and will remain in effect for the following 12-month period.

Schedule 1: Qualified Investments for EIS  
Electric Plant in Service for Calendar Year 20XX

Line No.	(A) Project Tracking Number	(B) Project Name	(C) Purpose	(D) In-Service Date	(E) Total Cost	(F) ACC Jurisdictional Total Cost
<b>Environmental Improvement Projects</b>						
1.	XXXXX	Project A	Project A Purpose Description	MM/YY	\$ -	\$ -
2.	XXXXX	Project B	Project B Purpose Description	MM/YY	-	-
3.	XXXXX	Project C	Project C Purpose Description	MM/YY	-	-
4.		<b>Total</b>			\$ -	\$ -

Schedule 2: Capital Carrying Costs and Adjustor Calculation  
Plant in Service for Calendar Year 20XX  
Billing Period 4/1/20XX-3/30/XX

Line No.	EIS Rate Calculation	
<b>Qualified Net Plant</b>		
1.	Environmental Improvement Projects (Schedule 1 - Total Line Column F)	\$ -
2.	Accumulated Depreciation	\$ -
3.	Cumulative Deferred Tax/Tax Credits	\$ -
4.	Qualified Net Plant (Line 1 - Line 2 - Line 3)	\$ -
5.	Pre-tax Weighted Average Cost of Capital	0.00%
<b>Capital Carrying Costs</b>		
6.	Composite Return on EIS Net Plant (Line 4 * Line 5)	\$ -
7.	Annual Depreciation of Plant In Service	\$ -
8.	Applicable Property Tax	\$ -
9.	Associated O&M Expense	\$ -
10.	Total EIS Capital Carrying Costs (Line 6 + Line 7 + Line 8 + Line 9)	\$ -
11.	Total Company Retail Sales (kWh)	-
12.	Calculated EIS Adjustment (\$/kWh) (Line 10 / Line 11)	\$ -
13.	EIS Rate Cap (\$/kWh)	\$ 0.00016
14.	EIS Rate (\$/kWh) (Lesser of Line 12 and Line 13)	\$ -



PLAN OF ADMINISTRATION  
ADJUSTMENT SCHEDULE TCA-1  
TRANSMISSION COST ADJUSTMENT

**Transmission Cost Adjustment  
Plan of Administration**

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3. Filing and Procedural Deadlines .....	3

*1. General Description*

The purpose of the Transmission Cost Adjustment ("TCA") is to provide a mechanism to recover transmission costs associated with serving retail customers at the level approved by the Federal Energy Regulatory Commission ("FERC") and at the same time as new transmission rates become effective for APS wholesale customers. APS shall file a notice with Docket Control that includes its revised TCA tariff, along with a copy of its FERC information filing of its annual update of transmission service rates pursuant to its Open Access Transmission Tariff ("OATT"). This notice shall be filed with the Commission at the same time that APS makes its FERC filing.

The TCA applies to Arizona Public Service Company's ("Company") Retail Electric Rate Schedules. For Standard Offer customers that are not demand billed, the TCA is applied to the bill as a monthly kWh charge. For Standard Offer customers that are demand billed, it is applied to the TCA as a kW charge. The charge and modifications to it will take effect in billing cycle 1 of the June revenue month without proration.

APS's Network Integration Transmission Service ("NITS") is calculated and filed annually with the FERC in accordance with APS's formula rate. The formula rate calculation is specified within the Company's OATT as filed and approved by the FERC.

*2. Calculations*

The calculated NITS Retail Transmission Rates are shown in Appendix A of the Company's FERC Informational Filing of its Annual Update of transmission service. NITS rates as determined for the following classes:

**Residential Service Customers**

- General Service Customers less than or equal to 20 kW not demand billed
- General Service Customers over 20 kW and less than 3 MW demand billed
- General Service Customers equal to and greater than 3 MW

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**PLAN OF ADMINISTRATION  
ADJUSTMENT SCHEDULE TCA-1  
TRANSMISSION COST ADJUSTMENT**

In addition to NITS, APS charges retail customers for other transmission services in accordance with its OATT. These additional ancillary services include:

- Schedule 1 – Scheduling, System Control and Dispatch Service
- Schedule 3 – Regulation and Frequency Response Service
- Schedule 4 – Energy Imbalance Service
- Schedule 5 – Operating Reserve-Spinning Reserve Service
- Schedule 6 – Operating Reserve – Supplemental Reserve Service

The total APS OATT rate is the sum of the rates for providing these services. The revenue requirement resulting from FERC APS OATT rate are collected by APS from its retail customers, partly in base rates and the remaining through the TCA rate. The table shown below is an illustrative example of the TCA calculation using the rates in effect as of December 20, 2011.

Line	Service Type	Residential	GS < 20 kW	GS ≥ 20kW and < 3MW	GS ≥ 3MW
		\$/kWh (A)	\$/kWh (B)	\$/kW (C)	\$/kW (D)
1.	NITS	0.008381	0.005864	2.108	2.036
2.	Scheduling	0.000069	0.000056	0.0208	0.0236
3.	Regulation & Frequency	0.000267	0.000217	0.0813	0.0919
4.	Spinning Reserve	0.000618	0.000502	0.1879	0.2124
5.	Operating Reserve	0.000078	0.000064	0.0238	0.0269
6.	Energy Imbalance	-	-	-	-
7.	Total	0.009413	0.006703	2.4218	2.3908
8.	Included In Retail Base Rates per OATT	0.005202	0.004239	1.5848	1.7758
9.	TCA (Line 7) - (Line 8)	0.004211	0.002464	0.837	0.615

APS's NITS rates shown on line 1 will change annually, where ancillary service charges shown on lines 2 through 6 will change only through a separate filing when made by the Company to FERC.

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**PLAN OF ADMINISTRATION  
ADJUSTMENT SCHEDULE TCA-1  
TRANSMISSION COST ADJUSTMENT**

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*3. Filing and Procedural Deadlines*

APS will file the calculated TCA rates, including all supporting data, with the Commission each year no later than May 15<sup>th</sup> of each year.

The Commission Staff and interested parties shall have the opportunity to review APS's FERC Informational Filing of its Annual Update of transmission service rates pursuant to the APS OATT Attachment H-2, Formula Rate Implementation Protocols. The calculated NITS Retail Transmission Rates are shown in Appendix A of the Company's FERC filing. The new TCA rates proposed by APS will go into effect with the first billing cycle in June (without proration), unless Staff requests Commission review or otherwise ordered by the Commission, and will remain in effect for the following 12-month period.

Effective Date: XX/XX/XXXX  
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**EXPERIMENTAL RATE RIDER SCHEDULE AG-1  
ALTERNATIVE GENERATION  
GENERAL SERVICE**

AVAILABILITY

This experimental rate rider schedule is available in all territories served by the Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the sites served.

APPLICATION

This rate rider schedule is available for Standard Offer customers who have an Aggregated Peak Load of 10 MW or more and are served under Rate Schedules E-34, E-35, E32-L, or E-32 TOU L. An aggregated group may also include metered accounts that are served under Rate Schedules E-32 M or E-32 TOU M, if the accounts are located on the same premises and served under the same name as an otherwise eligible Customer.

Customers must have interval metering, Advanced Metering Infrastructure, or an alternative in place at all times of service under this schedule. If the Customer does not have such metering, the Company will install the metering equipment at no additional charge. However, the customer will be responsible for providing and paying for any communication requirements associated with the meter, such as a phone line.

All provisions of the customer's applicable rate schedule will apply in addition to this Schedule AG-1, except as modified herein. This rate rider schedule shall be available for four years from the effective date of Schedule AG-1, unless extended by the Commission. Total program participation shall be limited to 200 MW of customer load, 100 MW of which shall be initially reserved for Customers served under Rate Schedule E-32 L.

DEFINITIONS

**Aggregated Peak Load:** The sum of the maximum metered kW for each of the Customer's aggregated metered accounts over the previous 12 months, as determined by the Company and measured at the Customer's meter(s) at the time of application for service under this rate rider schedule.

**Standard Generation Service:** Power provided by the Company to a retail customer in conjunction with transmission and delivery services, at terms and prices according to a retail rate schedule other than Schedule AG-1.

**Customer:** A metered account or set of aggregated metered accounts that meet the eligibility requirements for service and enrollment as an aggregated load for service, under this rate rider schedule.

**Generation Service Provider:** A third party entity that provides wholesale power to the Company on behalf of a Customer. This entity must be legally capable of selling and delivering wholesale power to the Company.

**Generation Service:** Wholesale power delivered to APS by a Generation Service Provider.

**Imbalance Energy:** For each Generation Service Provider, Imbalance Energy will be calculated by the Company as the difference between the hourly delivered energy from the Generation Service Provider and the actual hourly metered load for each Customer for all Customers that have selected the Generation Service Provider under this rate rider schedule.

**Imbalance Service:** Calculating and managing the hourly deviations in energy supply for imbalance energy.

**Total Load Requirements:** The Customer's hourly load including losses from the point of delivery to the Company's transmission system to the Customer's sites for the duration of the contract.

ARIZONA PUBLIC SERVICE COMPANY  
Phoenix, Arizona  
Filed by: David J. Rumolo  
Title: Manager, Regulation and Pricing

A.C.C. No. XXXX  
Rate Schedule AG-1  
Original  
Effective: XXXX



**EXPERIMENTAL RATE RIDER SCHEDULE AG-1  
ALTERNATIVE GENERATION  
GENERAL SERVICE**

CUSTOMER ENROLLMENT

The Company shall establish an initial enrollment period during which Customers can apply for service under this rate rider schedule. If the applications for service are greater than the program maximum amount, then Customers shall be selected for enrollment through a lottery process as detailed in the program guidelines, which may be revised from time-to-time during the term of this rate rider schedule.

AGGREGATION

Eligible customers may be aggregated if they have the same corporate name, ownership, and identity. In addition, (1) an eligible franchisor customer may be aggregated with eligible franchisees or associated corporate accounts, and (2) eligible affiliate customers may be aggregated if they are under the same corporate ownership, even if they are operating under multiple trade names.

DESCRIPTION OF SERVICES AND OBLIGATIONS

The Customer shall apply for service under this rate rider schedule.

The Company shall conduct the enrollment process in accordance with the provisions of this rate rider schedule.

The Customer shall select a Generation Service Provider to provide Generation Service in accordance with the timeline specified in the program guidelines

The Company shall enter into a contract with the Generation Service Provider to receive delivery and title to the power on the Customer's behalf.

