



0000154511

RECEIVED

2014 JUL -3 A 11: 37

AZ CORP COMMISSION  
DOCKET CONTROL

Federal and State Compliance

Mail Station 9712  
PO Box 53999  
Phoenix, Arizona 85072-3999  
Tel 602-250-5671  
Elisa.Malagon@aps.com

July 3, 2014

ORIGINAL

Docket Control  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

RE: Arizona Public Service Company's ("APS") Rebuttal Testimony in the Matter of the Application to Approve Four Corners Rate Rider; Docket No E-01345A-11-0224

Attached is APS's Rebuttal Testimony of Jeffery B. Guldner, Leland R. Snook, Elizabeth A. Blankenship, and James C. Wilde in support of the above referenced matter. Please note that a portion of Elizabeth A. Blankenship's Rebuttal Testimony is confidential and is being provided pursuant to an executed protective agreement.

If you have any questions regarding this information, please contact Jeff Johnson at (602)250-2661.

Sincerely,

Lisa Malagon

LM/km

cc: Parties of Record

Arizona Corporation Commission

DOCKETED

JUL 3 2014

DOCKETED BY

Copies of the foregoing delivered/mailed this 3rd day of July, 2014 to:

Connie Fitzsimmons  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

Charles Hains  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

David Berry  
Western Resource Advocates  
P.O. Box 1064  
Scottsdale, AZ 85252

Kurt Boehm  
Attorney  
BOEHM, KURTZ & LOWRY  
36 East Seventh Street, Suite 1510  
Cincinnati, OH 45202

Bradley Carroll  
Tucson Electric Power Company  
88 East Broadway Blvd.  
Mail Stop HQE910  
Tucson, AZ 85701

Steve Chriss  
Senior Manager, Energy Regulatory Analysis  
Walmart Stores  
2011 S.E. 10th Street  
Bentonville, AR 72716-0550

C. Webb Crockett  
Attorney  
Fennemore Craig  
3003 N. Central Avenue, Suite 2600  
Phoenix, AZ 85012-2319

Jeffrey Crockett  
Attorney  
Brownstein Hyatt Farber Schreck LLP  
One East Washington Street, Suite 2400  
Phoenix, AZ 85004

Maureen Scott  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

Jeff Schlegel  
SWEEP  
1167 W. Samalayuca Dr.  
Tucson, AZ 85704

Candrea Allen  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

Douglas Fant  
Law Offices of Douglas V. Fant  
3655 W. Anthem Way, Suite A-109, PMB 411  
Anthem, AZ 87193

Lawrence Robertson, Jr.  
Attorney At Law  
P.O. Box 1448  
Tubac, AZ 85646

Craig Marks  
Attorney  
10645 N. Tatum Blvd. Ste. 200-676  
Phoenix, AZ 85028

Copies of the foregoing delivered/mailed this 3rd day of July, 2014 to:

Timothy Hogan  
Attorney  
Arizona Center for Law in the Public  
Interest  
202 E. McDowell Road, Suite 153  
Phoenix, AZ 85004

Lyn Farmer  
Administrative Law Judge  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

Michael Patten  
Roshka DeWulf & Patten, PLC  
One Arizona Center, 400 E. Van Buren  
Street, Suite 800  
Phoenix, AZ 85004

Cynthia Zwick  
1940 E. Luke Avenue  
Phoenix, AZ 85016

Daniel Pozefsky  
Chief Counsel  
RUCO  
1110 W. Washington  
Phoenix, AZ 85007

Jay Moyes  
Moyes Sellers & Hendricks  
1850 N. Central Ave., Suite 1100  
Phoenix, AZ 85004

Steve Olea  
Utilities Division  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

Gary Yaquinto  
President & CEO  
Arizona Investment Council  
2100 N. Central Avenue, Suite 210  
Phoenix, AZ 85004

Michael Patten  
Attorney  
Roshka DeWulf & Patten, PLC  
One Arizona Center, 400 E. Van Buren  
Street, Suite 800  
Phoenix, AZ 85004

Jody Kyler  
BOEHM, KURTZ & LOWRY  
36 East Seventh Street, Suite 1510  
Cincinnati, OH 45202

Janice Alward  
Legal Division  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

Barbara Wyllie - Pecora  
14410 W. Gunsight Dr.  
Sun City West, AZ 85375

Nicholas Enoch  
Attorney  
Lubin & Enoch, P.C.  
349 North Fourth Ave.  
Phoenix, AZ 85003

Michael Curtis  
Attorney  
Curtis, Goodwin, Sullivan, Udall & Schwab,  
P.L.C.  
501 E Thomas Road  
Phoenix, AZ 85012

Copies of the foregoing delivered/mailed this 3rd  
day of July, 2014 to:

Greg Patterson  
Attorney  
Munger Chadwick  
2398 E. Camelback Road, Suite 240  
Phoenix, AZ 85016

