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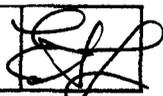
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Arizona Corporation Commission

DOCKETED

DEC 30 2013

Attorneys for Arizona Public Service Company

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

13 BOB STUMP, Chairman
 14 GARY PIERCE
 15 BRENDA BURNS
 16 ROBERT L. BURNS
 17 SUSAN BITTER SMITH

18 IN THE MATTER OF THE APPLICATION
 19 OF ARIZONA PUBLIC SERVICE
 20 COMPANY FOR A HEARING TO
 21 DETERMINE THE FAIR VALUE OF THE
 UTILITY PROPERTY OF THE COMPANY
 FOR RATEMAKING PURPOSES, TO FIX
 A JUST AND REASONABLE RATE OF
 RETURN THEREON, TO APPROVE RATE
 SCHEDULES DESIGNED TO DEVELOP
 SUCH RETURN.

DOCKET NO. E-01345A-11-0224

**APPLICATION TO APPROVE
FOUR CORNERS RATE RIDER**

22 Arizona Public Service Company purchased Southern California Edison's 48%
 23 share in Units 4 and 5 of the Four Corners Power Plant on December 30, 2013. This
 24 purchase will maintain the diversity of energy resources serving APS's customers,
 25 provide economic benefit to the Navajo Nation and provide APS customers with long
 26 term economic value over the life of Four Corners. Pursuant to Decision No. 73130
 27 (April 24, 2012) and the Arizona Corporation Commission's order adopting the
 28

1 settlement in APS's last rate case,¹ APS now requests that the Commission approve a
2 Four Corners Rate Rider to permit recovery of a \$62.53 million annual revenue
3 requirement. This revenue requirement reflects the costs associated with (i) APS's
4 acquisition of SCE's share of Units 4 and 5; (ii) the retirement of Four Corners Units 1-
5 3; and (iii) the deferred costs authorized in Decision No. 73130.

6 This Application is supported by the attached testimonies of Jeffrey Guldner and
7 Elizabeth Blankenship. Ms. Blankenship describes the various rate base and operating
8 income adjustments that comprise the \$62.53 million revenue requirement and how the
9 Rate Rider was calculated. Mr. Guldner provides policy insights, customer bill impacts,
10 and testimony supporting the prudence of the transaction.

11 **I. BACKGROUND**

12 On December 30, 2013, APS acquired SCE's interest in Four Corners. On the
13 heels of this acquisition, by January 2014, APS will close Units 1, 2 and 3 of Four
14 Corners. The combination of the acquisition and closures increases APS's total
15 generating capacity of Four Corners from 791 MW to 970 MW of this stably priced base
16 load generation.

17 APS's purchase of SCE's interest brings value to APS customers. First, the
18 acquisition permits the plant, for which customers have been paying for decades, to
19 remain open. Were the plant to have closed, APS would have had to acquire replacement
20 base load generation and advance the construction of additional infrastructure. This
21 alternative would have resulted in significant costs to APS customers and reduced APS's
22 flexibility to purchase economic wholesale power in the spot markets.² Further,
23 replacing Four Corners with natural gas would have significantly reduced APS's
24 resource diversity, exposing customers to added risk associated with fuel price
25 uncertainty and unforeseen events affecting the price and deliverability of natural gas.

26
27
28 ¹ Decision No. 73183 (May 24, 2012).

² Decision No. 73130 at 31.

1 The Four Corners acquisition provides other benefits as well. Because Four
2 Corners provides over one-third of the Navajo Nation's annual general fund, the closure
3 of Four Corners would have devastated the Navajo Nation. Moreover, the closure of
4 Four Corners Units 1, 2 and 3 (less efficient coal units) and the installation of
5 environmental upgrades on the more efficient Units 4 and 5 will significantly reduce
6 Four Corners pollutant emissions. In light of the fuel diversity benefits and long term
7 value to customers provided by the Four Corners acquisition, it is clear why the
8 Commission considered the Four Corners acquisition to be "a genuine, unanticipated
9 opportunity to acquire a power supply resource at a clear and significant discount,
10 compared to the cost of acquiring new generating facilities, [that] will provide a unique
11 value to APS's customers."³

12 It is for these substantial benefits that APS previously sought from the
13 Commission an accounting order to defer for future recovery (i) the non-fuel costs
14 associated with acquiring SCE's interest in Four Corners; and (ii) the costs associated
15 with Units 1-3, including costs incurred in connection with closing Units 1-3. In
16 Decision No. 73130, the Commission both approved this accounting order and
17 authorized APS to acquire SCE's interest in Four Corners.⁴

18 Subsequently, in connection with APS's last rate case, the Commission issued a
19 second order regarding the Four Corners acquisition.⁵ In Decision No. 73183, the
20 Commission held open APS's rate case for the purpose of allowing APS to request that
21 its rates be adjusted to reflect the Four Corners transaction.⁶ The order required that APS
22 file this application within ten days of acquiring SCE's interest, but no later than
23 December 31, 2013, and specifically authorized APS to request that its rates be adjusted
24 to reflect "the acquisition of SCE's share of Units 4 and 5, the rate base and expense
25 affects associated with retirements of Units 1-3, and any cost deferral authorized in
26

27 ³ Decision No. 73130 at 31.

28 ⁴ See Docket No. E-01345A-10-0474, Decision No. 73130 at 43-44.

⁵ See Docket No. E-01345A-11-0224, Decision No. 73183.

⁶ Decision No. 73183, Exhibit A, ¶ 10.2.

1 Docket No. E-01345A-10-0474.”⁷ This filing seeks to do just that: APS now requests
2 that it be permitted to recover in rates (i) costs associated with acquiring SCE’s share of
3 Units 4 and 5; (ii) the costs associated with retiring Units 1-3; and (iii) the deferral
4 balance authorized in Decision No. 73130.

5 **II. RELIEF REQUESTED**

6 APS seeks to recover in rates those items that the Commission identified in
7 APS’s last rate case and the Four Corners deferral order: the costs associated with
8 acquiring SCE’s interest in Units 4 and 5, the costs to close Units 1-3, and the deferral
9 balance authorized in Decision No. 73130. The total annual revenue requirement for
10 which APS seeks approval to recover in rates is \$62.53 million. As explained by APS
11 Witness Elizabeth Blankenship, this revenue requirement reflects both the rate base
12 adjustments and expense effects associated with the acquisition, closure, and deferral
13 balance.⁸ APS’s requested relief would result in a Four Corners Base Rate Rider that
14 would raise the average customer bill by approximately 2%.⁹

15 Consistent with Section 10.3 of the Settlement Agreement in APS’s last rate case,
16 this Application contains (1) APS’s most current balance sheet, attached as EAB-1 to
17 Ms. Blankenship’s testimony; (2) APS’s most current APS income statement, attached
18 as EAB-2 to Ms. Blankenship’s testimony; (3) an earnings schedule demonstrating that
19 the relief requested in this Application will not result in a return on rate base in excess of
20 what the Commission authorized in Decision No. 73183, attached as EAB-3 to Ms.
21 Blankenship’s testimony; (4) a revenue requirement calculation that includes the
22 amortization of any deferred costs, attached as EAB-4 through EAB-8 to Ms.
23 Blankenship’s testimony; (5) an adjustment rider that recovers the rate base and non-
24 PSA related expenses associated with any Four Corners acquisition, attached as EAB-9
25 to Ms. Blankenship’s testimony; (6) an adjusted rate base schedule, attached as EAB-5
26 to Ms. Blankenship’s testimony; and (7) a typical bill analysis under present and filed

27 ⁷ Decision No. 73183, Exhibit A, ¶ 10.2.

28 ⁸ See Direct Testimony of Elizabeth A. Blankenship at 3.

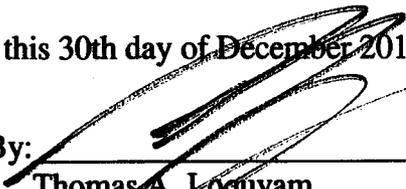
⁹ See Direct Testimony of Jeffrey B. Guldner at 10.

1 rates, attached as JBG-1 to the testimony of Jeff Guldner. Please note that Attachment
2 EAB-3 to Ms. Blankenship's testimony contains confidential information and has been
3 filed under seal for the Commission's confidential review.

4 **III. CONCLUSION**

5 APS acquired SCE's interest in Units 4 and 5 because the alternative was the
6 closure of Four Corners, devastation to the Navajo Nation, great cost to customers in
7 securing replacement power, and more risk caused by the lack of fuel diversity. APS
8 now requests that the Commission grant APS's requested relief by approving the Four
9 Corners Rate Rider.

10
11 **RESPECTFULLY SUBMITTED** this 30th day of December 2013.

12
13 By: 
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17 Attorneys for Arizona Public Service Company

18 ORIGINAL and thirteen (13) copies
19 of the foregoing filed this 30th day of
20 December 2013, with:

21 Docket Control
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**Jeffrey Guldner
Testimony**

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DIRECT TESTIMONY OF JEFFREY B. GULDNER

On Behalf of Arizona Public Service Company

Docket No. E-01345A-11-0224

December 30, 2013

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Schedule 7 - Sample Bill Impact Analysis Attachment JBG-1

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

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND POSITION WITH ARIZONA PUBLIC SERVICE COMPANY (“APS” OR “COMPANY”).

A. My name is Jeffrey B. Guldner. I am Senior Vice President of Customers and Regulation for APS. My business address is 400 N. 5th Street, Phoenix, Arizona, 85004.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I joined APS in 2004 as Director of Regulatory Compliance and then assumed responsibility for federal regulation and policy. I was named to my present position in 2012. Prior to joining APS, I was a partner in the Phoenix office of Snell & Wilmer LLP, where I practiced energy and public utility law. That practice specifically focused on electric utility rate and regulatory matters, including general rate cases, power plant and transmission line siting, energy project finance, and utility mergers. Before practicing law, I served as a Surface Warfare Officer in the United States Navy. My education includes a B.A. in political science from the University of Iowa and a J.D., *magna cum laude*, from Arizona State University.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. I outline the Company’s Application and explain its relationship both to the current Docket, which is simply an extension of the last APS general rate proceeding, and to the 2012 Arizona Corporation Commission (“Commission”)

1
2 decision authorizing APS to proceed with the acquisition of Southern California
3 Edison Company's ("SCE") share of Four Corners Units 4 and 5 ("FC 4-5") and
4 granting APS a deferral of certain costs associated with that acquisition prior to a
5 final decision on the Company's present Application. See Decision Nos. 73183
6 (May 24, 2012) and 73130 (April 24, 2012). These two Commission decisions,
7 taken together, form the basis for the Company's request as set forth in its
8 Application. Finally, I discuss some of the developments in 2013 that have
9 delayed the closing of the FC 4-5 transaction and why the transaction continues
10 to be a benefit for both our customers and Arizona.

11 **II. SUMMARY**

12 **Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.**

13 **A.** Including APS's incremental investment in SCE's share of FC 4-5 in rates, along
14 with the ability to defer certain costs pursuant to Decision No. 73130, were
15 important components of the Settlement agreed to by APS in December 2011 and
16 approved by Decision No. 73183 ("Settlement"). These authorizations permitted
17 the Company to agree to a four-year base rate stay out and to the other
18 concessions that APS made in the process of negotiating the Settlement in that
19 proceeding.

20
21 Decision No. 73130, which preceded the approval of the 2012 Settlement by one
22 month, determined the Company had proven each element of the exhaustive set
23 of criteria established by the Commission in 2005 as prerequisites to be met
24 before APS could acquire an interest in an existing generating facility (in this
25 case, the incremental portion of FC 4-5). See Decision No. 67744 (April 5,
26 2005). As I will discuss later, these are precisely the same criteria typically
27 considered when deciding the prudence of a power plant investment.

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Finally, I address some of the challenges APS had to overcome to consummate this transaction with SCE and explain how the delay in the final closing of the sale, which had been anticipated a year earlier, has affected the revenue and customer bill impact of this acquisition.

III. CONNECTION OF PRESENT APPLICATION TO DECISION NO. 73183

Q. HOW DID THE 2012 RATE SETTLEMENT AND DECISION NO. 73183 ADDRESS THE COMPANY'S THEN-PENDING ACQUISITION OF SCE'S INTEREST IN FC 4-5?

A. In Section 10.2 of the Settlement and again in Decision No. 73183, the Commission stated that:

[T]his 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.