The Generation Service Provider shall provide to the Company on behalf of the Customer firm power sufficient to meet the Customer's Total Load Requirements for each of the specified metered accounts, and will attest in its contract with the Company that this condition is met. For the purposes of this rate schedule, "firm power" refers to generation resources identified in Western System Power Pool Schedule C or a reasonable equivalent as determined by the Company.

The Company shall provide transmission, delivery and network services to the Customer according to normal retail electric service.

The Company will settle with the Generation Service Provider for Imbalance Service and other relevant costs on a monthly basis according to the program guidelines.

The Generation Service Provider shall bill the Company the monthly billed amounts for each customer for Generation Service and Imbalance Service according to the program guidelines.

The Company shall bill the customer for the Generation Service Provider's charged amounts and remit the amounts to the Generation Service provider.

The customer will be responsible for paying for the cost of the power provided by the Generation Service Provider, as specified in the contract and this rate rider schedule.



**EXPERIMENTAL RATE RIDER SCHEDULE AG-1  
ALTERNATIVE GENERATION  
GENERAL SERVICE**

DELIVERY OF POWER TO THE COMPANY'S SYSTEM

Power provided by the Generation Service Provider must be firm power as defined above and delivered to the Company at the Palo Verde network delivery point, or other point of delivery as agreed to by the Company. The Generation Service Provider is responsible for the cost of transmission service to deliver the power to the Company's delivery point.

SCHEDULING

The Company shall serve as the scheduling coordinator. The Generation Service Provider shall provide monthly schedules of hourly loads along with day-ahead hourly load deviations from the monthly schedule to the Company according to the program guidelines. Line losses, in the amount of 7%, from the point of delivery to the Customer's sites shall be either scheduled or financially settled.

IMBALANCE SERVICE

The Company will provide Imbalance Service according to the terms and provisions in the Company's Open Access Transmission Tariff, Schedule 4. Imbalance Energy will be based on the Generation Service Provider's portfolio of Customer loads.

POWER SUPPLY ADJUSTER AND HEDGE COST TRUE-UP

The customer will be subject to the power supply adjustment – historical component for the first twelve months of service under this rate rider schedule. The customer will also pay for the hedge cost associated with the customer's Standard Generation Service at the time the customer takes service under this rate rider schedule. For the purpose of this rate rider schedule, the Company will determine the applicable pro rata hedge cost based on the market price for hedge costs at the time the customer takes service under this rate rider schedule.

DEFAULT OF THE THIRD PARTY GENERATION PROVIDER

In the event that the Generation Service Provider is unable to meet its contractual obligations, the customer must notify the Company and select another Generation Service Provider within 60 days. Prior to execution of any new power contract, the Company shall provide the required power to the customer, which will be charged at the Dow Jones Electricity Palo Verde Hourly Index price for the power delivery date plus \$10 per MWh. In addition, all other provisions of this rate rider schedule will continue to apply.

If the Customer is unable to select another Generation Service Provider within sixty days, the customer will automatically return to Standard Generation Service, and be subject to the conditions below.

RETURN TO COMPANY'S STANDARD GENERATION SERVICE

Customer may return to the Company's Standard Generation Service under their applicable retail rate schedule without charge if: (1) they provide one year notice (or longer) to the Company; or (2) if this rate rider schedule is discontinued at the end of the 4 year experimental period; or (3) if the Commission terminates the program prior to the initial four year experimental period. Absent one of these three conditions, the Company will provide the customer with generation service at the market index rate provided in the Company's Open Access Transmission Tariff until the Company is reasonably able to integrate the customer back into their generation planning and provide power at the applicable retail rate schedule. This transition will be at the Company's determination but no longer than 1 year. The returning customer must remain with the Company's Standard Generation Service for at least 1 year.

ARIZONA PUBLIC SERVICE COMPANY  
Phoenix, Arizona  
Filed by: David J. Rumolo  
Title: Manager, Regulation and Pricing

A.C.C. No. XXXX  
Rate Schedule AG-1  
Original  
Effective: XXXX



**EXPERIMENTAL RATE RIDER SCHEDULE AG-1  
ALTERNATIVE GENERATION  
GENERAL SERVICE**

RATES

All provisions, charges and adjustments in the customer's applicable retail rate schedule will continue to apply except as follows:

1. The generation charges will not apply;
2. Adjustment Schedule PSA-1 will not apply, except that the Historical Component will apply for the first twelve months of service under this rate rider schedule;
3. Adjustment Schedule EIS will not apply; and
4. The applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder shall be applied to the customer's bill.

Schedule AG-1 charges determined and billed by the Company include:

1. A monthly management fee of \$0.00060 per kWh applied to the customer's metered kWh;
2. A monthly reserve capacity charge applied to 15% of the customer's billed kW (on-peak for Rate Schedules E-35 and E-32 TOU L) at the Company's applicable cost-based rate filed at the Federal Energy Regulatory Commission and revised from time to time, which is currently \$6.985 per kW month;
3. An initial charge or credit for fuel hedging costs, as described herein;
4. Returning Customer charge, where applicable, as described herein;
5. Generation Service Provider Default charge, where applicable, as described herein.

Schedule AG-1 Generation Service and Imbalance Service charges billed by the Company include:

1. Generation Service charges shall be charged at a rate within the minimum and maximum limits as follows:
  - a. When the contract provides for pricing that reflects a specific index price, the minimum price will be the specified index minus 35% and the maximum price will be the specified index plus 35%. The determination that a contract is consistent with this provision will be based on the specified index price applicable on the date the contract is executed.
  - b. When the contract provides for a fixed price supply for the term of the contract, the minimum price will be the generation rate of the Customer's applicable retail rate schedule minus 35%, and the maximum price shall be the generation rate of the Customers applicable retail schedule plus 35%. If the Customer has more than one otherwise applicable retail rate schedule, the highest applicable retail rate schedule will be used for purposes of the consistency determination. The determination that a contract is consistent with this provision will be based on the Customer's otherwise applicable retail rate schedule in effect on the date the contract is executed.
  - c. Losses from the delivery point to the Customer's meters and any charges assessed by the Company on the Customer, including charges for transmission and distribution, Capacity Reservation Charge, the Management Fee, Imbalance Service charges, PSA balance and hedging costs, and Returning Customer Charges, shall not be included in the Generation Service charge for purposes of determining whether the contract is consistent with the minimum and maximum price provisions of this rate rider schedule.
2. Imbalance Service charges shall be charged at a rate greater than \$0.00 per kWh and less than or equal to the rate that the Company charges the Generation Service Provider for Imbalance Service as specified herein.



**EXPERIMENTAL RATE RIDER SCHEDULE AG-1  
ALTERNATIVE GENERATION  
GENERAL SERVICE**

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CONTRACT TERM AND REQUIREMENTS

The term of the contract with the Generation Service Provider shall be for not less than one year and shall not exceed four years.

The Generation Service Provider and Customer will enter into a contract or contracts with the Company, stating the pertinent details of the transaction with the Generation Service Provider, including but not limited to the scheduling of power, location of delivery and other terms related to the Company's management of the generation resource.

CREDIT REQUIREMENTS

A Generation Service Provider or its parent company must have at least an investment grade credit rating or demonstrate creditworthiness in the form of either a 3rd-party guarantee from an investment grade rated company, surety bond, letter of credit, or cash in accordance with the Company's standard credit support rules

**Arizona Public Service Company  
Summary of Rate Design Provisions  
Rate Case Settlement (Test Year 2010)**

**Base Rate Increase**

- Settlement base rates shall reflect an overall retail revenue increase of \$0.00 which is a %0.0 increase over test year revenues from base rates.
- This includes a general non-fuel increase of \$116,280,000, an additional non-fuel increase of \$36,807,000 from transferring revenue requirements for the Renewable Energy Standard ("RES") to base rates, and a decrease in fuel costs recovered through base rates of \$153,087,000.

**Rate Spread**

- The base rate impact for participating low-income customers will reflect a \$1,535,000 reduction to compensate for the expected impact of removing their exemption to the Power Supply Adjustor ("PSA") and Demand Side Management Adjustor Clause ("DSMAC").
- This reduction in base rate revenue will be recovered from all other rate classes, allocated proportional to each class' present revenue. Street Lighting and Dusk to Dawn Lighting rate classes are excluded from this allocation.
- The base rate impact for general service rate classes shall reflect a re-allocation of fuel costs within the general service revenue class, designed to better equalize the combined fuel impact on base rates and the PSA adjustor rate within the general service revenue class. This adjustment will not impact any other revenue class.

**General Issues**

- The unbundled transmission charge shall remain in base rates and not be transferred to the TCA adjustor rate.
- The System Benefit Charge will be set at \$0.002970 per kWh to reflect the cost of service, which includes the transfer of \$36,807,000 in revenue requirements associated with Renewable Energy projects (see Attachment D of the proposed Settlement Agreement) from the RES to base rates.
- APS shall prepare and file a rate plan as proposed by Staff to provide information on such issues as tiered conservation rates, time-of-use and other demand response rates, plans for cancelling rates, ideas for new rate offerings, and other relevant rate design issues. The timing of the plan will be revised in the Settlement. In addition, APS and Staff will identify current rate related compliance reports that can be consolidated into this rate plan.

**Residential Rates**

- Basic service charges shall be retained at their current rate levels.
- Unbundled delivery charges for all residential rates shall be set at class cost of service level.
- All other charges will be set to the level necessary to achieve the targeted base rate change for each rate class reflected in the Settlement Schedule H-2, attached to the Settlement Testimony of Charles A. Miessner.
- Time of use rates shall maintain a similar ratio of on-peak to off-peak prices as approved by the Commission in the last general rate case, Decision No. 71448.
- The existing optional Rate schedule ET-EV for off-peak charging of electric vehicles will be revised consistent with the revised time-of-use Rate Schedule ET-2.

**Arizona Public Service Company  
Summary of Rate Design Provisions  
Rate Case Settlement (Test Year 2010)**

- Rate schedule PTR-RES, which is a new optional peak-time rebate program will be offered as proposed by APS.

**Low-Income Rates**

- The existing low-income rates will be consolidated with the corresponding non-low-income rate schedules. The low-income discounts will be increased to hold customers harmless (on-average) from this provision.
- The low-income exemption from the PSA and the DSMAC will be cancelled. The low-income discounts will be increased to hold customers harmless (on-average) from this provision.
- The current low income discount tier structure will be retained; the discount levels will be increased as provided above.

**General Service Rates**

- Basic service charges shall be retained at their current rate levels.
- All other charges will be set to the level necessary to achieve the targeted base rate change for each rate class reflected in the Settlement Schedule H-2.
- Contract minimum charges (or minimum bill provisions) shall be eliminated for general service Rate Schedules E-32 XS, E-32 S, E-32 M, E-32TOU XS, E-32 TOU S and E-32 TOU M.
- Minimum bill provisions for Rate schedules E-32 L and E-32 TOU L will be revised to be more consistent with the corresponding provisions in extra-large general service Rate Schedules E-34 and E-35, including a "ratchet" provision for the determination of monthly billing kW.
- The bundled demand and energy charges for Rate Schedules E-32 L, E-34, and E-35 shall be revised from the levels provided in APS's Application in this matter to better reflect cost of service. Specifically, the demand charges shall be increased and the energy charges decreased from the initial proposed levels, but at a level that achieves the overall targeted revenue change for each of these rate classes.
- Rate Rider Schedule E-54 for seasonal use shall continue to be available for customers served under "parent" Rate Schedules E-32 L and E-32 TOU L, but cancelled for other rates.
- Rate Schedule E-30 for non- metered usage shall be revised to reflect the language clarification proposed by APS.
- The new optional Rate Schedule IRR, interruptible service for extra-large general service customers, shall be offered as proposed by APS.
- The new optional Experimental Rate Schedule AG-1, which offers a generation buy-through provision for a limited number of large and extra general service customers, shall be offered as developed by a collaborative group of interested parties, with concurrence by the parties to the Rate Settlement.

**Classified Rates**

- Charges will be set to the level necessary to achieve the targeted base rate change for each rate class reflected in the Settlement Schedule H-2.
- Rate Rider Schedule SC-S (E-56R) for renewable partial requirement service shall be revised as proposed by APS.

**Arizona Public Service Company  
Summary of Rate Design Provisions  
Rate Case Settlement (Test Year 2010)**

- The new optional Rate Rider Schedule E-36 M for medium size station use customers shall be offered as proposed by APS, except that it will be subject to the PSA adjustor rate.
- Rate Schedules E-221 and E-221 B-T for water pumping service shall be revised as proposed by APS.
- E-20 (house of worship) shall be unfrozen for one year from the effective date of new rates in this matter.
- Area lighting rates shall be revised to reflect the new provisions as proposed by APS.
- GPS riders (green power) shall be revised to eliminate the exemption to adjustor rates.

**Canceled Rates**

- The following rates and rate options will be canceled because they are no longer necessary or appropriate given other proposed rate design charges, or because they have very low (or no) participation. Cancellations include: E-40 (wind machine), Solar -2 (off grid), Solar -3, Share the lights area lighting rates E-114, E-116, E-145, E-129, E-53 (sports field lighting), and E-221 TOW option (time-of-week pricing option for water pumping).

**Service Schedules**

- Service Schedule 1 shall be revised as proposed by APS
- The proposed optional Service Schedule 9 for economic development is withdrawn.

**Plans of Administration**

- The plans of administration for the PSA, DSMAC, Transmission Cost Adjustor ("TCA") and Environmental Improvement Surcharge ("EIS") will be revised to reflect the terms of the Settlement Agreement.
- A new Lost Fixed Cost Recovery ("LFCR") plan of administration will be developed to reflect the terms of the Settlement Agreement.
- The RES plan of administration will not be revised in this proceeding.

## Settlement Rate Summary for Residential Rates

E-12		ET-1		ET-2		ECT-1R		ECT-2	
Bundled Rates	Proposed								
<b>BSC \$/day</b>	\$ 0.285	<b>BSC \$/day</b>	\$ 0.556						
<b>Summer</b>		<b>Summer</b>		<b>Summer</b>		<b>Summer</b>		<b>Summer</b>	
First 400 kWh	\$ 0.09687	On-Peak kWh	\$ 0.17892	On-Peak kWh	\$ 0.24477	On-Peak kWh	\$ 13.550	On-Peak kWh	\$ 13.550
Next 400 kWh	\$ 0.13817	Off-Peak kWh	\$ 0.05770	Off-Peak kWh	\$ 0.06118	Off-Peak kWh	\$ 0.07330	Off-Peak kWh	\$ 0.08867
Next 2200 kWh	\$ 0.16167	<b>Winter</b>		<b>Winter</b>		<b>Winter</b>		<b>Winter</b>	
Remaining kWh	\$ 0.17257	On-Peak kWh	\$ 0.14533	On-Peak kWh	\$ 0.19847	On-Peak kWh	\$ 0.04083	On-Peak kWh	\$ 0.04417
<b>Winter</b>		Off-Peak kWh	\$ 0.05561	Off-Peak kWh	\$ 0.06116	Off-Peak kWh	\$ 9.400	Off-Peak kWh	\$ 9.300
All kWh	\$ 0.09417					All kWh	\$ 9.400	All kWh	\$ 9.300
<b>Unbundled Rates</b>		<b>Unbundled Rates</b>		<b>Unbundled Rates</b>		<b>Unbundled Rates</b>		<b>Unbundled Rates</b>	
<b>Generation Charge</b>		<b>Generation Charge</b>		<b>Generation Charge</b>		<b>Generation Charge</b>		<b>Generation Charge</b>	
<b>Summer</b>		<b>Summer</b>		<b>Summer</b>		<b>Summer</b>		<b>Summer</b>	
1st 400 kWh	\$ 0.06170	On-Peak kWh	\$ 0.14375	On-Peak kWh	\$ 0.20960	On-Peak kWh	\$ 9.650	On-Peak kWh	\$ 9.000
Next 400 kWh	\$ 0.10300	Off-Peak kWh	\$ 0.02253	Off-Peak kWh	\$ 0.02601	Off-Peak kWh	\$ 0.04973	Off-Peak kWh	\$ 0.06650
Next 2200 kWh	\$ 0.12650	<b>Winter</b>		<b>Winter</b>		Off-Peak kWh	\$ 0.01726	Off-Peak kWh	\$ 0.02200
Additional kWh	\$ 0.13740	On-Peak kWh	\$ 0.11016	On-Peak kWh	\$ 0.16330	<b>Winter</b>		<b>Winter</b>	
<b>Winter</b>		Off-Peak kWh	\$ 0.02044	Off-Peak kWh	\$ 0.02599	On-Peak kWh	\$ 7.100	On-Peak kWh	\$ 6.900
All kWh	\$ 0.05900					On-Peak kWh	\$ 0.03070	On-Peak kWh	\$ 0.03340
<b>Transmission Charge</b>		<b>Transmission Charge</b>		<b>Transmission Charge</b>		Off-Peak kWh	\$ 0.01450	Off-Peak kWh	\$ 0.01700
kWh	\$ 0.00520	kWh	\$ 0.00520	kWh	\$ 0.00520	<b>Transmission Charge</b>		<b>Transmission Charge</b>	
<b>Delivery Charge</b>		<b>Delivery Charge</b>		<b>Delivery Charge</b>		kWh	\$ 0.00520	kWh	\$ 0.00520
kWh	0.02700	kWh	\$ 0.02700	kWh	\$ 0.02700	<b>Delivery Charge</b>		<b>Delivery Charge</b>	
<b>System Benefits Charge</b>		<b>System Benefits Charge</b>		<b>System Benefits Charge</b>		<b>Summer</b>		<b>Summer</b>	
kWh	\$ 0.00297	kWh	\$ 0.00297	kWh	\$ 0.00297	On-Peak kWh	3.900	On-Peak kWh	4.500
<b>BSC \$/day</b>		<b>BSC \$/day</b>		<b>BSC \$/day</b>		On-Peak kWh	0.01540	On-Peak kWh	0.01400
Customer Accounts	\$ 0.063	Customer Accounts	\$ 0.238	Customer Accounts	\$ 0.238	<b>Winter</b>		<b>Winter</b>	
Metering	\$ 0.090	Metering	\$ 0.186	Metering	\$ 0.186	On-Peak kWh	2.300	On-Peak kWh	2.400
Billing	\$ 0.070	Billing	\$ 0.070	Billing	\$ 0.070	On-Peak kWh	0.01700	On-Peak kWh	0.01590
Meter Reading	\$ 0.062	Meter Reading	\$ 0.062	Meter Reading	\$ 0.062	<b>System Benefits Charge</b>		<b>System Benefits Charge</b>	
BCS Total	\$ 0.285	BCS Total	\$ 0.556	BCS Total	\$ 0.556	kWh	\$ 0.00297	kWh	\$ 0.00297
						<b>BSC \$/day</b>		<b>BSC \$/day</b>	
						Customer Accounts	\$ 0.238	Customer Accounts	\$ 0.238
						Metering	\$ 0.186	Metering	\$ 0.186
						Billing	\$ 0.070	Billing	\$ 0.070
						Meter Reading	\$ 0.062	Meter Reading	\$ 0.062
						BCS Total	\$ 0.556	BCS Total	\$ 0.556

## Settlement Rate Summary for Residential Rates

	<b>ET-SP</b>		<b>ET-EV</b>		<b>CPP-RES</b>		<b>PTR-RES</b>
<b>Bundled Rates</b>	<b>Proposed</b>	<b>Bundled Rates</b>	<b>Proposed</b>		<b>Proposed</b>		<b>Proposed</b>
BSC \$/day	\$ 0.556	BSC \$/day	0.556	kWh charge	\$ 0.250000	kWh Rebate	\$ 0.25000
<b>Summer Peak</b>		<b>Summer</b>		kWh discount	\$ (0.012143)		
Super Peak kWh	\$ 0.46517	Super Off-Peak kWh	0.04195				
On-Peak kWh	\$ 0.24477	On-Peak kWh	0.24784				
Off-Peak kWh	\$ 0.05517	Off-Peak kWh	0.06460				
<b>Summer</b>		<b>Winter</b>					
On-Peak kWh	\$ 0.24477	Super Off-Peak kWh	0.04195				
Off-Peak kWh	\$ 0.05517	On-Peak kWh	0.20165				
<b>Winter</b>		Off-Peak kWh	0.06460				
On-Peak kWh	\$ 0.19847						
Off-Peak kWh	\$ 0.05517						
<b>Unbundled Rates</b>							
<b>Generation Charge</b>							
<b>Summer Peak</b>							
Super Peak kWh	0.43000						
On-Peak kWh	0.20960						
Off-Peak kWh	0.02000						
<b>Summer</b>							
On-Peak kWh	0.20960						
Off-Peak kWh	0.02000						
<b>Winter</b>							
On-Peak kWh	0.16330						
Off-Peak kWh	0.02000						
<b>Transmission Charge</b>							
kWh	\$ 0.00520						
<b>Delivery Charge</b>							
<b>Super Peak</b>							
kWh	0.02700						
<b>Summer</b>							
kWh	0.02700						
<b>Winter</b>							
kWh	0.02700						
<b>System Benefits Charge</b>							
Summer kWh	\$ 0.00297						
<b>BCS \$/day</b>							
Customer Accounts	0.238						
Metering	0.186						
Billing	0.070						
Meter Reading	0.062						
BCS Total	0.556						