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In this Application, APS is seeking to include in rates “the rate base and expense effects associated with the acquisition of SCE’s share of [FC] Units 4 and 5, the rate base and expense effects associated with the retirement of [FC] Units 1-3 and any cost deferral authorized in Docket No. E-01345A-10-0474.” The Company is not requesting the PSA modification referenced above for reasons I will discuss.

Q. WHY WAS SECTION 10.2 OF THE SETTLEMENT IMPORTANT TO THE COMPANY?

A. The concept of keeping the 2011-12 general rate case docket open to recover the incremental costs of owning and operating SCE’s share of FC 4-5 and the deferrals authorized by Decision No. 73130 originated from Staff’s rate case testimony. It was critical to the Company’s ability to accept the overall terms of the Settlement that this concept be included in the final agreement. This was the case for two principle reasons.

The first was to minimize the rate impact of the cost deferrals on APS customers. If costs had continued to accumulate through at least mid-2016, they would have been many times higher and the rate impact on APS customers correspondingly many times greater.

The second reason is because APS knew the cost deferrals permitted by Decision No. 73130 were less than the full cost of owning and operating SCE’s share of FC 4-5 due to the lack of any equity return and the inability to compound the debt component of the return. This earnings shortfall could not, absent the provision of the Settlement and Decision No. 73183 quoted above, be addressed until the

1
2 middle of 2016 at the earliest. Further, APS knew that other provisions agreed to
3 in the Settlement, such as AG-1 and an under-compensatory Lost Fixed Cost
4 Recovery mechanism, would progressively erode Company earnings over time.
5 Thus, it was vital to have a way of minimizing the earnings impact of the FC 4-5
6 acquisition by means of the instant proceeding.

7 **IV. RELEVANCE OF DECISION NO. 73130**

8 **Q. WHY DID APS FILE THE APPLICATION THAT RESULTED IN**
9 **DECISION NO. 73130?**

10 **A.** Decision No. 67744 imposed certain restrictions on the Company's ability to
11 construct or acquire an ownership interest in additional generating capacity.
12 Except in certain circumstances not applicable here,¹ that Decision requires that
13 the Commission expressly pre-approve "the acquisition of a unit or interest in a
14 generating unit from any merchant or utility generator" with an in-service date
15 prior to January 1, 2015. *See* Decision No. 67744 (Finding of Fact 33).

16
17 The Decision also sets forth the criteria APS needed to address when seeking
18 such approval:

- 19 a) The Company's specific unmet needs for additional long-term resources;
- 20 b) The Company's efforts to secure adequate and reasonably-priced long-
21 term resources from the competitive wholesale market to meet these
22 needs;
- 23 c) The reasons why APS believes those efforts have been unsuccessful, either
24 in whole or in part;

25
26 ¹ Several exceptions to the need to seek prior Commission authorization are identified in Decision No.
27 67744. These include renewable resources, distributed generation less than 50 MW, temporary
28 generation, etc. *See* Decision No. 67744 at Attachment A, Paragraph 74.

- 1
- 2 d) The extent to which the request to self-build generation is consistent with
- 3 any applicable Company resource plans and competitive resource
- 4 acquisition rules or orders resulting from the workshop/rulemaking
- 5 proceeding described in paragraph 79; and
- 6 e) The anticipated life-cycle cost of the proposed self-build option in
- 7 comparison with suitable alternatives available from the competitive
- 8 market for a comparable period of time.

9 *See* Decision No. 67744 at Appendix A, Paragraph 75.

10 The Company also requested an accounting order allowing it to defer for later

11 recovery the costs of owning and operating the SCE interest in FC 4-5, as well as

12 costs associated with closing down FC Units 1-3 between the time of

13 acquisition/closure and when those costs were actually reflected in retail electric

14 rates.

15 **Q. DID THE COMMISSION FIND THAT APS HAD SATISFIED EACH OF**

16 **THE ABOVE CRITERIA WITH REGARD TO ITS ACQUISITION OF**

17 **SCE'S INTEREST IN FC 4-5?**

18 **A.** Yes. *See* Decision No. 73130 at 28.

19 **Q. DID THE COMMISSION FIND THAT SUCH ACQUISITION WAS**

20 **"PRUDENT?"**

21 **A.** Decision No. 73130 specifically reserved any finding of "prudence." But the

22 criteria identified in Decision No. 67744 for exceptions to the so-called "self-

23 build moratorium" -- criteria the Commission found APS to have satisfied in

24 Decision No. 73130 -- are exactly those that, in my experience, this and other

25 regulatory agencies have considered when determining that a new generation

26 resource investment was prudent.

27

28

1
2 **Q. IS THERE ANY COMMISSION REGULATION THAT ADDRESSES THE**
3 **PRUDENCE OF A UTILITY'S INVESTMENT IN PLANT TO SERVE**
4 **THE PUBLIC?**

5 A. Yes. A.A.C. R14-1-103(A)(3)(I) states that "prudently invested" means
6 investments that are "reasonable and not dishonest or obviously wasteful." The
7 regulation goes on to state that "all investments shall be presumed to have been
8 prudently made," and that this presumption can only be overcome by "clear and
9 convincing evidence" to the contrary.

10 **Q. DID OTHER AFFECTED PARTIES COMMENT FAVORABLY UPON**
11 **THIS TRANSACTION?**

12 A. Yes. As noted by the Commission in Decision No. 73130, the Residential Utility
13 Consumers Office ("RUCO") strongly supported APS's acquisition of SCE's
14 interest in FC 4-5:

15 RUCO also agreed that APS' proposed transaction significantly
16 reduces carbon dioxide and other pollutant emissions; it "preserves
17 the diversity of APS' current generation portfolio while tempering
18 the Company's exposure to volatile natural gas prices;" it maintains
19 the mix of reliable baseload energy; and it "saves hundreds of jobs
20 and millions of dollars of revenue that are critical to the Navajo
21 Nation and local economy."

22 *See* Decision No. 73130 at 12.

23 Decision No. 73130 went on to say: "RUCO believes that the proposed
24 transaction is in the best interest of ratepayers and provides numerous economic
25 and environmental benefits." *Id.* at 23.

26 **Q. WHY DID IT TAKE SO LONG TO CLOSE THIS TRANSACTION?**

27 A. There have been numerous challenges along the road to closing this transaction.
28 BHP decided it would discontinue its coal operations once the original contract

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with FC expired in 2016. The Navajo Nation successfully negotiated the purchase of the coal operations at FC, but that took time. Several of the participants, including APS, were occupied for several months with other regulatory issues that delayed the closing, and most recently, El Paso Electric Company (“El Paso”) notified APS of its unwillingness to sign the 2016 Coal Supply Agreement. All through these ups and downs, APS remained staunchly committed to the transaction for the very same reasons cited by the Commission in Decision No. 73130: fuel diversity, economic benefit to the Navajo Nation and Arizona communities near FC, and customer benefit over the anticipated remaining life of FC 4-5.

Q. ARE THOSE REASONS STILL VALID TODAY?

A. Yes. Fuel diversity is more important than ever with the increasing reliance of the entire electric industry on natural gas. FC is still as vital to the Navajo Nation’s economy and to those communities surrounding the plant. And, despite generally lower gas prices, the SCE interest in FC 4-5 is forecast to provide long-term value to APS customers.

Q. WHY IS APS NOT SEEKING TO MODIFY THE PSA TO ACCOUNT FOR CONTINUED OPERATION OF FC UNITS 1-3, AS AUTHORIZED BY DECISION NO. 73183?

A. APS is required to shut down Units 1-3 as part of the EPA negotiations by January 1, 2014. Therefore, APS will retire Units 1-3 before year end. The changes to the PSA discussed in the FC section of the 2012 Settlement are, thus, no longer necessary.

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V. REVENUE AND BILL IMPACT

Q. **WHAT IS THE ADDITIONAL REVENUE REQUESTED BY THE COMPANY AND WHAT WILL BE THE IMPACT ON CUSTOMERS?**

A. APS Witness Elizabeth Blankenship's Testimony describes the details of the revenue requirement calculation. At a high level, the decrease in the purchase price (\$7.5 million per month since October 2012) has more than offset some higher operating costs and leftover costs attributable to closing Units 1-3 earlier than had been anticipated in early 2012. Thus, the revenue requirement of approximately \$70 million that had been estimated at the time of the Settlement's approval in Decision No. 73183 has been reduced to \$62.53 million. The slightly over 3% bill impact projected in 2012 is now approximately 2.0%.² A sample bill analysis is attached to my Testimony as Attachment JBG-1. This Attachment also satisfies Section 10.3 of the Settlement Agreement's requirement to file a typical bill analysis (Schedule 7) under present and filed rates.

Q. **HOW WILL THIS PERCENTAGE INCREASE BE APPLIED?**

A. The percentage increase will be applied as an equal percentage to the base rate portion of customers' bills as contemplated by the Settlement. APS requests that this percentage increase be applied to the "APS" portion of an AG-1 customer's bill, but not to the portion representing a pass through of charges from such customer's Alternative Generation Provider. Also, E-36XL customers should be treated similar to AG-1 customers due to their unique customer profile.

² Note that the Rider schedule attached to APS Witness Blankenship's Testimony shows the percentage increase of 2.22%. The difference between that number and the 2% referenced in my Testimony above is that the Rider is applied to only the base rate portion of a customers' bill. However it is important to a customer to know the total bill impact, which is why the 2% bill impact is included in my testimony.

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Q. WHAT EFFECTIVE DATE IS APS PROPOSING FOR THE RATE RIDER TO BE IMPLEMENTED?

A. APS has assumed that the Rider will become effective on July 1, 2014 for purposes of calculating the deferral. As noted in APS Witness Elizabeth Blankenship's testimony, if the Rider is implemented after that date, there will be additional cost deferrals to recover. The Settlement directed parties to use "good faith" efforts to process the Rider within a "reasonable time," and APS believes this proceeding should be concluded as soon as is possible to minimize the eventual impact on APS customers.³

VI. CONCLUSION

Q. WOULD YOU SUMMARIZE YOUR CONCLUSIONS ABOUT THE COMPANY'S PRESENT APPLICATION?

A. The Company's Application should be granted. Decisions Nos. 73130 and 73183 have been fully complied with, and there would appear to be no reason for any lengthy delay. APS's purchase of SCE's interest in FC 4-5 was and remains a good deal for Arizona, the Navajo Nation, and APS customers.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

³ See Section 10.4 of the Settlement Agreement.

ARIZONA PUBLIC SERVICE COMPANY
Schedule 7 - FOUR CORNERS RATE RIDER
Estimated Monthly Bill Impacts of Four Corners Adjustor

	Requested July 2014		Requested July 2014		Requested July 2014	
	Current	Requested July 2014	Current	Requested July 2014	Current	Requested July 2014
	Annual Average Monthly Bill ¹	Annual Average Monthly Bill ²	Summer Monthly Bill	Summer Monthly Bill	Winter Monthly Bill	Winter Monthly Bill
Commercial (Rate E-32, >20 kW)						
Average kWh per Month	62,238	62,238	68,381	68,381	56,094	56,094
Base Rates	\$ 5,977.26	\$ 5,977.26	\$ 7,044.20	7,044.20	\$ 4,910.31	\$ 4,910.31
Four Corners Adjustment	\$ -	\$ 132.70	\$ -	\$ 156.38	\$ -	\$ 109.01
PSA- Forward Component	\$ 79.48	\$ 79.48	\$ 87.32	\$ 87.32	\$ 71.63	\$ 71.63
PSA - Historical Component	\$ 17.43	\$ 17.43	\$ 19.15	\$ 19.15	\$ 15.71	\$ 15.71
TCA	\$ 165.94	\$ 165.94	\$ 177.69	\$ 177.69	\$ 154.18	\$ 154.18
RES	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49
DSMAC	\$ 189.52	\$ 189.52	\$ 202.94	\$ 202.94	\$ 176.09	\$ 176.09
LFCR	\$ 13.16	\$ 13.43	\$ 15.37	\$ 15.68	\$ 10.96	\$ 11.18
Total	\$ 6,595.28	\$ 6,728.25	\$ 7,699.16	\$ 7,855.85	\$ 5,491.37	\$ 5,600.60
Bill Impact		\$ 132.97				
		2.02%				