## Settlement Rate Summary for General Service Rates

E-30 Proposed		E-32 XS Proposed		E-32 S Proposed		E-32 M Proposed	
<b>Bundled Rates</b>							
Summer		BSC \$/day		BSC \$/day		BSC \$/day	
BSC \$/day	\$ 0.311	Self-Contained	\$ 0.672	Self-Contained	\$ 0.672	Self-Contained	\$ 0.672
Energy Charge	\$ 0.14455	Instrument-Rated	\$ 1.324	Instrument-Rated	\$ 1.324	Instrument-Rated	\$ 1.324
Winter		Primary Voltage	\$ 3.415	Primary Voltage	\$ 3.415	Primary Voltage	\$ 3.415
BSC \$/day	\$ 0.311	Transmission Voltage	\$ 26.163	Transmission Voltage	\$ 26.163	Transmission Voltage	\$ 26.163
Energy Charge	\$ 0.12984						
<b>Unbundled Rates</b>							
Summer		Energy Charge		Demand Charge			
BSC \$/day	\$ 0.243	Summer		1st 100 kW (Secondary)	\$ 9.828	\$ 10.235	
Billing	\$ 0.068	kWh (1st 5000 / mo.) (Secondary)	\$ 0.13537	Over 100 kW (Secondary)	\$ 5.214	\$ 5.385	
Systems Benefits	\$ 0.00297	kWh (over 5000 / mo.) (Secondary)	\$ 0.07427	1st 100 kW (Primary)	\$ 9.116	\$ 9.488	
Transmission	\$ 0.00424	kWh (1st 5000 / mo.) (Primary)	\$ 0.13209	Over kW (Primary)	\$ 4.502	\$ 4.695	
Delivery	\$ 0.05032	kWh (over 5000 / mo.) (Primary)	\$ 0.07100	1st 100 kW (Transmission)	\$ 7.101	\$ 7.368	
Generation kWh	\$ 0.08702	Winter		Over kW (Transmission)	\$ 2.487	\$ 2.519	
Winter		kWh (1st 5000 / mo.) (Secondary)	\$ 0.11769				
BSC \$/day	\$ 0.243	kWh (over 5000 / mo.) (Secondary)	\$ 0.05658	Energy Charge			
Billing	\$ 0.068	kWh (1st 5000 / mo.) (Primary)	\$ 0.11438	Summer			
Systems Benefits	\$ 0.00297	kWh (over 5000 / mo.) (Primary)	\$ 0.05329	1st 200 kWh/kW	\$ 0.10337	\$ 0.09884	
Transmission	\$ 0.00424			over 200 kWh/kW	\$ 0.06257	\$ 0.06091	
Delivery	\$ 0.05032	Unbundled Rates		Winter			
Generation kWh	\$ 0.07231	Generation Charge		1st 200 kWh/kW	\$ 0.08718	\$ 0.08378	
		Summer		over 200 kWh/kW	\$ 0.04638	\$ 0.04586	
		kWh (1st 5000 / mo.)	\$ 0.08641				
		kWh (over 5000 / mo.)	\$ 0.05396	Unbundled Rates			
		Winter		Generation Charge			
		kWh (1st 5000 / mo.)	\$ 0.06880	Summer			
		kWh (over 5000 / mo.)	\$ 0.03634	1st 200 kWh/kW	\$ 0.09617	\$ 0.08938	
				over 200 kWh/kW	\$ 0.05537	\$ 0.05145	
		System Benefits Charge		Winter			
		kWh	\$ 0.00297	1st 200 kWh/kW	\$ 0.07998	\$ 0.07432	
				over 200 kWh/kW	\$ 0.03918	\$ 0.03640	
		Transmission Charge					
		kWh	\$ 0.00424	System Benefits Charge			
				kWh	\$ 0.00297	\$ 0.00297	
		Delivery Charge					
		Summer		Transmission Charge			
		Delivery (1st 5000 kWh per mo.) (Secondary)	\$ 0.04175	kWh	\$ 1.585	\$ 1.585	
		Delivery (over 5000 kWh per mo.) (Secondary)	\$ 0.01310				
		Delivery (1st 5000 kWh per mo.) (Primary)	\$ 0.03847	Delivery Charge			
		Delivery (over 5000 kWh per mo.) (Primary)	\$ 0.00983	Delivery 1st 100 kW (Secondary)	\$ 8.243	\$ 8.650	
		Winter		Delivery All Addl kW (Secondary)	\$ 3.629	\$ 3.800	
		Delivery (1st 5000 kWh per mo.) (Secondary)	\$ 0.04168				
		Delivery (over 5000 kWh per mo.) (Secondary)	\$ 0.01303	Delivery 1st 100 kW (Primary)	\$ 7.531	\$ 7.903	
		Delivery (1st 5000 kWh per mo.) (Primary)	\$ 0.03837	Delivery All Addl kW (Primary)	\$ 2.917	\$ 3.110	
		Delivery (over 5000 kWh per mo.) (Primary)	\$ 0.00974				
				Delivery 1st 100 kW (Transmission)	\$ 5.516	\$ 5.783	
		BSC \$/day		Delivery All Addl kW (Transmission)	\$ 0.902	\$ 0.934	
		BSC Self-Contained	\$ 0.126				
		BSC Instrument-Rated	\$ 0.126	Delivery - All kWh	0.00423	0.00649	
		BSC Primary Voltage	\$ 0.126				
		BSC Transmission Voltage	\$ 0.126	BSC \$/day			
				BSC Self-Contained	\$ 0.126	\$ 0.126	
		Revenue Cycle \$/day		BSC Instrument-Rated	\$ 0.126	\$ 0.126	
		Metering Self-Contained	\$ 0.403	BSC Primary Voltage	\$ 0.126	\$ 0.126	
		Metering Instrument-Rated	\$ 1.055	BSC Transmission Voltage	\$ 0.126	\$ 0.126	
		Metering Primary	\$ 3.146				
		Metering (Transmission)	\$ 25.894	Revenue Cycle \$/day			
		Billing	\$ 0.075	Metering Self-Contained	\$ 0.403	\$ 0.403	
		Meter Reading	\$ 0.068	Metering Instrument-Rated	\$ 1.055	\$ 1.055	
				Metering Primary	\$ 3.146	\$ 3.146	
				Metering (Transmission)	\$ 25.894	\$ 25.894	
				Billing	\$ 0.075	\$ 0.075	
				Meter Reading	\$ 0.068	\$ 0.068	

## Settlement Rate Summary for General Service Rates

Bundled Rates BSC \$/day	E-32 L		Bundled Rates BSC \$/day	E-32 XS TOU	
	Proposed			Proposed	
Self-Contained	\$	1.068	Self-Contained	\$	0.710
Instrument-Rated	\$	1.627	Instrument-Rated	\$	1.324
Primary Voltage	\$	3.419	Primary Voltage	\$	3.415
Transmission Voltage	\$	22.915	Transmission Voltage	\$	26.163
<b>Demand Charge</b>			<b>Energy Charge - Summer</b>		
1st 100 kW (Secondary)	\$	21.149	Secondary Service		
Over 100 kW (Secondary)	\$	14.267	On Peak kWh (1st 5000 / mo.)	\$	0.17033
1st 100 kW (Primary)	\$	19.091	All additional kWh	\$	0.08564
Over kW (Primary)	\$	13.209	Off Peak kWh (1st 5000 / mo.)	\$	0.12686
1st 100 kW (Transmission)	\$	14.284	All additional kWh	\$	0.04755
Over kW (Transmission)	\$	9.105	Primary Service		
<b>Energy Charge</b>			On Peak kWh (1st 5000 / mo.)	\$	0.16698
Summer			All additional kWh	\$	0.08150
kWh	\$	0.05517	Off Peak kWh (1st 5000 / mo.)	\$	0.12350
<b>Winter</b>			All additional kWh	\$	0.04420
kWh	\$	0.03804	Energy Charge - Winter		
<b>Unbundled Rates</b>			Secondary Service		
Generation Charge			On Pk kWh (1st 5000 / mo.)	\$	0.15310
Summer			All additional kWh	\$	0.06837
kWh	\$	0.05209	Off Peak kWh (1st 5000 / mo.)	\$	0.10959
<b>Winter</b>			All additional kWh	\$	0.03496
kWh	\$	0.03496	Primary Service		
kW	\$	4.496	On Peak kWh (1st 5000 / mo.)	\$	0.14974
<b>System Benefits Charge</b>			All additional kWh	\$	0.06423
kWh	\$	0.00297	Off Peak kWh (1st 5000 / mo.)	\$	0.10624
<b>Transmission Charge</b>			All additional kWh	\$	0.03160
kW	\$	1.585	Unbundled Rates		
<b>Delivery Charge</b>			Basic Service Charge	\$	0.126
Delivery 1st 100 kW (Secondary)	\$	15.068	Self Contained (per day)	\$	0.441
Delivery All Addl kW (Secondary)	\$	8.186	Instrument-Rated	\$	1.055
Delivery 1st 100 kW (Primary)	\$	13.010	Primary Voltage	\$	3.146
Delivery All Addl kW (Primary)	\$	7.128	Transmission Voltage	\$	25.894
Delivery 1st 100 kW (Transmission)	\$	8.203	Meter Reading	\$	0.068
Delivery All Addl kW (Transmission)	\$	3.024	Billing	\$	0.075
Delivery - All kWh	\$	0.00011	System Benefits Charge		
<b>BSC \$/day</b>			kWh	\$	0.00297
BSC Self-Contained	\$	0.601	Transmission Charge		
BSC Instrument-Rated	\$	0.601	kWh	\$	0.00424
BSC Primary Voltage	\$	0.601	Delivery Charge		
BSC Transmission Voltage	\$	0.601	Secondary Service		
<b>Revenue Cycle \$/day</b>			Delivery On Peak (1st 5000 kWh per mo.)	\$	0.05065
Metering (self-contained)	\$	0.345	Delivery all additional kWh	\$	0.01316
Metering (instrument-rated)	\$	0.904	Delivery Off Peak (1st 5000 kWh per mo.)	\$	0.04174
Metering (primary)	\$	2.696	Delivery all additional kWh	\$	0.00962
Metering (transmission)	\$	22.192	Primary		
Billing	\$	0.064	Delivery On Peak (1st 5000 kWh per mo.)	\$	0.04730
Meter Reading	\$	0.058	Delivery all additional kWh	\$	0.00902
			Delivery Off Peak (1st 5000 kWh per mo.)	\$	0.03838
			Delivery all additional kWh	\$	0.00627
			Winter		
			Secondary		
			Delivery On Peak (1st 5000 kWh per mo.)	\$	0.05057
			Delivery all additional kWh	\$	0.01304
			Delivery Off Peak (1st 5000 kWh per mo.)	\$	0.04164
			Delivery all additional kWh	\$	0.00954
			Primary		
			Delivery On Peak (1st 5000 kWh per mo.)	\$	0.04721
			Delivery all additional kWh	\$	0.00890
			Delivery Off Peak (1st 5000 kWh per mo.)	\$	0.03829
			Delivery all additional kWh	\$	0.00618
			Generation Charge		
			Summer		
			On Peak (1st 5000 kWh per mo.)	\$	0.11247
			On Peak all additional kWh	\$	0.06527
			Off Peak (1st 5000 kWh per mo.)	\$	0.07791
			Off Peak all additional kWh	\$	0.03072
			Winter		
			On Peak (1st 5000 kWh per mo.)	\$	0.09532
			On Peak all additional kWh	\$	0.04812
			Off Peak (1st 5000 kWh per mo.)	\$	0.06074
			Off Peak all additional kWh	\$	0.01821

## Settlement Rate Summary for General Service Rates

Bundled Rates	E-32 S TOU			E-32 M TOU			E-32 L TOU			E-34		
	Proposed		Proposed	Proposed		Proposed	Proposed		Proposed		Proposed	
<b>Bundled Rates</b>												
BSC \$/day												
Self-Contained	\$	0.710	\$	0.710	\$	0.710			\$	1.135		
Instrument-Rated	\$	1.324	\$	1.324	\$	1.324			\$	1.776		
Primary Voltage	\$	3.415	\$	3.415	\$	3.415			\$	3.828		
Transmission Voltage	\$	26.163	\$	26.163	\$	26.163			\$	26.161		
<b>Demand Charge</b>												
<b>Secondary Service</b>												
On Peak 1st 100 kW	\$	14.303	\$	15.166	\$	14.915			\$	19.930		
On Peak all additional kW	\$	9.713	\$	10.013	\$	9.784			\$	18.649		
Off Peak 1st 100 kW	\$	5.484	\$	5.897	\$	5.814			\$	12.278		
Off Peak all additional kW	\$	3.054	\$	3.168	\$	3.097			\$	13.392		
Primary Service												
On Peak 1st 100 kW	\$	13.845	\$	14.651	\$	14.402			\$	0.03665		
On Peak all additional kW	\$	9.645	\$	9.936	\$	9.708						
Off Peak 1st 100 kW	\$	4.909	\$	5.251	\$	5.170						
Off Peak all additional kW	\$	2.975	\$	3.079	\$	3.008						
Transmission Service												
On Peak 1st 100 kW	\$	12.208	\$	13.730	\$	13.486						
On Peak all additional kW	\$	9.038	\$	9.619	\$	8.601						
Off Peak 1st 100 kW	\$	4.042	\$	4.522	\$	4.444						
Off Peak all additional kW	\$	2.837	\$	2.959	\$	2.888						
<b>Energy Charge - Summer</b>												
On Peak kWh	\$	0.07367	\$	0.06566	\$	0.06555						
Off Peak kWh	\$	0.05873	\$	0.05432	\$	0.05359						
<b>Energy Charge - Winter</b>												
On Peak kWh	\$	0.05665	\$	0.05275	\$	0.05193						
Off Peak kWh	\$	0.04170	\$	0.04142	\$	0.03997						
<b>Unbundled Rates</b>												
Basic Service Charge	\$	0.126	\$	0.126	\$	0.126						
Self-Contained	\$	0.441	\$	0.441	\$	0.441						
Instrument-Rated	\$	1.055	\$	1.055	\$	1.055						
Primary Voltage	\$	3.146	\$	3.146	\$	3.146						
Transmission Voltage	\$	25.894	\$	25.894	\$	25.894						
Meter Reading	\$	0.068	\$	0.068	\$	0.068						
Billing	\$	0.075	\$	0.075	\$	0.075						
<b>System Benefits Charge</b>												
kWh	\$	0.00297	\$	0.00297	\$	0.00297			\$	0.00297		
<b>Transmission Charge</b>												
kW	\$	1.585	\$	1.585	\$	1.585						
<b>Delivery Charge</b>												
<b>Secondary Service</b>												
On Peak 1st 100 kW	\$	5.775	\$	8.318	\$	7.776			\$	8.027		
On Peak all additional kW	\$	1.185	\$	3.165	\$	2.645			\$	6.746		
Off Peak 1st 100 kW	\$	2.842	\$	3.894	\$	3.701			\$	0.375		
Off Peak all additional kW	\$	0.412	\$	1.165	\$	0.984			\$	1.489		
per kWh	\$	-	\$	0.00910	\$	0.00607						
<b>Primary</b>												
On Peak 1st 100 kW	\$	5.317	\$	7.803	\$	7.263						
On Peak all additional kW	\$	1.117	\$	3.088	\$	2.569						
Off Peak 1st 100 kW	\$	2.267	\$	3.248	\$	3.057						
Off Peak all additional kW	\$	0.333	\$	1.076	\$	0.895						
per kWh	\$	-	\$	0.00910	\$	0.00607						
<b>Transmission</b>												
On Peak 1st 100 kW	\$	3.680	\$	6.882	\$	6.347						
On Peak all additional kW	\$	0.510	\$	2.771	\$	1.462						
Off Peak 1st 100 kW	\$	1.400	\$	2.519	\$	2.331						
Off Peak all additional kW	\$	0.195	\$	0.956	\$	0.775						
per kWh	\$	-	\$	0.00910	\$	0.00607						
<b>Generation Charge</b>												
<b>Summer</b>												
On Peak kW	\$	6.943	\$	5.263	\$	5.554						
Off Peak kW	\$	2.642	\$	2.003	\$	2.113						
On Peak kWh	\$	0.07070	\$	0.05359	\$	0.05651						
Off Peak kWh	\$	0.05576	\$	0.04225	\$	0.04455						
<b>Winter</b>												
On Peak kW	\$	6.943	\$	5.263	\$	5.554						
Off Peak kW	\$	2.642	\$	2.003	\$	2.113						
On Peak kWh	\$	0.05368	\$	0.04068	\$	0.04289						
Off Peak kWh	\$	0.03873	\$	0.02935	\$	0.03093						

## Settlement Rate Summary for General Service Rates

Bundled Rates	E-35	E-54	Interruptible Rate Ride (IRR)
	Proposed		
<b>BSC \$/day</b>		Minimum 12-Month Charge \$ 603.49	<b>1 Yr Agreement</b>
Self-Contained	\$ 1.183		<b>Option 1</b>
Instrument-Rated	\$ 1.795		(4 hrs) 30 Minute (\$/kW-Yr) \$ 7.975
Primary Voltage	\$ 3.881		30 Minute (\$/kWh) \$ 0.09969
Transmission Voltage	\$ 26.574		2 Hour (\$/kW-Yr) \$ 7.178
			2 Hour (\$/kWh) \$ 0.08972
<b>Demand Charge</b>			<b>Option 2</b>
Secondary Service			(8 hrs) 30 Minute (\$/kW-Yr) \$ 5.995
On-Peak	\$ 16.768		30 Minute (\$/kWh) \$ 0.07493
Off-Peak	\$ 3.064		2 Hour (\$/kW-Yr) \$ 5.395
Primary Service			2 Hour (\$/kWh) \$ 0.06745
On-Peak	\$ 15.792		<b>5 Yr Agreement</b>
Off-Peak	\$ 2.966		<b>Option 1</b>
Transmission Service			(4 hrs) 30 Minute (\$/kW-Yr) \$ 9.882
On-Peak	\$ 10.755		30 Minute (\$/kWh) \$ 0.12353
Off-Peak	\$ 2.462		2 Hour (\$/kW-Yr) \$ 8.894
Primary Substation - Military Base			2 Hour (\$/kWh) \$ 0.11117
On-Peak	\$ 12.108		<b>Option 2</b>
Off-Peak	\$ 2.597		(8 hrs) 30 Minute (\$/kW-Yr) \$ 7.428
			30 Minute (\$/kWh) \$ 0.09285
<b>Energy Charge</b>			2 Hour (\$/kW-Yr) \$ 6.685
On-Peak	\$ 0.04076		2 Hour (\$/kWh) \$ 0.08356
Off-Peak	\$ 0.03219		
<b>Unbundled Rates</b>			
BSC \$/day	\$ 0.601		
Revenue Cycle Service Charges			
Self-Contained	\$ 0.440		
Instrument-Rated	\$ 1.052		
Primary Voltage	\$ 3.138		
Transmission Voltage	\$ 25.831		
Meter Reading	\$ 0.068		
Billing	\$ 0.074		
<b>System Benefits Charge</b>			
kWh	\$ 0.00297		
<b>Transmission Charge</b>			
On-Peak kW	\$ 1.776		
<b>Delivery Charge</b>			
Secondary Service			
On-Peak	\$ 6.461		
Off-Peak	\$ 0.646		
Primary Service			
On-Peak	\$ 5.485		
Off-Peak	\$ 0.548		
Transmission Service			
On-Peak	\$ 0.448		
Off-Peak	\$ 0.044		
Primary Substation - Military Base			
On-Peak	\$ 1.801		
Off-Peak	\$ 0.179		
<b>Generation Charge</b>			
On-Peak kW	\$ 8.531		
Off-Peak kW	\$ 2.418		
On-Peak kWh	\$ 0.03779		
Off-Peak kWh	\$ 0.02922		