	Requested July 2014		Requested July 2014		Requested July 2014	
	Current	Requested July 2014	Current	Requested July 2014	Current	Requested July 2014
	Annual Average Monthly Bill ¹	Annual Average Monthly Bill ²	Summer Monthly Bill	Summer Monthly Bill	Winter Monthly Bill	Winter Monthly Bill
Commercial (Rate E-32 M)						
Average kWh per Month	62,238	62,238	68,381	68,381	56,094	56,094
Base Rates	\$ 6,431.49	\$ 6,431.49	\$ 7,407.75	7,407.75	\$ 5,455.22	\$ 5,455.22
Four Corners Adjustment	\$ -	\$ 142.78	\$ -	\$ 164.45	\$ -	\$ 121.10
PSA- Forward Component	\$ 79.48	\$ 79.48	\$ 87.32	\$ 87.32	\$ 71.63	\$ 71.63
PSA - Historical Component	\$ 17.43	\$ 17.43	\$ 19.15	\$ 19.15	\$ 15.71	\$ 15.71
TCA	\$ 165.94	\$ 165.94	\$ 177.69	\$ 177.69	\$ 154.18	\$ 154.18
RES	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49
DSMAC	\$ 189.52	\$ 189.52	\$ 202.94	\$ 202.94	\$ 176.09	\$ 176.09
LFCR	\$ 14.07	\$ 14.36	\$ 16.09	\$ 16.42	\$ 12.05	\$ 12.29
Total	\$ 7,050.42	\$ 7,193.49	\$ 8,063.43	\$ 8,228.21	\$ 6,037.37	\$ 6,158.71
Bill Impact		\$ 143.07				
		2.03%				

	Requested July 2014		Requested July 2014		Requested July 2014	
	Current	Requested July 2014	Current	Requested July 2014	Current	Requested July 2014
	Annual Average Monthly Bill ¹	Annual Average Monthly Bill ²	Summer Monthly Bill	Summer Monthly Bill	Winter Monthly Bill	Winter Monthly Bill
Commercial (Rate E-32 L)						
Average kWh per Month	290,507	290,507	314,925	314,925	266,089	266,089
Base Rates	\$ 24,709.54	\$ 24,709.54	\$ 29,456.69	\$ 29,456.69	\$ 19,962.38	\$ 19,962.38
Four Corners Adjustment	\$ -	\$ 548.57	\$ -	\$ 653.94	\$ -	\$ 443.20
PSA- Forward Component	\$ 370.98	\$ 370.98	\$ 402.16	\$ 402.16	\$ 339.80	\$ 339.80
PSA - Historical Component	\$ 81.34	\$ 81.34	\$ 88.18	\$ 88.18	\$ 74.50	\$ 74.50
TCA	\$ 607.71	\$ 607.71	\$ 674.34	\$ 674.34	\$ 541.08	\$ 541.08
RES	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49
DSMAC	\$ 694.07	\$ 694.07	\$ 770.16	\$ 770.16	\$ 617.97	\$ 617.97
Total	\$ 26,616.13	\$ 27,164.70	\$ 31,544.02	\$ 32,197.96	\$ 21,688.22	\$ 22,131.42
Bill Impact		\$ 548.57				
		2.06%				

ARIZONA PUBLIC SERVICE COMPANY
Schedule 7 - FOUR CORNERS RATE RIDER
Estimated Monthly Bill Impacts of Four Corners Adjustor

	Current	Requested July 2014	Current	Requested July 2014	Current	Requested July 2014
	Annual Average Monthly Bill ¹	Annual Average Monthly Bill ²	Summer Monthly Bill	Summer Monthly Bill	Winter Monthly Bill	Winter Monthly Bill
Industrial (Rate E34/35)						
Average kWh per Month	3,581,412	3,581,412	3,729,201	3,729,201	3,433,622	3,433,622
Base Rates	\$ 249,125.86	\$ 249,125.86	\$ 259,882.57	\$ 259,882.57	\$ 238,369.15	\$ 238,369.15
Four Corners Adjustment	\$ -	\$ 5,530.60	\$ -	\$ 5,769.39	\$ -	\$ 5,291.80
PSA - Forward Component	\$ 4,573.47	\$ 4,573.47	\$ 4,762.19	\$ 4,762.19	\$ 4,384.74	\$ 4,384.74
PSA - Historical Component	\$ 1,002.80	\$ 1,002.80	\$ 1,044.18	\$ 1,044.18	\$ 961.41	\$ 961.41
TCA	\$ 8,618.22	\$ 8,618.22	\$ 9,090.63	\$ 9,090.63	\$ 8,145.81	\$ 8,145.81
RES	\$ 3,335.00	\$ 3,335.00	\$ 3,335.00	\$ 3,335.00	\$ 3,335.00	\$ 3,335.00
DSMAC	\$ 6,395.98	\$ 6,395.98	\$ 6,746.57	\$ 6,746.57	\$ 6,045.38	\$ 6,045.38
Total	\$ 273,051.33	\$ 278,581.93	\$ 284,861.14	\$ 290,630.53	\$ 261,241.49	\$ 266,533.29
Bill Impact		\$ 5,530.60				
		2.03%				

Notes:

- (1) Bill excludes regulatory assessment charge, taxes and fees. Adjustor levels in effect as of December 19, 2013.
- (2) Adjustor levels in effect as of December 20, 2013
- (3) Includes PSA rate effective February 1, 2014

**Elizabeth Blankenship
Testimony**

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DIRECT TESTIMONY OF ELIZABETH A. BLANKENSHIP

On Behalf of Arizona Public Service Company

Docket No. E-01345A-11-0224

December 30, 2013

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1 **DIRECT TESTIMONY OF ELIZABETH A. BLANKENSHIP**
2 **ON BEHALF OF ARIZONA PUBLIC SERVICE COMPANY**
 (Docket No. E-01345A-11-0224)

3 I. INTRODUCTION

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

6 A. My name is Elizabeth A. Blankenship. I am a Manager in the
7 Revenue/Regulatory Accounting Department for Arizona Public Service
8 Company (“APS” or “Company”), a subsidiary of Pinnacle West Capital
9 Corporation (“Pinnacle West”). I am primarily responsible for the revenue and
10 regulatory accounting, asset accounting, accounts receivable and cash control
11 functions at Pinnacle West and APS. My business address is 400 North Fifth
12 Street, Phoenix, Arizona 85004.

13 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
14 **BACKGROUND?**

15 A. I received a Bachelor of Science degree in Business with a major in Accounting
16 from Arkansas State University in 1993. From 1993 to 2000, I was employed as
17 an Accountant for two companies in the long-term healthcare service industry. I
18 joined APS in October 2000 as a senior accountant and spent the past 13 years
19 working for APS in the Financial Reporting Department, Accounting Operations
20 Department, and most recently the Revenue/Regulatory Accounting Department.

21 Prior to my transition to the Revenue/Regulatory Accounting Department in
22 September 2012, I was responsible for the fossil generation accounting functions
23 at APS as the manager of that department. I am a Certified Public Accountant, a
24 member of the Arizona Society of Certified Public Accountants and a member of
25 the Edison Electric Institute’s Property Accounting Committee.

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28

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
2 **PROCEEDING?**

3 A. The purpose of my testimony is to support the Company's request for the Four
4 Corners Rate Rider ("Rider"), as defined in the APS Settlement Agreement
5 approved by Decision No. 73183, (May 24, 2012). Specifically, my testimony
6 describes the revenue requirement that APS is seeking to recover in the Rider,
7 including the calculation and amortization of the Four Corners deferral that was
8 authorized in Decision No. 73130 (April 24, 2012).

9 II. SUMMARY

10 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

11 A. On November 22, 2010, in Docket No. E-01345A-10-0474, APS asked the
12 Arizona Corporate Commission ("ACC" or "Commission") to (1) authorize the
13 purchase of Southern California Edison's ("SCE") interest in Four Corners Units
14 4 and 5, (2) grant APS an accounting order authorizing cost deferral and
15 facilitating the early retirement of Units 1-3. This request resulted in Decision
16 No. 73130, which provided the necessary authorization to pursue the transaction
17 and retire Units 1-3. The Decision also approved an accounting order that would
18 allow the Company to defer for later recovery all non-fuel costs of owning,
19 operating, and maintaining the acquired SCE's interest in Four Corners Units 4
20 and 5, associated facilities, as well as all unrecovered costs associated with Four
21 Corners Units 1-3 and additional costs incurred in connection with the closure of
22 Four Corners Units 1-3.¹

23
24 Subsequent to the Four Corners filing, APS also entered into a Settlement
25 Agreement ("Settlement") in its General Rate Case Filing (a 2010 Test Year was
26
27

28 ¹ See Decision No. 73130 at 43.

1 used). Section 10.2 of the Settlement, which was approved by the Commission in
2 Decision No. 73183, provides the following:

3 [T]his rate case shall remain open for the sole purpose of
4 allowing APS to file a request, no later than December 31,
5 2013, that its rates be adjusted to reflect the proposed Four
6 Corners transaction, should the Commission allow APS to
7 pursue the acquisition and should the transaction thereafter
8 close. Specifically, APS may within ten (10) business days
9 after any closing date but no later than December 31, 2013,
10 file an application with the Commission seeking to reflect in
11 rates the rate base and expense effects associated with the
12 acquisition of SCE's share of Units 4 and 5, the rate base and
13 expense effects associated with the retirement of Units 1-3,
14 and any cost deferral authorized in Docket No. E-01345A-
10-0474. APS shall also be permitted to seek authorization
15 to amend the PSA Plan of Administration to include in the
16 PSA the post-acquisition Operations and Maintenance
17 expense associated with Four Corners Units 1-3 as a cost of
18 producing off system sales until closure of Units 1-3,
19 provided that such costs do not exceed off-system sales
20 revenue in any given year. APS's rates shall be adjusted only
21 if the Commission finds the Four Corners transaction to be
22 prudent.

23 My testimony provides the revenue requirement needed to include the Four
24 Corners Transaction ("Transaction") in base rates as contemplated in the
25 Settlement and Decision No. 73183, including the deferral of costs approved in
26 Decision No. 73130 until the Transaction is included in rates. Specifically, my
27 testimony includes the calculation of the \$62.53 million revenue requirement,
28 including all rate base and income statement pro forma adjustments. Consistent
with the Company's request in this filing, this revenue requirement assumes a
rate effective date of July 1, 2014. Any delay in the rate effective date would
increase the revenue requirement by approximately \$0.5 million per month and
increase the bill impact accordingly.

1 **III. FOUR CORNERS RATE RIDER REVENUE REQUIREMENT AND**
2 **SUPPORTING SCHEDULES**

3 **Q. WHAT IS THE IMPACT ASSOCIATED WITH THE TRANSACTION?**

4 A. The Four Corners Rate Rider that APS seeks approval of in this proceeding
5 recovers a \$62.53 million annual revenue requirement. The Rider will be applied
6 to all customers' bills on an equal percentage basis to the base rate portion of the
7 bill, consistent with Section 10.3 of the Settlement Agreement.² The percentage
8 applied to recover this amount is 2.22%. To compute the Rider, APS started with
9 the approved Settlement adjusted 2010 Test Year and made pro forma
10 adjustments to that starting point to reflect the acquisition of SCE's share of Four
11 Corners Units 4 and 5. The Rider also reflects the retirement of Four Corners
12 Units 1-3. APS will update any forecast and deferral information, as it becomes
13 available throughout the proceeding, to reflect actual costs incurred for the
14 acquired portion of Units 4 and 5 at the time the Rider goes into effect. To the
15 extent that even these updated costs are different than those actually incurred
16 through the rate effective date, APS proposes to deal with balance (plus or minus)
17 in its next general rate case.

18 **Q. SECTION 10.3 OF THE SETTLEMENT REQUIRED CERTAIN**
19 **SCHEDULES TO BE FILED WITH THE APPLICATION OF THE**
20 **RIDER. PLEASE DESCRIBE THE SCHEDULES.**

21 A. The Settlement requires APS to file the following information with its application
22 for a rate rider:

23 Any filing seeking a rate adjustment pursuant to Section 10.2
24 shall include at a minimum the following schedules: (1) the
25 most current APS balance sheet at the time of filing; (2) the
26 most current APS income statement at the time of filing; (3)
27 an earnings schedule that demonstrates that the operating
28 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

²See Direct Testimony of APS Witness Jeffrey Guldner for more information regarding the applicability of the Rider to rate schedules AG-1 and E-36XL.

1 rider that recovers the rate base and non-PSA related
2 expenses associated with any Four Corners acquisition on an
3 equal percentage basis across all rate schedules which shall
4 not become effective before July 1, 2013; (6) an adjusted
5 rate base schedule; and (7) a typical bill analysis under
6 present and filed rates.

7 My testimony addresses each of the required schedules, except number 7, which
8 is attached to the Direct Testimony of APS Witness Jeffrey B. Guldner.

- 9 • *Schedule 1: the most current APS balance sheet at the time of filing.*
10 Attachment EAB-1 is the balance sheet as of September 30, 2013, the
11 most recently available financial filing for the Company.
- 12 • *Schedule 2: the most current APS income statement at the time of filing.*
13 Attachment EAB-2 is the income statement for the three and nine months
14 ending September 30, 2013, the most recently available financial filing for
15 the Company.
- 16 • *Schedule 3: an earnings schedule that demonstrates that the operating*
17 *income resulting from the rate adjustment does not result in a return on*
18 *rate base in excess of that authorized by this Agreement in the period after*
19 *the rate adjustment becomes effective.*
20 Attachment EAB-3 is a forecast of APS's earnings through 2015. As can
21 be seen from the Attachment, APS's anticipated earnings do not exceed
22 the 10% ROE authorized in the Settlement Decision. Please note that
23 Schedule 3 is confidential and has been filed under seal for the
24 Commission's confidential review.
- 25 • *Schedule 4: a revenue requirement calculation, including the amortization*
26 *of any deferred costs.*

1 Attachment EAB-4 is the requested rate base increase for the Rider. The
2 schedule shows the adjusted 2010 Test Year rate of return under ACC
3 Jurisdiction, including the Four Corners Acquisition, of 8.33%. Again,
4 this reflects no changes to the Test Year results used in Decision No.
5 73183, except for the transaction. Schedule 4 also shows the increase to
6 ACC Jurisdictional Original Cost Rate Base (“OCRB”) from the 2010 Test
7 Year attributable to the Four Corners Transaction. The OCRB increases
8 from \$5,663 million to \$5,881 million post-acquisition. This schedule is
9 similar to an “A-1” Standard Filing Requirement (“SFR”) provided in a
10 rate case proceeding. In addition, I have attached support Schedules 4(a)
11 through 4(d), which provide additional information regarding the
12 adjustments to the Rider calculation. Each of the supplemental schedules
13 is discussed below and its rate case SFR equivalent is identified for ease of
14 reference.

15
16 • *Schedule 4(a): APS’s adjusted balance sheet.*

17 Attachment EAB-5 is similar to SFR schedule B-1. It shows the change in
18 APS’s rate base from the 2010 Test Year adjusted original cost rate base to
19 an adjusted original cost rate base that includes Four Corners, in the total
20 amount of \$7,010 million Total Company and \$5,881 million ACC
21 Jurisdiction, using the same jurisdictional allocation factors accepted in
22 Decision No. 73183.

23 • *Schedule 4(b): APS’s rate base pro forma adjustments.*

24 Attachment EAB-6 is equivalent to SFR schedule B-2. This Attachment
25 shows each pro forma adjustment and describes the adjustment and its
26 impact on rate base.
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- *Schedule 4(c): APS's adjusted income statement.*
Attachment EAB-7 is equivalent to SFR schedule C-1. It reflects the Company's adjusted operating income. Specifically, this schedule shows the operating income authorized in the Settlement and the effects on that operating income as a result of the Four Corners Transaction. The transaction produces a \$550.0 million adjusted net income for Total Company and \$477.2 million for ACC Jurisdiction.
- *Schedule 4(d): APS's income statement pro forma adjustments.*
Attachment EAB-8 is similar to SFR schedule C-2. This Attachment shows each pro forma adjustment and describes the adjustment and its impact on the operating income.
- *Schedule 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.*
Attachment EAB-9 is the tariff sheet titled "Four Corners Adjustment" that shows the equal percentage base rate increase to be applied to all customers' bills to recover the non-fuel Four Corners acquisition costs. Please note that, upon Commission approval of the Rider, APS will file as a compliance item all of the Company's rate schedules adjustments necessary to reflect the Decision.
- *Schedule 6: an adjusted rate base schedule.*
Schedule 6 is equivalent to Schedule 4(a) discussed previously and is provided as Attachment EAB-5.

- 1 • *Schedule 7: a typical bill analysis under present and filed rates.*

2 Please see the Direct Testimony of APS Witness Jeffrey Guldner.

3
4 IV. CALCULATION OF THE FOUR CORNERS REVENUE REQUIREMENT
5 AND ASSOCIATED RATE RIDER

6 Q. **PLEASE DESCRIBE HOW APS CALCULATED THE FOUR CORNERS**
7 **RATE RIDER.**

8 A. To calculate the rate rider, the annual revenue requirement increase was
9 calculated as an equal percentage to be applied to all customer classes. In order to
10 determine the annual revenue requirement, two major types of adjustments were
11 made to the Test Year adjusted financial position of the Company: (1) rate base
12 pro forma adjustments, and (2) income statement pro forma adjustments. My
13 testimony is separated into two subsections to describe the individual pro forma
14 adjustments in each category. The starting point for all adjustments was the
15 adjusted 2010 Test Year, as approved by the Commission in the Settlement.

16 A. *Rate Base Pro Forma Adjustments*

17 Q. **PLEASE SUMMARIZE THE RATE BASE PRO FORMA ADJUSTMENTS**
18 **ASSOCIATED WITH THE TRANSACTION.**

19 A. The collective purpose of the adjustments is to accurately reflect the Company's
20 rate base resulting from the acquisition, adjusted for the deferral of the costs from
21 the date of acquisition through the anticipated rate effective date of July 1, 2014,
22 and are needed to accurately account for, and reflect in APS's financial records,
23 the assets and liabilities that APS has acquired from SCE. The acquired assets
24 and liabilities are initially recorded at fair value, but then they are adjusted to
25 reflect the "expected activity" from the acquisition date of December 30, 2013 to
26 a rate effective date of July 1, 2014. The "expected activity" includes items like
27 depreciation and amortization that occur immediately following the acquisition
28 date. Please note that the "fair value" I am referencing here is an accounting "fair

1 value” rather than “fair value” rate base as typically discussed in Arizona rate
2 case. In this instance, however, they are mathematically equivalent.

3
4 The remaining rate base adjustments show the allowable costs that are expected
5 to be deferred from December 30, 2013 to June 30, 2014. The anticipated deferral
6 costs include incremental operations and maintenance expense, depreciation
7 expense, property tax, remaining unrecovered plant investment costs associated
8 with Units 1-3 and a return of the most current cost of debt (5.25%) for the
9 necessary investments made by APS regarding the Transaction.

10
11 1. Four Corners Fair Value Acquisition

12 **Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENT FOR THE FAIR**
13 **VALUE ACQUISITION OF SCE’S SHARE OF UNITS 4 AND 5.**

14 **A.** This adjustment reflects the purchase of SCE’s share of Units 4 and 5. The
15 adjustment includes four parts:

- 16 • gross utility plant amount of \$860.1 million, which includes SCE’s net
17 book value of Units 4 and 5, plus the negotiated cash purchase price – the
18 “fair value” of the plant;
- 19 • accumulated depreciation of the SCE’s share of Units 4 and 5, which is a
20 reduction to rate base in the amount of \$554.2 million;
- 21 • decommissioning and coal liabilities which reduces rate base by \$127.1
22 million to assume SCE’s liability of the Units; and,
- 23 • acquired inventory of SCE’s share of Units 4 and 5 which is \$4.5 million.

24 The total adjustment results in an increase to rate base of \$183.3 million. (See
25 Attachment EAB-6, page 1, column C and Attachment EAB-10).

1 2. Four Corners Auxiliary Plant

2 **Q. PLEASE DESCRIBE THE PURPOSE AND AMOUNT OF THE PRO**
3 **FORMA ADJUSTMENT RELATED TO THE ADDITION OF THE**
4 **AUXILIARY BOILER.**

5 A. This pro forma adjustment includes in rate base the cost of constructing a new
6 auxiliary boiler to be used during start-up operations for Units 4 and 5, once
7 Units 1-3 are shut down. Previously, the boiler stationed at Unit 3 was used to
8 start and support the operations of Units 4 and 5. With the shutdown of Units 1-3,
9 Units 4 and 5 will require an independent auxiliary boiler to operate. This is the
10 basis of this pro forma adjustment. A new auxiliary boiler was placed into service
11 on April 17, 2013. APS's ownership share of that project, including its
12 acquisition of SCE's share, is \$11.3 million. The gross plant investment is offset
13 by actual accumulated depreciation from the in-service date of the project to the
14 acquisition date of SCE's share of Units 4 and 5 of \$0.1 million and estimated
15 accumulated depreciation during the deferral period of \$0.2 million, for a total
16 offset of \$0.3 million. The net amount of these items results in a rate base pro
17 forma adjustment of \$11.0 million on a Total Company basis. *See Attachment*
18 *EAB-6 page 1, column E and Attachment EAB-11.*

19 3. Four Corners Deferral Balance

20 **Q. PLEASE SUMMARIZE THE DECISION THAT ALLOWED APS TO**
21 **DEFER COSTS ASSOCIATED WITH THE ACQUISITION OF FOUR**
22 **CORNERS.**

23 A. In Commission Decision No. 73130, APS was granted an accounting order
24 allowing APS to defer all non-fuel costs of owning, operating and maintaining its
25 purchase of SCE's share of Units 4 and 5. The appropriate ordering paragraphs
26 are excerpted below:

27 IT IS FURTHER ORDERED that Arizona Public Service is
28 authorized to defer for possible later recovery through rates,
 all non-fuel costs (as defined herein) of owning, operating
 and maintaining the acquired Southern California Edison
 interest in Four Corners Units 4 and 5 and associated

1 facilities. Nothing in this Decision shall be construed in any
2 way to limit this Commission's authority to review the
3 entirety of the acquisition and to make any disallowances
4 thereof due to imprudence, errors or inappropriate
5 application of the requirements of this Decision.

6 IT IS FURTHER ORDERED that Arizona Public Service
7 Company shall reduce the deferrals by non-fuel operations
8 and maintenance and property tax savings associated with
9 the closure of Four Corners Unit 1-3.

10 IT IS FURTHER ORDERED that Arizona Public Service
11 Company is authorized to defer for possible later recovery
12 through rates, all unrecovered costs associated with Four
13 Corners Units 1-3 and additional costs incurred in
14 connection with the closure of Four Corners Units 1-3.
15 Nothing in this Decision shall be construed in any way to
16 limit this Commission's authority to review either the
17 unrecovered costs or additional costs incurred in connection
18 with the closure of Four Corners Units 1-3 and to make any
19 disallowances thereof due to imprudence, errors or
20 inappropriate application of the requirements of this
21 Decision.

22 **Q. PLEASE EXPLAIN THE NON-FUEL COSTS OF OWNING, OPERATING
23 AND MAINTAINING SCE'S INTEREST IN FOUR CORNERS UNITS 4
24 AND 5 AND ITS ASSOCIATED FACILITIES.**

25 **A.** There are four basic categories of non-fuel costs explained below:

26 *1) Operations and Maintenance (O&M)*

27 APS used its 2014 budget information to estimate additional O&M costs
28 associated with an increased ownership share in Units 4 and 5 and its related
facilities. APS's 48% additional ownership share of Units 4 and 5 will result in
APS being responsible for additional costs that can be deferred from the date of
acquisition until the date on which the investment is included in customer rates.
This deferral period was estimated to last for six months for the purpose of this
adjustment. The deferral amount associated with operating and maintaining
SCE's share of Units 4 and 5 and Common Facilities is \$29.1 million. The
amount to be deferred is reduced by the elimination of no longer incurred costs
associated with Units 1-3, in the amount of \$23.0 million, which will be closed

1 down in conjunction with the acquisition of Units 4 and 5. Certain minimal
2 residual operating costs of \$0.3 million pertaining to Units 1-3 will continue
3 despite the shutdown, such as the continuing lease payment.
4

5 In addition, upon the closure of Units 1-3, consistent with the deferral authorized
6 in Decision No. 73130, inventory and capital investments related to Units 1-3 will
7 be deferred. The inventory balance for Units 1-3 is \$6.2 million and plant
8 investments for Units 1-3 total \$25.7 million. The majority of the plant
9 investments related to Units 1-3 pertain to ash disposal and environmental
10 mitigation of ash seepage. The net change in O&M results in a deferral amount of
11 \$38.3 million.
12

13 *2) Book Depreciation and Amortization*

14 **Depreciation** – Depreciation expense will be incurred on the net book value of
15 APS's acquired share of Units 4 and 5 beginning on the date of acquisition and
16 on the auxiliary boiler as discussed previously at page 9 in my testimony. The
17 depreciation rate on this amount is based on the straight-line method using an
18 end-of-life assumption of 2038, consistent with the end-of-life assumption for
19 Units 4 and 5 used in the depreciation study used and approved in Decision No.
20 73183. It results in an increase to the deferral amount of \$1.1 million. The
21 additional depreciation expense associated with the auxiliary boiler, using the
22 same depreciation rate, results in an increase in the deferral amount of \$0.2
23 million.
24

25 **Amortization** – Upon acquiring SCE's additional 48% share of Four Corners
26 Units 4 and 5 and the associated facilities, APS also assumed SCE's portion of
27 the obligation to fund both plant decommissioning costs and the final coal
28

1 reclamation liability. Both of these liabilities are recorded at the accounting fair
2 value on the date of the acquisition. The liabilities associated with these book
3 items will be adjusted annually to reflect the correct amount of annual
4 amortization. The estimated amount of amortization related to the deferred
5 decommissioning and final coal reclamation costs is \$3.4 million. The net change
6 to book depreciation and amortization results in a deferral amount of \$4.7
7 million.