Settlement Rate Summary for Classified Rates

Company Owned	E-47	Customer Owned	E-47	Company Owned	E-47
Fixture Type	Proposed	Lamp Type	Proposed	Pole Type	Proposed
9500 HPS ACORN	\$ 27.06	9500 HPS ACORN	\$ 9.22	Anchor Flush, Round, 1X, 12ft	\$ 12.17
16,000 HPS ACORN	\$ 30.04	16,000 HPS ACORN	\$ 11.65	Anchor Flush, Round, 1X, 22ft	\$ 13.70
9500 HPS ARCHITECTURAL	\$ 15.38	9500 HPS ARCHITECTURAL	\$ 7.34	Anchor Flush, Round, 1X, 25ft	\$ 14.82
16,000 HPS ARCHITECTURAL	\$ 17.96	16,000 HPS ARCHITECTURAL	\$ 9.82	Anchor Flush, Round, 1X, 30ft	\$ 17.03
30,000 HPS ARCHITECTURAL	\$ 21.31	30,000 HPS ARCHITECTURAL	\$ 12.60	Anchor Flush, Round, 1X, 32ft	\$ 17.89
50,000 HPS ARCHITECTURAL	\$ 26.29	50,000 HPS ARCHITECTURAL	\$ 18.13	Anchor Flush, Round, 2X, 12ft	\$ 12.98
14,000 MH ARCHITECTURAL	\$ 21.51	14,000 MH ARCHITECTURAL	\$ 11.79	Anchor Flush, Round, 2X, 22ft	\$ 14.91
21,000 MH ARCHITECTURAL	\$ 24.42	21,000 MH ARCHITECTURAL	\$ 14.54	Anchor Flush, Round, 2X, 25ft	\$ 15.55
36,000 MH ARCHITECTURAL	\$ 30.54	36,000 MH ARCHITECTURAL	\$ 20.00	Anchor Flush, Round, 2X, 30ft	\$ 18.07
8,000 LPS ARCHITECTURAL	\$ 22.35	8,000 LPS ARCHITECTURAL	\$ 9.82	Anchor Flush, Round, 2X, 32ft	\$ 19.28
13,500 LPS ARCHITECTURAL	\$ 26.36	13,500 LPS ARCHITECTURAL	\$ 11.84	Anchor Flush, Square, 5", 13ft	\$ 13.95
22,500 LPS ARCHITECTURAL	\$ 30.11	22,500 LPS ARCHITECTURAL	\$ 14.45	Anchor Flush, Square, 5", 15ft	\$ 12.47
33,000 LPS ARCHITECTURAL	\$ 36.22	33,000 LPS ARCHITECTURAL	\$ 17.02	Anchor Flush, Square, 5", 23ft	\$ 14.79
5800 HPS COBRA/ROADWAY	\$ 8.73	5800 HPS COBRA/ROADWAY	\$ 5.16	Anchor Flush, Square, 5", 25ft	\$ 16.26
9500 HPS COBRA/ROADWAY	\$ 10.28	9500 HPS COBRA/ROADWAY	\$ 6.32	Anchor Flush, Square, 5", 28ft	\$ 18.05
16,000 HPS COBRA/ROADWAY	\$ 12.87	16,000 HPS COBRA/ROADWAY	\$ 8.82	Anchor Flush, Square, 5", 32ft	\$ 17.95
30,000 HPS COBRA/ROADWAY	\$ 15.52	30,000 HPS COBRA/ROADWAY	\$ 11.46	Anchor Flush, Concrete, 12ft	\$ 41.58
50,000 HPS COBRA/ROADWAY	\$ 21.06	50,000 HPS COBRA/ROADWAY	\$ 16.37	Anchor Flush, Fiberglass, 12ft	\$ 35.21
14,000 MH COBRA/ROADWAY	\$ 14.97	14,000 MH COBRA/ROADWAY	\$ 10.20	Anchor Flush, Dec Transit Ped, 4", 16ft	\$ 34.53
21,000 MH COBRA/ROADWAY	\$ 17.49	21,000 MH COBRA/ROADWAY	\$ 12.69	Anchor Flush, Dec Transit, 5", 30ft	\$ 66.28
36,000 MH COBRA/ROADWAY	\$ 23.03	36,000 MH COBRA/ROADWAY	\$ 17.63	Anchor Pedstl, Round, 1X, 12ft	\$ 11.71
8,000 FL COBRA/ROADWAY	\$ 17.20	8,000 FL COBRA/ROADWAY	\$ 5.04	Anchor Pedstl, Round, 1X, 22ft	\$ 13.24
9500 HPS DECORATIVE TRANSIT	\$ 37.09	9500 HPS DECORATIVE TRANSIT	\$ 11.11	Anchor Pedstl, Round, 1X, 25ft	\$ 14.35
16,000 HPS DECORATIVE TRANSIT	\$ 36.88	16,000 HPS DECORATIVE TRANSIT	\$ 6.31	Anchor Pedstl, Round, 1X, 30ft	\$ 16.98
30,000 HPS DECORATIVE TRANSIT	\$ 42.46	30,000 HPS DECORATIVE TRANSIT	\$ 16.02	Anchor Pedstl, Round, 1X, 32ft	\$ 17.41
30,000 HPS FLOOD	\$ 20.61	30,000 HPS FLOOD	\$ 12.81	Anchor Pedstl, Round, 2X, 12ft	\$ 12.51
50,000 HPS FLOOD	\$ 25.46	50,000 HPS FLOOD	\$ 17.77	Anchor Pedstl, Round, 2X, 22ft	\$ 13.97
21,000 MH FLOOD	\$ 22.00	21,000 MH FLOOD	\$ 13.53	Anchor Pedstl, Round, 2X, 25ft	\$ 15.08
36,000 MH FLOOD	\$ 26.82	36,000 MH FLOOD	\$ 18.35	Anchor Pedstl, Round, 2X, 30ft	\$ 17.61
8,000 FL COLONIAL GRAY POST TOP	\$ 18.54	8,000 FL COLONIAL GRAY POST TOP	\$ 5.23	Anchor Pedstl, Round, 2X, 32ft	\$ 18.81
9500 HPS COLONIAL GRAY POST TOP	\$ 10.60	9500 HPS COLONIAL GRAY POST TOP	\$ 6.65	Anchor Pedstl, Round, 3 Bolt, 32ft	\$ 21.62
9500 HPS COLONIAL BLACK POST TOP	\$ 12.21	9500 HPS COLONIAL BLACK POST TOP	\$ 6.88	Anchor Pedstl, Square, 5", 13ft	\$ 13.50
9500 HPS DECORATIVE POST TOP	\$ 32.47	9500 HPS DECORATIVE POST TOP	\$ 10.24	Anchor Pedstl, Square, 5", 15ft	\$ 13.80
4,000 INC FROZEN	\$ 9.78	4,000 INC FROZEN	\$ 5.47	Anchor Pedstl, Square, 5", 23ft	\$ 14.32
7,000 MV FROZEN	\$ 12.67	7,000 MV FROZEN	\$ 7.27	Anchor Pedstl, Square, 5", 25ft	\$ 15.80
20,000 MV FROZEN	\$ 24.92	20,000 MV FROZEN	\$ 14.12	Anchor Pedstl, Square, 5", 28ft	\$ 17.56
BRACKETS FROZEN	\$ 1.72	BRACKETS FROZEN	\$ -	Anchor Pedstl, Square, 5", 32ft	\$ 18.23
Trip Charge per Lamp	\$ 100.00	Trip Charge per Lamp	\$ 100.00	Direct Bury, Round, 19ft	\$ 18.42
				Direct Bury, Round, 30ft	\$ 14.38
				Direct Bury, Round, 38ft	\$ 17.55
				Direct Bury, Self-Support, 40ft	\$ 21.62
				Direct Bury, Slipped, 49ft	\$ 64.99
				Direct Bury, Square, 4", 34ft	\$ 15.87
				Direct Bury, Square, 5", 20ft	\$ 15.07
				Direct Bury, Square, 5", 30ft	\$ 15.71
				Direct Bury, Square, 5", 38ft	\$ 17.05
				Decorative Transit 41-6	\$ 20.47
				Decorative Transit 47	\$ 25.50
				Direct Bury, Steel Dist Pole, 35ft	\$ 23.54
				Post Top, Dec Transit, 16ft	\$ 35.07
				Post Top, Gray Steel/Fiberglass, 23ft	\$ 12.16
				Post Top, Black Steel, 23ft	\$ 13.41
				FROZEN, Wood Poles, 30ft	\$ 8.95
				FROZEN, Wood Poles, 35ft	\$ 8.95
				FROZEN, Wood Poles, 40ft	\$ 12.73
				Flush, 4ft	\$ 9.91
				Flush, 6ft	\$ 11.82
				Pedestal, 8ft	\$ 13.54
				Pedestal, 32" round steel pole, 4ft 6"	\$ 9.39
				1. 100' OH, UG if conduit by customer	\$ 3.50
				2. HPS not accessible by bucket	\$ 2.80
				3. MH not accessible by bucket	\$ 6.04