8
9 *3) Property and Other Taxes*

10 The deferral calculation also includes the Possessory Interest Tax ("PIT") and
11 Business Activity Taxes ("BAT"), Navajo Nation taxes associated with the
12 acquisition, as well as the increased New Mexico property taxes on the acquired
13 portion of Units 4 and 5 and the auxiliary boiler, less the reduced property taxes
14 for Units 1-3. The total property and other taxes included in the deferral is \$3.2
15 million.

16
17 *4) Deferred Debt Return*

18 The increase in the rate base investment, including the auxiliary boiler, is \$193
19 million. To calculate the Commission-approved debt return, APS applied the
20 marginal cost of debt of 5.25% to the increase in rate base to determine the
21 deferred debt return of \$5.1 million.

22
23 Collectively, the sum of these four cost categories results in a Four Corners
24 Deferral balance of \$51.2 million Total Company, the ACC Jurisdiction amount
25 is \$49.5 million. APS will amortize the balance over 10 years, as discussed later
26 in my testimony. See Attachment EAB-6, page 2, column G and Attachment
27 EAB-12.

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B. *Income Statement Pro Forma Adjustments*

1. Incremental Operation and Maintenance (“O&M”) Expenses Related to the Acquisition

Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENT FOR INCREMENTAL O&M EXPENSE RELATED TO THE ACQUISITION.

A. This adjustment used the 2010 test year income statement as a starting point and then reduced the pre-tax operating income by \$5.6 million to reflect the increase in O&M related to SCE’s share of Units 4 and 5. This adjustment is also reduced by the removal of Units 1-3 O&M expenses, less the residual site O&M expenses for Units 1-3. *See* Attachment EAB-8, page 1, column A and Attachment EAB-13.

Q. YOU MENTIONED A REDUCTION IN OPERATING INCOME IN YOUR LAST ANSWER. WHAT IS THE RELATIONSHIP BETWEEN CHANGES IN OPERATING INCOME AND INCREASED REVENUE REQUIREMENT?

A. A rate increase, reduced to its basics, reconciles what is referred to as the “required operating income” with the existing adjusted test year operating income by taking the difference between the two calculations of operating income and multiplying it by the revenue conversion factor. Required operating income is simply the rate base multiplied by the weighted cost of capital. If an adjustment resulting from the Transaction reduces the adjusted test year operating income, it increases the required revenue increase by that amount times the revenue conversion factor.

2. Incremental Property Tax and Other Tax Related to the Acquisition

Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENT FOR INCREMENTAL PROPERTY TAX EXPENSE RELATED TO THE ACQUISITION.

A. Similar to the O&M expense adjustment, this pro forma seeks to include the additional property tax expense, as well as PIT and BAT taxes that result from

1 APS's acquisition of SCE's share of Units 4 and 5, which will be offset by the
2 decrease in Units 1-3 property tax expense. The adjustment results in a reduction
3 to pre-tax operating income of \$6.4 million on a Total Company basis. See
4 Attachment EAB-8, page 1, column C and Attachment EAB-14.

5 **Q. IN SECTION 12 OF THE SETTLEMENT AGREEMENT, APS IS**
6 **AUTHORIZED TO DEFER PROPERTY TAXES WHEN THE RATE**
7 **RISES. DOES THAT PROPERTY TAX DEFERRAL HAVE AN EFFECT**
8 **ON THIS PROPERTY TAX PRO FORMA ADJUSTMENT?**

9 **A.** No. The Settlement authorized APS to defer property tax expenses resulting from
10 a change in **Arizona** composite property tax rates. The Four Corners Power Plant
11 is located in New Mexico and is additional property specifically contemplated to
12 be recovered on an incremental basis by Section 10 of the Settlement;

13 3. Incremental Depreciation and Amortization Expense Related to the
14 Acquisition

15 **Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENT FOR**
16 **INCREMENTAL DEPRECIATION AND AMORITZATION EXPENSE**
17 **RELATED TO THE ACQUISITION.**

18 **A.** When APS acquires SCE's share of Units 4 and 5 there will be additional
19 depreciation and amortization expense associated with the additional plant book
20 value. Depreciation and amortization is calculated over the remaining life of the
21 purchased asset. Since the SCE plant was not included in the Settlement, timing
22 between the remaining life assumptions of SCE and APS resulted in a lower
23 overall depreciation rate applied to the book value of the acquired assets to the
24 benefit of APS's customers. The depreciation and amortization results in a pre-
25 tax reduction to operating income of \$13.2 million (*see* Attachment EAB-8, page
26 1, column E and Attachment EAB-15).

1 4. Incremental Final Coal Reclamation Expense Related to
2 Acquisition

3 **Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENT FOR**
4 **INCREMENTAL COAL RECLAMATION EXPENSE RELATED TO THE**
5 **ACQUISITION.**

6 A. This pro forma adjustment includes the additional coal reclamation expense that
7 APS will incur for its acquired share of Units 4 and 5. Coal reclamation is the
8 process by which the coal mine is restored to the contractually agreed upon
9 condition. The increase in expense represents the additional costs that APS will
10 incur when the plant is decommissioned and the mine site is reclaimed. The
11 increase in coal reclamation expense results in a reduction to pre-tax operating
12 income of \$4.5 million (*see* Attachment EAB-8, page 2, column G and
13 Attachment EAB-16).

14 5. Incremental Decommissioning Expense Related to Acquisition

15 **Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENT FOR**
16 **INCREMENTAL DECOMMISSIONING EXPENSE RELATED TO THE**
17 **ACQUISITION.**

18 A. This pro forma adjustment includes the additional decommissioning expense that
19 APS will incur for its acquired share of Units 4 and 5. The decommissioning of
20 the plant happens when the plant is shut down. APS is responsible, under its lease
21 agreement, for returning the plant site to its original conditional, as is reasonably
22 possible. The increase in the expense represents the additional costs that APS will
23 bear when the plant is decommissioned. The increase in decommissioning results
24 in a reduction to pre-tax operating income of \$3.1 million (*see* Attachment EAB-
25 8, page 2, column I and Attachment EAB-17).

1 6. Amortization of the Four Corners Deferral Balance

2 **Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENT TO AMORTIZE**
3 **THE FOUR CORNERS DEFERRAL.**

4 A. The amortization of the deferral is the income statement side of the rate base pro
5 forma adjustment of the same title. This adjustment takes the ACC jurisdiction
6 rate base adjustment of \$49.5 million and amortizes it over a 10-year period. The
7 adjustment reduces the pre-tax operating income by \$4.9 million per year for ten
8 years. The deferred balance included in the revenue requirement is premised on a
9 6-month deferral. In the event this Four Corners Rate Rider proceeding is delayed
10 beyond that expected implementation date, the deferral amortization would
11 increase by approximately \$0.3 million each month (*see* Attachment EAB-8, page
12 2, column K and Attachment EAB-18).

13 7. Interest / Income Tax Adjustment Related to Rate Base Pro Formas

14 **Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENT PERTAINING**
15 **TO INTEREST AND INCOME TAXES.**

16 A. This pro forma identifies the additional interest expense associated with the
17 additional rate base related to the acquisition of SCE's share of Units 4 and 5.
18 This additional interest expense reduces income taxes and results in an increase
19 of after-tax operating income of \$2.6 million. (*see* Attachment EAB-8, page 3,
20 column M and Attachment EAB-19)

21 **Q. DOES THAT CONCLUDE THE ADJUSTMENTS USED TO DERIVE**
22 **THE RIDER?**

23 A. Yes.

24 **V. CONCLUSION**

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

26 A. Yes. The calculation of the Rider and the deferral are consistent with
27 Commission's Decision Nos. 73183 (Settlement Agreement) and 73130 (Four
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Corners Acquisition). The Rider results in an average 2.22% increase to base rates applied on equal percentage basis to all customers.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	September 30, 2013	December 31, 2012
LIABILITIES AND EQUITY		
CAPITALIZATION		
Common stock	\$ 178,162	\$ 178,162
Additional paid-in capital	2,379,696	2,379,696
Retained earnings	1,899,375	1,624,237
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(38,281)	(39,503)
Derivative instruments	(26,155)	(49,592)
Total shareholder equity	4,392,797	4,093,000
Noncontrolling interests (Note 6)	145,624	129,483
Total equity (Note S-1)	4,538,421	4,222,483
Long-term debt less current maturities (Note 2)	2,657,901	3,035,219
Palo Verde sale leaseback lessor notes less current maturities (Note 6)	37,414	38,869
Total capitalization	7,233,736	7,296,571
CURRENT LIABILITIES		
Short-term borrowings	--	92,175
Current maturities of long-term debt (Note 2)	566,481	122,828
Accounts payable	243,470	215,577
Accrued taxes (Note 5)	178,349	116,700
Accrued interest	45,542	49,135
Common dividends payable	--	59,800
Customer deposits	77,254	79,689
Liabilities from risk management activities (Note 7)	53,468	73,741
Regulatory liabilities (Note 3)	88,409	88,116
Other current liabilities	152,392	145,326
Total current liabilities	1,405,365	1,043,087
DEFERRED CREDITS AND OTHER		
Deferred income taxes	2,337,320	2,133,976
Regulatory liabilities (Note 3)	798,226	759,201
Liability for asset retirements	364,635	357,097
Liabilities for pension and other postretirement benefits (Note 4)	901,146	1,017,556
Deferred investment tax credit	115,984	99,819
Liabilities from risk management activities (Note 7)	67,662	85,264
Customer advances	109,667	109,359
Coal mine reclamation	114,764	118,860
Unrecognized tax benefits (Note 5)	81,589	70,932
Other	145,707	150,820
Total deferred credits and other	5,036,700	4,902,884
COMMITMENTS AND CONTINGENCIES (SEE NOTES)		
TOTAL LIABILITIES AND EQUITY	\$ 13,675,801	\$ 13,242,542

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)
(dollars in thousands)

	September 30, 2013	December 31, 2012
	<u> </u>	<u> </u>
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Plant in service and held for future use	\$ 14,594,129	\$ 14,342,501
Accumulated depreciation and amortization	(5,097,804)	(4,925,990)
Net	<u>9,496,325</u>	<u>9,416,511</u>
Construction work in progress	605,987	565,716
Palo Verde sale leaseback, net of accumulated depreciation (Note 6)	126,092	128,995
Intangible assets, net of accumulated amortization	159,979	161,995
Nuclear fuel, net of accumulated amortization	140,356	122,778
Total property, plant and equipment	<u>10,528,739</u>	<u>10,395,995</u>
INVESTMENTS AND OTHER ASSETS		
Nuclear decommissioning trust (Note 13)	612,640	570,625
Assets from risk management activities (Note 7)	26,046	35,891
Other assets	33,203	31,650
Total investments and other assets	<u>671,889</u>	<u>638,166</u>
CURRENT ASSETS		
Cash and cash equivalents	113,072	3,499
Customer and other receivables	426,425	274,815
Accrued unbilled revenues	132,555	94,845
Allowance for doubtful accounts	(3,768)	(3,340)
Materials and supplies (at average cost)	223,385	218,096
Income tax receivable	126,098	589
Fossil fuel (at average cost)	34,959	31,334
Deferred fuel and purchased power regulatory asset (Note 3)	37,383	72,692
Other regulatory assets (Note 3)	82,558	71,257
Deferred income taxes	538	74,420
Assets from risk management activities (Note 7)	22,741	25,699
Other current assets	35,983	37,077
Total current assets	<u>1,231,929</u>	<u>900,983</u>
DEFERRED DEBITS		
Regulatory assets (Note 3)	1,105,882	1,099,900
Unamortized debt issue costs	22,367	22,492
Income tax receivable (Note 5)	--	70,784
Other	114,995	114,222
Total deferred debits	<u>1,243,244</u>	<u>1,307,398</u>
TOTAL ASSETS	<u>\$ 13,675,801</u>	<u>\$ 13,242,542</u>

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(dollars in thousands)

	Three Months Ended	
	September 30,	
	2013	2012
ELECTRIC OPERATING REVENUES	\$ 1,151,535	\$ 1,108,623
OPERATING EXPENSES		
Fuel and purchased power	350,953	302,894
Operations and maintenance	222,617	218,403
Depreciation and amortization	107,364	100,329
Income taxes	143,335	153,797
Taxes other than income taxes	43,015	36,255
Total	<u>867,284</u>	<u>811,678</u>
OPERATING INCOME	<u>284,251</u>	<u>296,945</u>
OTHER INCOME (DEDUCTIONS)		
Income taxes	4,123	3,170
Allowance for equity funds used during construction	5,569	5,708
Other income (Note S-2)	721	815
Other expense (Note S-2)	(4,615)	(3,352)
Total	<u>5,798</u>	<u>6,341</u>
INTEREST EXPENSE		
Interest on long-term debt	47,214	48,841
Interest on short-term borrowings	1,553	1,334
Debt discount, premium and expense	1,008	1,070
Allowance for borrowed funds used during construction	(3,235)	(3,830)
Total	<u>46,540</u>	<u>47,415</u>
NET INCOME	243,509	255,871
Less: Net income attributable to noncontrolling interests (Note 6)	<u>8,555</u>	<u>8,040</u>
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	<u>\$ 234,954</u>	<u>\$ 247,831</u>

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(dollars in thousands)

	Three Months Ended September 30,	
	2013	2012
NET INCOME	\$ 243,509	\$ 255,871
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Derivative instruments:		
Net unrealized loss, net of tax benefit of \$95 and \$47	(145)	(72)
Reclassification of net realized loss, net of tax benefit of \$9,348 and \$19,547	14,310	29,931
Pension and other postretirement benefits activity, net of tax (expense) of \$(621) and \$(568)	951	869
Total other comprehensive income	15,116	30,728
COMPREHENSIVE INCOME	258,625	286,599
Less: Comprehensive income attributable to noncontrolling interests	8,555	8,040
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 250,070	\$ 278,559

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(dollars in thousands)

	Nine Months Ended September 30,	
	2013	2012
ELECTRIC OPERATING REVENUES	\$ 2,752,427	\$ 2,606,458
OPERATING EXPENSES		
Fuel and purchased power	859,216	783,926
Operations and maintenance	668,319	640,596
Depreciation and amortization	317,338	300,997
Income taxes	241,347	233,679
Taxes other than income taxes	123,366	119,499
Total	2,209,586	2,078,697
OPERATING INCOME	542,841	527,761
OTHER INCOME (DEDUCTIONS)		
Income taxes	9,555	6,906
Allowance for equity funds used during construction	18,698	15,639
Other income (Note S-2)	3,012	2,343
Other expense (Note S-2)	(15,755)	(11,969)
Total	15,510	12,919
INTEREST EXPENSE		
Interest on long-term debt	140,978	150,416
Interest on short-term borrowings	4,950	5,283
Debt discount, premium and expense	3,001	3,182
Allowance for borrowed funds used during construction	(10,861)	(10,428)
Total	138,068	148,453
NET INCOME	420,283	392,227
Less: Net income attributable to noncontrolling interests (Note 6)	25,338	23,573
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 394,945	\$ 368,654

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(dollars in thousands)

	Nine Months Ended September 30,	
	2013	2012
NET INCOME	\$ 420,283	\$ 392,227
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		
Derivative instruments:		
Net unrealized loss, net of tax benefit of \$162 and \$14,820	(247)	(22,693)
Reclassification of net realized loss, net of tax benefit of \$15,471 and \$34,367	23,684	52,625
Pension and other postretirement benefits activity, net of tax (expense) of \$(798) and \$(1,409)	1,222	2,158
Total other comprehensive income	24,659	32,090
COMPREHENSIVE INCOME	444,942	424,317
Less: Comprehensive income attributable to noncontrolling interests	25,338	23,573
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 419,604	\$ 400,744

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

Please note Attachment EAB-3 is confidential and will be provided under seal for the Commission's confidential review

ARIZONA PUBLIC SERVICE COMPANY
Schedule 4 - FOUR CORNERS REVENUE REQUIREMENT CALCULATION
COMPUTATION OF INCREASE IN GROSS REVENUE REQUIREMENTS
ACC. JURISDICTION
ADJUSTED TEST YEAR ENDED 12/31/2010
(Thousands of Dollars)

Line No.	Description	Settlement			Settlement (with Four Corners Acquisition)			Line No.	
		Original Cost	RCND	Fair Value	Four Corners Pro Forma Adjustments	Original Cost	RCND		Fair Value
1.	Adjusted Rate Base	\$ 5,662,998 (a)	\$ 10,671,253	\$ 8,167,126 (a)	\$ 217,629 (b)	\$ 5,880,627	\$ 10,888,882	\$ 8,384,755	1.
2.	Adjusted Operating Income	496,769	496,769	496,769	(19,617) (c)	477,152	477,152	477,152	2.
3.	Fair Value Adjustment Embedded in Operating Income	25,041	25,041	25,041		25,041	25,041	25,041	3.
4.	Adjusted Operating Income without Fair Value Adjustment (Line 2 - Line 3)	471,728	471,728	471,728		452,111	452,111	452,111	4.
5.	Current Rate of Return (Line 4 / Line 1)	8.33%	4.42%	5.78% (d)		7.69%	4.15%	5.39%	5.
6.	Required Operating Income (Line 7 * Line 1)	471,728	471,728	471,728		489,856	489,856	489,856	6.
7.	Required Rate of Return	8.33% (e)	4.42% (e)	5.78% (e)		8.33% (e)	4.50% (e)	5.84% (e)	7.
8.	Adjusted Operating Income Deficiency (Line 4 - Line 6)	-	-	-		37,745	37,745	37,745	8.
9.	Gross Revenue Conversion Factor (f)	1.6566	1.6566	1.6566		1.6566	1.6566	1.6566	9.
10.	Requested Increase in Base Revenue Requirements (Line 8 * Line 9)	-	-	-		62,529	62,529	62,529	10.
11.	2010 Adjusted Base Revenues (g)					\$ 2,810,916	\$ 2,810,916	\$ 2,810,916	11.
12.	Percentage Base Rate Increase (Line 10 / Line 11)					2.22%	2.22%	2.22%	12.

Notes:

- (a) See Decision No. 73183, page 46
- (b) See Schedule 4.a, Column E, Line 21
- (c) See Schedule 4.c, Page 2, Column B, Line 23
- (d) APS was authorized a 6.09% rate of return on fair value, to tie to that number, Line 2 would be divided into Line 1, however for purposes of this schedule, the Fair Value Rate of Return was shown without the Fair Value Increment
- (e) The Required Rate of Return for OCRB, RCND and Fair Value does not reflect any return on the difference between Fair Value Rate Base and Original Cost Rate Base, but is simply a mathematical derivation based upon the original cost rate of return.
- (f) See Staff Witness Ralph Smith, Attachment RCS-2
- (g) APS's total adjusted base revenue in the Settlement was \$2,868,858, however, this Schedule adjusts the revenue received by AG-1 customers to exclude amounts now paid to alternative generation suppliers and to add applicable wire-related revenues for E-36XL. See APS Witness Jeffrey Guldner's testimony for more information.

ARIZONA PUBLIC SERVICE COMPANY
Schedule 4.a FOUR CORNERS RATE RIDER
SUMMARY OF ORIGINAL COST RATE BASE ELEMENTS
TOTAL COMPANY AND ACC JURISDICTION
TEST YEAR ENDED 12/31/2010
(Thousands of Dollars)

Line No.	Description	Total Company			Original Cost			Line No.
		Settlement (a)	Four Corners Pro Forma (b)	Adjusted Settlement (c)	Settlement (d)	Four Corners Pro Forma (e)	Adjusted Settlement (f)	
1.	Gross utility plant in service	\$ 14,005,836	\$ 922,646	\$ 14,928,482	\$ 11,866,173	\$ 891,276	\$ 12,757,449	1.
2.	Less: Accumulated depreciation & amortization	5,219,000	554,515	5,773,515	4,528,867	535,661	5,064,528	2.
3.	Net utility plant in service	8,786,836	368,131	9,154,967	7,337,306	355,615	7,692,921	3.
Deductions:								
4.	Deferred income taxes	1,931,063	20,238	1,951,301	1,567,902	19,550	1,587,452	4.
5.	Investment tax credits	907	-	907	876	-	876	5.
6.	Customer advances for construction	121,645	-	121,645	121,645	-	121,645	6.
7.	Customer deposits	68,084	-	68,084	68,084	-	68,084	7.
8.	Pension and other postretirement liabilities	711,164	-	711,164	661,518	-	661,518	8.
9.	Liability for asset retirements	328,571	-	328,571	320,592	-	320,592	9.
10.	Other deferred credits	66,842	127,074	193,916	64,107	122,753	186,860	10.
11.	Coal mine reclamation	117,243	-	117,243	114,396	-	114,396	11.
12.	Unrecognized tax benefits	65,363	-	65,363	53,961	-	53,961	12.
13.	Regulatory liabilities	260,687	-	260,687	253,750	-	253,750	13.
14.	Total deductions	3,671,569	147,312	3,818,881	3,226,831	142,303	3,369,134	14.
Additions:								
15.	Regulatory assets	822,177	-	822,177	746,508	-	746,508	15.
16.	Deferred debit income tax receivable	65,498	-	65,498	63,271	-	63,271	16.
17.	Other deferred debits	77,674	4,469	82,143	72,203	4,317	76,520	17.
18.	Decommissioning trust accounts	469,886	-	469,886	458,476	-	458,476	18.
19.	Allowance for working capital	233,778	-	233,778	212,065	-	212,065	19.
20.	Total additions	1,669,013	4,469	1,673,482	1,552,523	4,317	1,556,840	20.
21.	Total rate base	\$ 6,784,280	\$ 225,288	\$ 7,009,568	\$ 5,662,998	\$ 217,629	\$ 5,880,627	21.

Notes:

- (a) See Schedule 4.b, Page 1, Column A
- (b) See Schedule 4.b, Page 2, Column I
- (c) See Schedule 4.b, Page 2, Column K
- (d) See Schedule 4.b, Page 1, Column B
- (e) See Schedule 4.b, Page 2, Column J
- (f) See Schedule 4.b, Page 2, Column L

ARIZONA PUBLIC SERVICE COMPANY
Schedule 4.b - FOUR CORNERS RATE RIDER
ORIGINAL COST RATE BASE PRO FORMA ADJUSTMENTS
TEST YEAR ENDED 12/31/2010
(Thousands of Dollars)

Line No.	Description	(1)		(2)		(3)	
		Total Co. (A)	Settlement Test Year 12/31/2010 ACC (B)	Total Co. (C)	Four Corners Fair Value Acquisition ACC (D)	Total Co. (E)	Four Corners Auxiliary Plant ACC (F)
1.	Gross Utility Plant in Service	\$ 14,005,836	\$ 11,866,173	\$ 860,105	\$ 830,861	\$ 11,319	\$ 10,934
2.	Less: Accumulated Depreciation & Amort.	5,219,000	4,528,867	554,229	535,385	286	276
3.	Net Utility Plant In Service	8,786,836	7,337,306	305,876	295,476	11,033	10,658
4.	Less: Total Deductions	3,671,569	3,226,831	127,074	122,753	-	-
5.	Total Additions	1,669,013	1,552,523	4,469	4,317	-	-
6.	Total Rate Base	\$ 6,784,280	\$ 5,662,998	\$ 183,271	\$ 177,040	\$ 11,033	\$ 10,658

WITNESS:

BLANKENSHIP

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(1) Rate base per Settlement Decision No. 73183. See page 46.