Settlement Rate Summary for Classified Rates

	E-56		Company Owned		E-58		Customer Owned		E-58	
		Proposed	Lamp Type		Proposed	Lamp Type		Proposed		Proposed
Back-up Power			9500 HPS ACORN	\$	27.06	9500 HPS ACORN	\$	9.22		
Rate Schedule E-34 Customer	\$	0.590 per kW day	16,000 HPS ACORN	\$	30.04	16,000 HPS ACORN	\$	11.65		
Rate Schedule E-32 L Customer	\$	0.120 per kW day	9500 HPS ARCHITECTURAL	\$	15.38	9500 HPS ARCHITECTURAL	\$	7.34		
			16,000 HPS ARCHITECTURAL	\$	17.96	16,000 HPS ARCHITECTURAL	\$	9.82		
Excess Power Charges			30,000 HPS ARCHITECTURAL	\$	21.31	30,000 HPS ARCHITECTURAL	\$	12.60		
Secondary Service:	\$	54.802 per kW	50,000 HPS ARCHITECTURAL	\$	26.29	50,000 HPS ARCHITECTURAL	\$	18.13		
Primary Service:	\$	52.019 per kW	14,000 MH ARCHITECTURAL	\$	21.51	14,000 MH ARCHITECTURAL	\$	11.79		
Transmission Service:	\$	38.187 per kW	21,000 MH ARCHITECTURAL	\$	24.42	21,000 MH ARCHITECTURAL	\$	14.54		
			36,000 MH ARCHITECTURAL	\$	30.54	36,000 MH ARCHITECTURAL	\$	20.00		
			8,000 LPS ARCHITECTURAL	\$	22.35	8,000 LPS ARCHITECTURAL	\$	9.82		
			13500 LPS ARCHITECTURAL	\$	26.36	13500 LPS ARCHITECTURAL	\$	11.84		
			22,500 LPS ARCHITECTURAL	\$	30.11	22,500 LPS ARCHITECTURAL	\$	14.45		
			33,000 LPS ARCHITECTURAL	\$	36.22	33,000 LPS ARCHITECTURAL	\$	17.02		
			5800 HPS COBRA/ROADWAY	\$	8.73	5800 HPS COBRA/ROADWAY	\$	5.16		
			9500 HPS COBRA/ROADWAY	\$	10.28	9500 HPS COBRA/ROADWAY	\$	6.32		
			16,000 HPS COBRA/ROADWAY	\$	12.87	16,000 HPS COBRA/ROADWAY	\$	8.82		
			30,000 HPS COBRA/ROADWAY	\$	15.52	30,000 HPS COBRA/ROADWAY	\$	11.46		
			50,000 HPS COBRA/ROADWAY	\$	21.06	50,000 HPS COBRA/ROADWAY	\$	16.37		
			14,000 MH COBRA/ROADWAY	\$	14.97	14,000 MH COBRA/ROADWAY	\$	10.20		
			21,000 MH COBRA/ROADWAY	\$	17.49	21,000 MH COBRA/ROADWAY	\$	12.69		
			36,000 MH COBRA/ROADWAY	\$	23.03	36,000 MH COBRA/ROADWAY	\$	17.63		
			8,000 FL COBRA/ROADWAY	\$	17.20	8,000 FL COBRA/ROADWAY	\$	5.04		
			9500 HPS DECORATIVE TRANSIT	\$	37.09	9500 HPS DECORATIVE TRANSIT	\$	11.11		
			16,000 HPS DECORATIVE TRANSIT	\$	36.88	16,000 HPS DECORATIVE TRANSIT	\$	12.41		
			30,000 HPS DECORATIVE TRANSIT	\$	42.46	30,000 HPS DECORATIVE TRANSIT	\$	16.02		
			30,000 HPS FLOOD	\$	20.61	30,000 HPS FLOOD	\$	12.81		
			50,000 HPS FLOOD	\$	25.56	50,000 HPS FLOOD	\$	17.77		
			21,000 MH FLOOD	\$	22.00	21,000 MH FLOOD	\$	13.53		
			36,000 MH FLOOD	\$	26.82	36,000 MH FLOOD	\$	18.35		
			8,000 FL COLONIAL GRAY POST TOP	\$	18.54	8,000 FL COLONIAL GRAY POST TOP	\$	5.23		
			9500 HPS COLONIAL GRAY POST TOP	\$	10.60	9500 HPS COLONIAL GRAY POST TOP	\$	6.65		
			9500 HPS COLONIAL BLACK POST TOP	\$	12.21	9500 HPS COLONIAL BLACK POST TOP	\$	6.88		
			9500 HPS DECORATIVE POST TOP	\$	32.47	9500 HPS DECORATIVE POST TOP	\$	10.24		
			4,000 INC FROZEN	\$	9.78	4,000 INC FROZEN	\$	5.47		
			7,000 MV FROZEN	\$	12.67	7,000 MV FROZEN	\$	7.27		
			11,000 MV FROZEN	\$	15.87	11,000 MV FROZEN	\$	9.68		
			20,000 MV FROZEN	\$	24.92	20,000 MV FROZEN	\$	14.12		
			Trip Charge per Lamp	\$	100.00	Trip Charge per Lamp	\$	100.00		

Settlement Rate Summary for Classified Rates

Company Owned		E-58	Customer Owned		E-58	E-59	Proposed Service	Transmission Proposed
Pole Type		Proposed	Pole Type		Proposed		Charge Per Lamp	Charge Per kWh
Anchor Flush, Round, 1X, 12ft	\$	12.17	Anchor Flush, Round, 1X, 12R	\$	1.68			
Anchor Flush, Round, 1X, 22ft	\$	13.70	Anchor Flush, Round, 1X, 22R	\$	1.88	TYPE		
Anchor Flush, Round, 1X, 25ft	\$	14.82	Anchor Flush, Round, 1X, 25R	\$	2.05	1000 INC	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 1X, 30ft	\$	17.03	Anchor Flush, Round, 1X, 30R	\$	2.34	11000 MV	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 1X, 32ft	\$	17.89	Anchor Flush, Round, 1X, 32R	\$	2.37	13500L LPS ARCH	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 2X, 12ft	\$	12.98	Anchor Flush, Round, 2X, 12R	\$	1.79	14000L MH ARCH	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 2X, 22ft	\$	14.91	Anchor Flush, Round, 2X, 22R	\$	2.06	14000L MH ROADWAY	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 2X, 25ft	\$	15.55	Anchor Flush, Round, 2X, 25R	\$	2.14	16000L ACORN	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 2X, 30ft	\$	18.07	Anchor Flush, Round, 2X, 30R	\$	2.49	16000L HPS ARCH	\$ 2.79	\$ 0.06088
Anchor Flush, Round, 2X, 32ft	\$	19.28	Anchor Flush, Round, 2X, 32R	\$	2.66	16000L HPS ROADWAY	\$ 2.79	\$ 0.06088
Anchor Flush, Square, 5", 13ft	\$	13.95	Anchor Flush, Square, 5", 13R	\$	1.92	16000 HPS DECORATIVE TRANSIT	\$ 2.79	\$ 0.06088
Anchor Flush, Square, 5", 15ft	\$	12.47	Anchor Flush, Square, 5", 15R	\$	1.72	20000L MV	\$ 2.79	\$ 0.06088
Anchor Flush, Square, 5", 23ft	\$	14.79	Anchor Flush, Square, 5", 23R	\$	2.03	21000L MH ARCH	\$ 2.79	\$ 0.06088
Anchor Flush, Square, 5", 25ft	\$	16.26	Anchor Flush, Square, 5", 25R	\$	2.23	21000L MH FLOOD	\$ 2.79	\$ 0.06088
Anchor Flush, Square, 5", 28ft	\$	18.05	Anchor Flush, Square, 5", 28R	\$	2.48	21000L MH ROADWAY	\$ 2.79	\$ 0.06088
Anchor Flush, Square, 5", 32ft	\$	17.95	Anchor Flush, Square, 5", 32R	\$	2.47	22500L LPS ARCH	\$ 2.79	\$ 0.06088
Anchor Flush, Concrete, 12ft	\$	41.58	Anchor Flush, Concrete, 12ft	\$	5.73	2500 INC	\$ 2.79	\$ 0.06088
Anchor Flush, Fiberglass, 12ft	\$	35.21	Anchor Flush, Fiberglass, 12ft	\$	4.85	30000L HPS ARCH	\$ 2.79	\$ 0.06088
Anchor Flush, Dec Transit Ped, 4", 16ft	\$	34.33	Anchor Flush, Dec Transit Ped, 4", 16ft	\$	4.73	30000L HPS FLOOD	\$ 2.79	\$ 0.06088
Anchor Flush, Dec Transit, 6", 30ft	\$	66.28	Anchor Flush, Dec Transit, 6", 30ft	\$	9.13	30000L HPS ROADWAY	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 1X, 12ft	\$	11.71	Anchor Pedstl, Round, 1X, 12ft	\$	1.61	33000L LPS ARCH	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 1X, 22ft	\$	13.24	Anchor Pedstl, Round, 1X, 22ft	\$	1.82	36000L MH ARCH	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 1X, 25ft	\$	14.35	Anchor Pedstl, Round, 1X, 25ft	\$	1.98	36000L MH FLOOD	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 1X, 30ft	\$	16.58	Anchor Pedstl, Round, 1X, 30ft	\$	2.29	36000L MH ROADWAY	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 1X, 32ft	\$	17.41	Anchor Pedstl, Round, 1X, 32ft	\$	2.40	4000 INC	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 2X, 12ft	\$	12.51	Anchor Pedstl, Round, 2X, 12ft	\$	1.72	50000L HPS ARCH	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 2X, 22ft	\$	13.97	Anchor Pedstl, Round, 2X, 22ft	\$	1.92	50000L HPS FLOOD	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 2X, 25ft	\$	15.08	Anchor Pedstl, Round, 2X, 25ft	\$	2.07	50000L HPS ROADWAY	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 2X, 30ft	\$	17.61	Anchor Pedstl, Round, 2X, 30ft	\$	2.42	5800 HPS ROADWAY	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 2X, 32ft	\$	18.81	Anchor Pedstl, Round, 2X, 32ft	\$	2.59	6000 INC	\$ 2.79	\$ 0.06088
Anchor Pedstl, Round, 3 Bolt, 32ft	\$	21.62	Anchor Pedstl, Round, 3 Bolt, 32ft	\$	2.97	7000 MV	\$ 2.79	\$ 0.06088
Anchor Pedstl, Square, 5", 13ft	\$	13.50	Anchor Pedstl, Square, 5", 13ft	\$	1.86	8000L LPS ARCH	\$ 2.79	\$ 0.06088
Anchor Pedstl, Square, 5", 15ft	\$	13.80	Anchor Pedstl, Square, 5", 15ft	\$	1.89	9500L HPS ACORN	\$ 2.79	\$ 0.06088
Anchor Pedstl, Square, 5", 23ft	\$	14.32	Anchor Pedstl, Square, 5", 23ft	\$	1.98	9500L HPS ARCH	\$ 2.79	\$ 0.06088
Anchor Pedstl, Square, 5", 25ft	\$	15.80	Anchor Pedstl, Square, 5", 25ft	\$	2.19	9500L HPS COBRA/ROADWAY	\$ 2.79	\$ 0.06088
Anchor Pedstl, Square, 5", 28ft	\$	17.56	Anchor Pedstl, Square, 5", 28ft	\$	2.42	9500L HPS POST TOP BLACK	\$ 2.79	\$ 0.06088
Anchor Pedstl, Square, 5", 32ft	\$	18.23	Anchor Pedstl, Square, 5", 32ft	\$	2.50	9500L HPS POST TOP GRAY	\$ 2.79	\$ 0.06088
Direct Bury, Round, 19ft	\$	18.42	Direct Bury, Round, 19ft	\$	2.54	2300 LED COBRA	\$ 2.79	\$ 0.06088
Direct Bury, Round, 30ft	\$	14.38	Direct Bury, Round, 30ft	\$	2.66			
Direct Bury, Round, 38ft	\$	17.55	Direct Bury, Round, 38ft	\$	2.73	Trip Charge per Lamp	\$ 100.00	
Direct Bury, Self-Support, 40ft	\$	21.62	Direct Bury, Self-Support, 40ft	\$	3.42			
Direct Bury, Stopped, 49ft	\$	64.99	Direct Bury, Stopped, 49ft	\$	8.96			
Direct Bury, Square, 4", 34ft	\$	15.87	Direct Bury, Square, 4", 34ft	\$	2.75			
Direct Bury, Square, 5", 20ft	\$	15.07	Direct Bury, Square, 5", 20ft	\$	2.49			
Direct Bury, Square, 5", 30ft	\$	15.71	Direct Bury, Square, 5", 30ft	\$	2.59			
Direct Bury, Square, 5", 38ft	\$	17.05	Direct Bury, Square, 5", 38ft	\$	2.96			
Decorative Transit 41-6	\$	20.47	Decorative Transit 41-6	\$	3.01			
Decorative Transit 47	\$	25.50	Decorative Transit 47	\$	3.75			
Direct Bury, Steel Dist Pole, 35ft	\$	23.54	Direct Bury, Steel Dist Pole, 35ft	\$	3.10			
Post Top, Dec Transit, 16ft	\$	35.07	Post Top, Dec Transit, 16ft	\$	4.82			
Post Top, Gray Steel/Fiberglass, 23ft	\$	12.16	Post Top, Gray Steel/Fiberglass, 23ft	\$	2.00			
Post Top, Black Steel, 23ft	\$	13.41	Post Top, Black Steel, 23ft	\$	2.21			
FROZEN, Wood Poles, 30ft	\$	8.95	FROZEN, Wood Poles, 30ft	\$	1.55			
FROZEN, Wood Poles, 35ft	\$	8.95	FROZEN, Wood Poles, 35ft	\$	1.48			
Existing distribution pole	\$	1.48	Existing distribution pole	\$	-			
Flush, 4ft	\$	9.91	Flush, 4ft	\$	1.36			
Flush, 6ft	\$	11.82	Flush, 6ft	\$	2.05			
Pedestal, 8ft	\$	13.54	Pedestal, 8ft	\$	2.36			
Pedestal, 32' round steel pole, 4ft 6"	\$	9.39	Pedestal, 32' round steel pole, 4ft 6"	\$	1.63			

**Settlement Rate Summary for Classified Rates**

E-67 Proposed		E-221 Proposed		GS-SCHOOLS M Proposed	GS-SCHOOLS L Proposed
\$/kWh \$	0.05193	<b>E-221</b>	<b>Bundled Rates</b>	<b>Bundled Rates</b>	
			BSC \$/day \$ 0.588	BSC \$/day \$ 0.672	\$ 1.068
			kW \$ 2.357	Self-Contained \$ 1.324	\$ 1.627
			kWh Block 1 \$ 0.11228	Instrument-Rated \$ 3.415	\$ 3.419
			kWh Block 2 \$ 0.07633	Primary Voltage \$ 26.163	\$ 22.915
			kWh Block 3 \$ 0.06270	Transmission Voltage \$	
		<b>Minimum</b>	BSC \$/day \$ 0.558	<b>Demand Charge</b>	
			kW \$ 2.357	1st 100 kW (Secondary) \$ 9.612	\$ 9.311
				Over 100 kW (Secondary) \$ 5.113	\$ 4.954
		<b>E-221-RT</b>	BSC \$/day \$ 0.964	1st 100 kW (Primary) \$ 8.919	\$ 8.636
			On-Peak kW \$ 5.608	Over kW (Primary) \$ 4.419	\$ 4.282
			Off-Peak kW \$ 3.351	1st 100 kW (Transmission) \$ 6.953	\$ 6.736
			On-Peak kWh \$ 0.09205	Over kW (Transmission) \$ 2.454	\$ 2.377
			Off-Peak kWh \$ 0.04952		
		<b>Minimum</b>	BSC \$/day \$ 0.964	<b>Energy Charge</b>	
			kW \$ 3.351	Summer Peak (Jun-Aug)	
				On-Pk kWh \$ 0.17343	\$ 0.15355
				Should-Pk kWh \$ 0.12847	\$ 0.11374
				Off-Pk kWh \$ 0.06487	\$ 0.06285
				<b>Summer Shoulder (May, Sep &amp; Oct)</b>	
				On-Pk kWh \$ 0.14977	\$ 0.13260
				Should-Pk kWh \$ 0.11095	\$ 0.09821
				Off-Pk kWh \$ 0.05602	\$ 0.05428
				<b>Winter (Nov-Apr)</b>	
				On-Pk kWh \$ 0.11607	\$ 0.10276
				Should-Pk kWh \$ 0.08599	\$ 0.07612
				Off-Pk kWh \$ 0.04342	\$ 0.04206

### Settlement Rate Summary for Classified Rates

Community Power - Flagstaff (CMPW-01)		Rural School Solar Program (RSSP)		E-56 R	Contract 12
Solar Charge \$/kWh		Solar Charge \$/kWh		SC-S renamed	Proposed
Applicable Rate Schedules		Applicable Rate Schedules		Charges are per special contract	
E-12	\$ 0.11242	E-32 S, E-32 M, E-32 L	\$ 0.09293		Per Delivery Point \$ 16.44
ET-2	\$ 0.13480	E-32TOU S, E-32TOU M, E-32TOU L	\$ 0.05855		\$/kWh \$ 0.08479
E-32 S, E-32 M, E-32 L	\$ 0.09293	GS-SCHOOLS M, GS-SCHOOLS L	\$ 0.07158		
E-32TOU S, E-32TOU M, E-32TOU L	\$ 0.05855				

### Settlement Rate Summary for Low Income Discounts

<b>E-3 Discount</b>	<b>Proposed</b>
block1 (0-400 kWh)	65.0%
block2 (400-800 kWh)	45.0%
block3 (800-1200 kWh)	26.0%
block4 (over 1200 kWh) \$/bill	31.75
<b>E-4 Discount</b>	
block1 (0-800 kWh)	65.0%
block2 (800-1400 kWh)	45.0%
block3 (1400-2000 kWh)	26.0%
block4 (over 2000 kWh) \$/bill	\$ 60.00

**COMMISSIONERS**  
**GARY PIERCE - Chairman**  
**BOB STUMP**  
**SANDRA D. KENNEDY**  
**PAUL NEWMAN**  
**BRENDA BURNS**



**ARIZONA CORPORATION COMMISSION**

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May 17, 2012

APS Rates  
 Vote Explanation

Due to the time limit imposed to explain our vote, I am submitting this letter explaining my vote on the **APS Rate Case Settlement, Docket No. E-01345A-11-0224**.

It would be fair to say that this was a tough vote. As with any settlement agreements, there is always a provision or two that may cause some consternation. However, in fulfilling my constitutional obligation to set just and reasonable rates, it was prudent to consider the entirety of the agreement in balancing the public interest.

I want to thank all the parties in this case. As many have mentioned, to get all the parties with their own interests and agendas to reach consensus is no easy task. However, much of the credit for reaching an agreement in record time is due to the leadership of our ACC staff. I hope getting this case done in less than a year negates any criticisms of alleged regulatory lag at the Arizona Corporation Commission.

Also, I think it is important that this settlement agreement contains many provisions that will provide significant benefits to APS rate payers:

- No increase in the base rate for four years, which I believe will provide rate stability;
- A zero percent bill impact for the remainder of 2012 allowing for rate relief during the high energy usage associated with our summer months.
- Bill assistance for additional low income customers at the expense of the Company's shareholders;
- A process for simplifying customers' bills to allow ratepayers more clarity and transparency;
- A mechanism that supports energy efficiency and distributed generation programs to meet the Commission rules;

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- The saving of hundreds of jobs on the Navajo Reservation, while retiring the dirtiest coal units in the region;
- The identification by APS of the challenges regarding workforce planning when dealing with an aging workforce.

In addition to the settlement provisions, I was able to get APS to confirm and commit that their new experimental buy-through rate will be open to all large customers who meet the qualifications, not just a few corporate giants. It will be possible for hospitals, educational institutions and houses of worship to participate in the process if they qualify.

While there are many benefits for ratepayers, I find it necessary to voice my concerns with an amendment that I voted against. I believe the amendment's language, which will now impose an increased surcharge for those who decide to install a solar unit, will have a chilling effect on the growth of solar in our State. In addition, it may burden those making an investment in solar.

Unfortunately, there is a myth that ratepayers who receive solar incentives are gaming the system and are getting their solar units free. However, incentives and tax credits alone do not cover the cost of a solar unit. Those ratepayers who install solar are making a substantial financial investment.

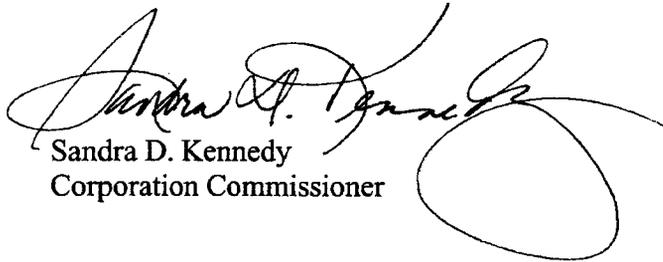
It might be asserted that not all ratepayers benefit from the incentives, but I do not agree with that position. Some may not be able to have their own rooftop system, but they will nonetheless benefit from overall system-wide efficiencies that will result from the installation of distributed solar generation. For example, as their neighbors install solar units, those installations will defer the need to build costly generation plants and transmission lines. In addition, solar energy promotes a cleaner environment, which means fewer pollutants in the air we breathe. Further, having an industry that has helped grow our sagging economy provides real and measurable benefits for everyone.

I appreciate, that some view this issue as a matter of fairness, however I find it ironic that those making this argument would then support a policy that will require APS to provide 1,000 feet of free footage for line extensions for new home construction. Those costs eventually will be paid by all APS ratepayers.

As I mentioned earlier, this was a tough vote for me, because I was uncomfortable with the inclusion of the new solar surcharge and free line extension provisions. I only hope that in the name of "fairness" we do not turn back all the progress our State has made in being a leader when it comes to Solar Energy.

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However, I believe this settlement agreement has positive aspects for ratepayers, which outweighed those two policy changes. I voted to approve the settlement agreement because it is in the public interest.



Sandra D. Kennedy  
Corporation Commissioner