(2) Adjustment to rate base to reflect the increase in the accounting fair value associated with the increase of SCE's share of Units 4&5.

(3) Adjustment to rate base to reflect the cost of the auxiliary boiler required to run Units 4&5.

ARIZONA PUBLIC SERVICE COMPANY
Schedule 4.b - FOUR CORNERS RATE RIDER
ORIGINAL COST RATE BASE PRO FORMA ADJUSTMENTS
TEST YEAR ENDED 12/31/2010
(Thousands of Dollars)

Line No.	Description	(4)		(5)		(6)	
		Total Co. (G)	ACC (H)	Total Co. (I)	ACC (J)	Total Co. (K)	ACC (L)
1.	Gross Utility Plant in Service	\$ 51,222	\$ 49,481	\$ 922,646	\$ 891,276	\$ 14,928,482	\$ 12,757,449
2.	Less: Accumulated Depreciation & Amort.	-	-	554,515	535,661	5,773,515	5,064,528
3.	Net Utility Plant in Service	51,222	49,481	368,131	355,615	9,154,967	7,692,921
4.	Less: Total Deductions	20,238	19,550	147,312	142,303	3,818,881	3,369,134
5.	Total Additions	-	-	4,469	4,317	1,673,482	1,556,840
6.	Total Rate Base	\$ 30,984	\$ 29,931	\$ 225,288	\$ 217,629	\$ 7,009,568	\$ 5,880,627

WITNESS:

BLANKENSHIP

(4) Deferred balance of operating costs associated with SCE's share of Units 4&5 and unrecovered costs associated Units 1-3, less savings from closure of Units 1-3. Deferral balance covers amounts deferred from December 2013 through June 2014.

ARIZONA PUBLIC SERVICE COMPANY
Schedule 4.c - FOUR CORNERS RATE RIDER
TOTAL COMPANY
ADJUSTED TEST YEAR INCOME STATEMENT
TEST YEAR ENDED 12/31/2010
(Thousands of Dollars)

<u>Line No.</u>	<u>Description</u>	<u>Total Company</u>			<u>Line No.</u>
		<u>Settlement (A)</u>	<u>Pro Forma Adjustments (a) (B)</u>	<u>Settlement Results After Pro Forma Adjustments (C)</u>	
	Electric Operating Revenues				
1.	Revenues from Base Rates	\$ 2,952,324	\$ -	\$ 2,952,324	1.
2.	Revenues from Surcharges	-	-	-	2.
3.	Other Electric Revenues	136,849	-	136,849	3.
4.	Total	<u>3,089,173</u>	<u>-</u>	<u>3,089,173</u>	4.
	Operating expenses:				
5.	Electric fuel and purchased power	1,031,289	4,470	1,035,759	5.
6.	Operations and maintenance excluding fuel expenses	676,937	5,601	682,538	6.
7.	Depreciation and amortization	405,150	21,407	426,557	7.
8.	Income taxes	242,751	(17,588)	225,163	8.
9.	Other taxes	162,770	6,417	169,187	9.
10.	Total	<u>2,518,897</u>	<u>20,307</u>	<u>2,539,204</u>	10.
11.	Operating income	<u>570,276</u>	<u>(20,307)</u>	<u>549,969</u>	11.
	Other income (deductions):				
12.	Income taxes	-	-	-	12.
13.	Allowance for equity funds used during construction	-	-	-	13.
14.	Other income	-	-	-	14.
15.	Other expense	-	-	-	15.
16.	Total	<u>-</u>	<u>-</u>	<u>-</u>	16.
17.	Income before interest deductions	<u>570,276</u>	<u>(20,307)</u>	<u>549,969</u>	17.
	Interest deductions:				
18.	Interest on long-term debt	-	-	-	18.
19.	Interest on short-term borrowings	-	-	-	19.
20.	Debt discount, premium and expense	-	-	-	20.
21.	Allowance for borrowed funds used during construction	-	-	-	21.
22.	Total	<u>-</u>	<u>-</u>	<u>-</u>	22.
23.	Net income	<u>\$ 570,276</u>	<u>\$ (20,307)</u>	<u>\$ 549,969</u>	23.

Notes:

(a) See Schedule 4.d, Page 3, Column O

ARIZONA PUBLIC SERVICE COMPANY
Schedule 4.c - FOUR CORNERS RATE RIDER
ACC JURISDICTION
ADJUSTED TEST YEAR INCOME STATEMENT
TEST YEAR ENDED 12/31/2010
(Thousands of Dollars)

Line No.	Description	ACC Jurisdiction			Line No.
		Settlement (A)	Pro Forma Adjustments (a) (B)	Settlement Results After Pro Forma Adjustments (C)	
	Electric Operating Revenues				
1.	Revenues from Base Rates	\$ 2,868,858	\$ -	\$ 2,868,858	1.
2.	Revenues from Surcharges	-	-	-	2.
3.	Other Electric Revenues	121,013	-	121,013	3.
4.	Total	<u>2,989,871</u>	<u>-</u>	<u>2,989,871</u>	4.
	Operating expenses:				
5.	Electric fuel and purchased power	1,006,003	4,318	1,010,321	5.
6.	Operations and maintenance excluding fuel expenses	779,461	5,411	784,872	6.
7.	Depreciation and amortization	352,026	20,679	372,705	7.
8.	Income taxes	216,195	(16,990)	199,205	8.
9.	Other taxes	139,417	6,199	145,616	9.
10.	Total	<u>2,493,102</u>	<u>19,617</u>	<u>2,512,719</u>	10.
11.	Operating income	<u>496,769</u>	<u>(19,617)</u>	<u>477,152</u>	11.
	Other income (deductions):				
12.	Income taxes	-	-	-	12.
13.	Allowance for equity funds used during construction	-	-	-	13.
14.	Other income	-	-	-	14.
15.	Other expense	-	-	-	15.
16.	Total	<u>-</u>	<u>-</u>	<u>-</u>	16.
17.	Income before interest deductions	<u>496,769</u>	<u>(19,617)</u>	<u>477,152</u>	17.
	Interest deductions:				
18.	Interest on long-term debt	-	-	-	18.
19.	Interest on short-term borrowings	-	-	-	19.
20.	Debt discount, premium and expense	-	-	-	20.
21.	Allowance for borrowed funds used during construction	-	-	-	21.
22.	Total	<u>-</u>	<u>-</u>	<u>-</u>	22.
23.	Net income	<u>\$ 496,769</u>	<u>\$ (19,617)</u>	<u>\$ 477,152</u>	23.

Notes:

(a) See Schedule 4.d, Page 3, Column P

ARIZONA PUBLIC SERVICE COMPANY
Schedule 4.d - FOUR CORNERS RATE RIDER
INCOME STATEMENT PRO FORMA ADJUSTMENTS
TEST YEAR ENDED 12/31/2010
(Thousands of Dollars)

Line No.	Description	(1)			(2)			(3)		
		Total Co. (A)	ACC (B)	Incremental Operation and Maintenance Expenses Related to the Acquisition (Based on 2010 Actuals)	Total Co. (C)	ACC (D)	Incremental Property Tax & Other Taxes Related to the Acquisition	Total Co. (E)	ACC (F)	Incremental Depreciation and Amortization Expense Related to the Acquisition
1.	Electric Operating Revenues									
2.	Revenues from Base Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3.	Revenues from Surcharges	-	-	-	-	-	-	-	-	-
4.	Other Electric Revenues	-	-	-	-	-	-	-	-	-
	Total Electric Operating Revenues	-	-	-	-	-	-	-	-	-
5.	Electric Fuel and Purchased Power Costs									
6.	Oper Rev Less Fuel & Purch Pwr Costs	-	-	-	-	-	-	-	-	-
7.	Other Operating Expenses:									
8.	Operations Excluding Fuel Expense	559	540							
9.	Maintenance	1,223	1,182							
	Subtotal	1,782	1,722							
10.	Depreciation and Amortization	-	-							
11.	Amortization of Gain	-	-							12,776
12.	Administrative and General	3,819	3,689							-
13.	Other Taxes	-	-							-
14.	Total	5,601	5,411							12,776
	Operating Income Before Income Tax	(5,601)	(5,411)							(12,776)
16.	Interest Expense									
17.	Taxable Income	(5,601)	(5,411)							(12,776)
18.	Composite Income Tax Rate - 39.51%	(2,213)	(2,138)							(5,048)
19.	Operating Income (line 15 minus line 18)	(3,388)	(3,273)							(7,728)

WITNESS:

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(1) Adjustment to Test Year operation expense to reflect the increased cost associated with SCE's portion of Units 4&5 and removal of APS's costs of Units 1-3. The latter costs are based on Test Year 2010 actuals.

(2) Adjustment to Test Year property tax values to reflect the increase in tax owed to the Navajo Nation and New Mexico due to the acquisition of SCE's share of Units 4&5.

(3) Adjustment to Test Year depreciation and amortization expense to reflect additional expenses associated with the SCE transaction.

ARIZONA PUBLIC SERVICE COMPANY
Schedule 4.d - FOUR CORNERS RATE RIDER
INCOME STATEMENT PRO FORMA ADJUSTMENTS
TEST YEAR ENDED 12/31/2010
(Thousands of Dollars)

Line No.	Description	(4)		(5)		(6)	
		Total Co. (G)	ACC (H)	Total Co. (I)	ACC (J)	Total Co. (K)	ACC (L)
1.	Electric Operating Revenues						
2.	Revenues from Base Rates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3.	Revenues from Surcharges	-	-	-	-	-	-
4.	Other Electric Revenues	-	-	-	-	-	-
	Total Electric Operating Revenues	-	-	-	-	-	-
5.	Electric Fuel and Purchased Power Costs	4,470	4,318	-	-	-	-
6.	Oper Rev Less Fuel & Purch Pwr Costs	(4,470)	(4,318)	-	-	-	-
	Other Operating Expenses:						
7.	Operations Excluding Fuel Expense	-	-	-	-	-	-
8.	Maintenance	-	-	-	-	-	-
9.	Subtotal	-	-	-	-	-	-
10.	Depreciation and Amortization	-	-	-	-	-	-
11.	Amortization of Gain	-	-	3,059	2,955	5,122	4,948
12.	Administrative and General	-	-	-	-	-	-
13.	Other Taxes	-	-	-	-	-	-
14.	Total	-	-	3,059	2,955	5,122	4,948
15.	Operating Income Before Income Tax	(4,470)	(4,318)	(3,059)	(2,955)	(5,122)	(4,948)
16.	Interest Expense	-	-	-	-	-	-
17.	Taxable Income	(4,470)	(4,318)	(3,059)	(2,955)	(5,122)	(4,948)
18.	Composite Income Tax Rate - 39.51%	(1,766)	(1,706)	(1,209)	(1,168)	(2,024)	(1,955)
19.	Operating Income (line 15 minus line 18)	<u>(2,704)</u>	<u>(2,612)</u>	<u>(1,850)</u>	<u>(1,787)</u>	<u>(3,098)</u>	<u>(2,993)</u>

WITNESS:

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(4) Adjustment to reflect the amortization of SCE's share of coal reclamation through 2038.

(5) Adjustment to reflect the amortization of SCE's share of decommissioning through 2038.

(6) Deferred balance of operating costs associated with SCE's share of Units 4&5 and unrecovered costs associated Units 1-3, less savings from closure of Units 1-3. Deferral balance covers amounts deferred from December 30, 2013 through June 30, 2014, amortized over 10 years.

ARIZONA PUBLIC SERVICE COMPANY
Schedule 4.d - FOUR CORNERS RATE RIDER
INCOME STATEMENT PRO FORMA ADJUSTMENTS
TEST YEAR ENDED 12/31/2010
(Thousands of Dollars)

(7) (8)

Line No.	Description	Interest/Income Tax Adjustment Related to Rate Base Pro Forms			Total Income Statement Adjustments	
		Total Co. (M)	ACC (N)	Total Co. (O)	ACC (P)	
	Electric Operating Revenues					
1.	Revenues from Base Rates	\$ -	\$ -	\$ -	\$ -	
2.	Revenues from Surcharges	-	-	-	-	
3.	Other Electric Revenues	-	-	-	-	
4.	Total Electric Operating Revenues	-	-	-	-	
	Electric Fuel and Purchased Power Costs					
5.	Oper Rev Less Fuel & Purch Pwr Costs	-	-	4,470	4,318	
6.		-	-	(4,470)	(4,318)	
	Other Operating Expenses:					
7.	Operations Excluding Fuel Expense	-	-	559	540	
8.	Maintenance	-	-	1,223	1,182	
9.	Subtotal	-	-	1,782	1,722	
	Depreciation and Amortization					
10.	Amortization of Gain	-	-	21,407	20,679	
11.	Administrative and General	-	-	3,819	3,689	
12.	Other Taxes	-	-	6,417	6,199	
13.	Total	-	-	33,425	32,289	
14.		-	-	(37,895)	(36,607)	
15.	Operating Income Before Income Tax	-	-	-	-	
16.	Interest Expense	6,620	6,395	6,620	6,395	
17.	Taxable Income	(6,620)	(6,395)	(44,515)	(43,002)	
18.	Composite Income Tax Rate - 39.51%	(2,615)	(2,526)	(17,588)	(16,990)	
19.	Operating Income (line 15 minus line 18)	\$ 2,615	\$ 2,526	\$ (20,307)	\$ (19,617)	

WITNESS: BLANKENSHIP

(7) Adjustment to income taxes to reflect the increase in rate base associated with the purchase of SCE's share of Units 4-5.



**ADJUSTMENT SCHEDULE FCA
FOUR CORNERS ADJUSTMENT**

APPLICATION

The Four Corners Adjustment Schedule ("FCA") shall apply to all retail Standard Offer service.

Schedule FCA recovers costs associated with investment and expenses for APS's purchase of Southern California Edison's share of Four Corners Generating Station Units 4 and 5 and associated facilities and retirement of APS Units 1, 2 and 3 as approved in Decision Nos. 73130 and 73183.

All provisions of the customer's current applicable rate schedule shall apply in addition to charges under this adjustment schedule. Schedule FCA shall be effective upon approval by the Arizona Corporation Commission without proration.

RATE

The FCA charge will be applicable to the customer's monthly billed amount, excluding all other adjustments, sales tax, regulatory assessment and franchise fees. The resulting charged amount shall not be less than zero. In addition, the charge shall not apply to:

- The generation service and imbalance service charges in Rate Rider Schedule AG-1
- The energy and ancillary service charge in Rate Schedule E-36 XL
- Credits for the purchase of excess generation under rate rider schedules EPR-2, EPR-6, and E-56R
- Voluntary charges under rate rider schedules GPS-1, GPS-2, and GPS-3

FCA charge	2.22%
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ARIZONA PUBLIC SERVICE COMPANY
Detail of Pro Forma Adjustments to Original Cost Rate Base as Shown on Schedule 4.b, page 1, column C
Total Company
(Thousands of Dollars)

Pro Forma Adjustment: Four Corners Fair Value Acquisition
Adjustment to rate base to reflect the increase in the accounting fair value associated
with the increase of SCE's share of Unit 4 & 5

Line No.	Description	Total Company Amount
1.	Gross Utility Plant in Service	\$ 860,105
2.	Less: Accumulated Depreciation and Amortization	<u>554,229</u>
3.	Net Utility Plant in Service	305,876
4.	Less: Total Deductions	127,074
5.	Total Additions	<u>4,469</u>
6.	Total Rate Base	<u>\$ 183,271</u>

ARIZONA PUBLIC SERVICE COMPANY
Detail of Pro Forma Adjustments to Original Cost Rate Base as Shown on Schedule 4.b, page 1, column E
Total Company
(Thousands of Dollars)

Pro Forma Adjustment: Four Corners Auxiliary Plant
Adjustment to rate base to reflect the cost of the auxiliary boiler required to run Units 4 & 5.

Line No.	Description	Total Company Amount
1.	Gross Utility Plant in Service	\$ 11,319
2.	Less: Accumulated Depreciation and Amortization	286
3.	Net Utility Plant in Service	11,033
4.	Less: Total Deductions	-
5.	Total Additions	-
6.	Total Rate Base	\$ 11,033

ARIZONA PUBLIC SERVICE COMPANY
Detail of Pro Forma Adjustments to Original Cost Rate Base as Shown on Schedule 4.b, page 2, column G
Total Company
(Thousands of Dollars)

Pro Forma Adjustment: Four Corners Deferral Balance
Deferred balance of operating costs associated with SCE's share of Units 4&5 and unrecovered costs associated Units 1-3, less savings from closure of Units 1-3. Deferral balance covers amounts deferred from December 30, 2013 through June 30, 2014.

Line No.	Description	Total Company Amount
1.	Gross Utility Plant in Service	\$ 51,222
2.	Less: Accumulated Depreciation and Amortization	-
3.	Net Utility Plant in Service	51,222
4.	Less: Total Deductions	20,238
5.	Total Additions	-
6.	Total Rate Base	\$ 30,984

ARIZONA PUBLIC SERVICE COMPANY
Detail of Pro Forma Adjustments to Operating Income as Shown on Schedule 4.d, page 1, column A
Total Company
(Thousands of Dollars)

Pro Forma Adjustment: Incremental Operation and Maintenance Expenses Related to the Acquisition
 Adjustment to Test Year operation expense to reflect the increased cost associated with SCE's
 portion of Units 4&5 and removal of APS's costs of Units 1-3. The latter costs are based on Test
 Year 2010 actuals.

Line No.	Description	Total Company Amount
Electric Operating Revenues		
1.	Revenues in base rates	\$ -
2.	Surcharge revenue	-
3.	Other electric revenue	-
4.	Total electric operating revenues	-
Operating Expenses		
5.	Electric fuel and purchased power	-
6.	Operations and maintenance excluding fuel expenses	5,601
7.	Depreciation and amortization	-
8.	Other taxes	-
9.	Total Operating Expenses	<u>5,601</u>
10.	Operating Income (before income tax)	<u>(5,601)</u>
11.	Current Income Tax Rate - 39.51%	(2,213)
12.	Operating Income After Tax	<u>\$ (3,388)</u>

ARIZONA PUBLIC SERVICE COMPANY
Detail of Pro Forma Adjustments to Operating Income as Shown on Schedule 4.d, page 1, column C
Total Company
(Thousands of Dollars)

Pro Forma Adjustment: Incremental Property Tax and Other Taxes Related to Acquisition
Adjustment to Test Year property tax values to reflect the increase in tax owed to the Navajo
Nation and New Mexico due to the acquisition of SCE's share of Units 4&5.

Line No.	Description	Total Company Amount
Electric Operating Revenues		
1.	Revenues in base rates	\$ -
2.	Surcharge revenue	-
3.	Other electric revenue	-
4.	Total electric operating revenues	-
Operating Expenses		
5.	Electric fuel and purchased power	-
6.	Operations and maintenance excluding fuel expenses	-
7.	Depreciation and amortization	-
8.	Other taxes	6,417
9.	Total Operating Expenses	<u>6,417</u>
10.	Operating Income (before income tax)	<u>(6,417)</u>
11.	Current Income Tax Rate - 39.51%	(2,535)
12.	Operating Income After Tax	<u><u>\$ (3,882)</u></u>

ARIZONA PUBLIC SERVICE COMPANY
Detail of Pro Forma Adjustments to Operating Income as Shown on Schedule 4.d, page 1, column E
Total Company
(Thousands of Dollars)

Pro Forma Adjustment: Incremental Depreciation and Amortization Expense Related to the Acquisition
Adjustment to Test Year depreciation and amortization expense to reflect additional expenses
associated with the SCE transaction.

Line No.	Description	Total Company Amount
Electric Operating Revenues		
1.	Revenues in base rates	-
2.	Surcharge revenue	-
3.	Other electric revenue	-
4.	Total electric operating revenues	-
Operating Expenses		
5.	Electric fuel and purchased power	-
6.	Operations and maintenance excluding fuel expenses	-
7.	Depreciation and amortization	13,226
8.	Other taxes	-
9.	Total Operating Expenses	13,226
10.	Operating Income (before income tax)	(13,226)
11.	Current Income Tax Rate - 39.51%	(5,226)
12.	Operating Income After Tax	\$ (8,000)

ARIZONA PUBLIC SERVICE COMPANY
Detail of Pro Forma Adjustments to Operating Income as Shown on Schedule 4.d, page 2, column G
Total Company
(Thousands of Dollars)

Pro Forma Adjustment: Incremental Final Coal Reclamation Expense Related to Acquisition
Adjustment to reflect the amortization of SCE's share of coal reclamation through 2038.

Line No.	Description	Total Company Amount
Electric Operating Revenues		
1.	Revenues in base rates	\$ -
2.	Surcharge revenue	-
3.	Other electric revenue	-
4.	Total electric operating revenues	-
Operating Expenses		
5.	Electric fuel and purchased power	4,470
6.	Operations and maintenance excluding fuel expenses	-
7.	Depreciation and amortization	-
8.	Other taxes	-
9.	Total Operating Expenses	4,470
10.	Operating Income (before income tax)	(4,470)
11.	Current Income Tax Rate - 39.51%	(1,766)
12.	Operating Income After Tax	\$ (2,704)

ARIZONA PUBLIC SERVICE COMPANY

Detail of Pro Forma Adjustments to Operating Income as Shown on Schedule 4.d, page 2, column 1
Total Company
(Thousands of Dollars)

Pro Forma Adjustment: Incremental Decommissioning Expense Related to Acquisition
Adjustment to reflect the amortization of SCE's share of decommissioning through 2038.

Line No.	Description	Total Company Amount
Electric Operating Revenues		
1.	Revenues in base rates	\$ -
2.	Surcharge revenue	-
3.	Other electric revenue	-
4.	Total electric operating revenues	-
Operating Expenses		
5.	Electric fuel and purchased power	-
6.	Operations and maintenance excluding fuel expenses	-
7.	Depreciation and amortization	3,059
8.	Other taxes	-
9.	Total Operating Expenses	3,059
10.	Operating Income (before income tax)	(3,059)
11.	Current Income Tax Rate - 39.51%	(1,209)
12.	Operating Income After Tax	\$ (1,850)

ARIZONA PUBLIC SERVICE COMPANY

Detail of Pro Forma Adjustments to Operating Income as Shown on Schedule 4.d, page 2, column K
Total Company
(Thousands of Dollars)

Pro Forma Adjustment: Amortization of Four Corners Deferral Balance
Deferred balance of operating costs associated with SCE's share of Units 4&5 and unrecovered costs associated Units 1-3, less savings from closure of Units 1-3. Deferral balance covers amounts deferred from December 30, 2013 through June 30, 2014, amortized over 10 years.

Line No.	Description	Total Company Amount
Electric Operating Revenues		
1.	Revenues in base rates	\$ -
2.	Surcharge revenue	-
3.	Other electric revenue	-
4.	Total electric operating revenues	-
Operating Expenses		
5.	Electric fuel and purchased power	-
6.	Operations and maintenance excluding fuel expenses	-
7.	Depreciation and amortization	5,122
8.	Other taxes	-
9.	Total Operating Expenses	5,122
10.	Operating Income (before income tax)	(5,122)
11.	Current Income Tax Rate - 39.51%	(2,024)
12.	Operating Income After Tax	\$ (3,098)

ARIZONA PUBLIC SERVICE COMPANY
Detail of Pro Forma Adjustments to Operating Income as Shown on Schedule 4.d, page 3, column M
Total Company
(Thousands of Dollars)

Pro Forma Adjustment: Interest / Income Tax Adjustment Related to Rate Base Pro Formas
 Adjustment to interest expense and income taxes related to the increase in rate base associated
 with the purchase of SCE's share of Units 4&5, including the acquisition net book value, purchase
 adjustment, auxiliary boiler and deferral balance.

Line No.	Description	Total Company Amount
Electric Operating Revenues		
1.	Revenues in base rates	\$ -
2.	Surcharge revenue	-
3.	Other electric revenue	-
4.	Total electric operating revenues	-
Operating Expenses		
5.	Electric fuel and purchased power	-
6.	Operations and maintenance excluding fuel expenses	-
7.	Depreciation and amortization	-
8.	Other taxes	-
9.	Total Operating Expenses	-
10.	Operating income (before income tax)	-
11.	Interest Expense	6,620
12.	Taxable Income	(6,620)
13.	Current Income Tax Rate - 39.51%	(2,615)
14.	Operating Income After Tax	\$ 2,615