Michael Grant  
Attorney  
Gallagher & Kennedy, P.A.  
2575 E. Camelback Road  
Phoenix, AZ 85016

Bradley Carroll  
Tucson Electric Power Company  
88 East Broadway Blvd.  
Mail Stop HQE910  
Tucson, AZ 85701

Kevin Higgins  
215 South State Street  
Suite 200  
Salt Lake, UT 84111

Scott Wakefiled  
Attorney  
Ridenour Hinton & Lewis, P.L.L.C.  
201 N. Central Avenue, Suite 3300  
Phoenix, AZ 85004-1052

Travis Richie  
Nellis Kennedy Howard  
Sierra Club  
85 Second Street, 2<sup>nd</sup> Floor  
San Francisco, CA 94105

**Jeffrey B. Guldner**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**REBUTTAL TESTIMONY OF JEFFREY B. GULDNER**

**On Behalf of Arizona Public Service Company**

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

**July 3, 2014**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**Table of Contents**

I. INTRODUCTION .....1

II. SUMMARY .....2

III. AGREEMENT AMONG THE PARTIES .....3

IV. RATE OF RETURN DISCUSSION .....5

V. VALUE OF THE TRANSACTION .....7

VI. CONCLUSION .....7

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

4    **I.     INTRODUCTION**

5    **Q.    PLEASE STATE YOUR NAME AND POSITION WITH ARIZONA**  
6           **PUBLIC SERVICE COMPANY (APS OR COMPANY).**

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

10   **Q.    DID YOU SUBMIT DIRECT TESTIMONY IN THIS PROCEEDING?**

11   A.    Yes, my Direct Testimony was filed on December 30, 2013.

12   **Q.    WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**  
13           **PROCEEDING?**

14   A.    I address the authorization granted to APS by the Arizona Corporation  
15           Commission (“Commission”) in Decision No. 73183 (May 24, 2012). That  
16           Decision allowed APS to “reflect in rates the rate base and expense effects  
17           associated with the acquisition of Southern California Edison’s (“SCE”) share of  
18           Units 4 and 5, the rate base and expense effects associated with the retirement of  
19           Units 1-3, and any cost deferral authorized in Docket No. E-01345A-10-0474.” I  
20           also address the deferral of certain costs associated with that acquisition per  
21           Decision No. 73130 (April 24, 2012). Finally, I discuss the Fair Value Rate of  
22           Return (“FVROR”) that has a long foundation in Arizona and explain why the  
23           Four Corners transaction continues to be a benefit for both our customers and  
24           Arizona.

1 II. SUMMARY

2 Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

3 A. APS's acquisition of SCE's share of Four Corners Units 4 and 5 combined with  
4 the retirement of Units 1-3, as part of negotiations with EPA, benefits APS  
5 customers, the Navajo Nation and Arizona. Notwithstanding Sierra Club's anti-  
6 coal agenda, every other party in this case offering an opinion on this issue has  
7 concluded that APS's purchase of SCE's share of Four Corners Units 4 and 5 is a  
8 good investment for APS and its customers. In fact, other than Sierra Club, no  
9 party has disagreed with the purchase price, timing, need, benefit to customers or  
10 the prudence of the transaction. Commission Staff in particular has thoroughly  
11 reviewed all aspects of the transaction and agrees the purchase was appropriate in  
12 every respect.

13  
14 Again, Sierra Club aside, the only significant disagreement among the parties  
15 originates either from a misinterpretation of Decision Nos. 73183 (the  
16 "Settlement Agreement") and 73130 (the "Four Corners Deferral Order") or from  
17 an erroneous assumption with regard to the appropriate FVROR. When those  
18 Orders are reasonably interpreted and the intent of the settling parties is taken  
19 into consideration (and the corresponding calculations are used to apply that  
20 intent, as shown in the Rebuttal Testimonies of APS Witnesses Beth Blankenship  
21 and Leland Snook), RUCO's and Staff's revenue requirement are essentially the  
22 same as APS's.

23 The FVROR as calculated by Staff Witness Dennis Kalbarczyk is not consistent  
24 with the Settlement or with Commission precedent, and results in a significant  
25 under-recovery of the cost of owning the newly acquired portion of Four Corners  
26 Units 4 and 5. As stated in the Company's Direct Testimony, the recovery  
27

1 method and the ability to defer certain costs pursuant to Decision No. 73130 were  
2 important components of the Settlement agreed to by APS and approved by  
3 Decision No. 73183. These authorizations were part of the reason APS agreed to  
4 the many concessions made in the process of negotiating the Settlement in that  
5 proceeding.

6  
7 **III. AGREEMENT AMONG THE PARTIES**

8 **Q. PLEASE SUMMARIZE THE COMPONENTS OF THE FOUR CORNERS**  
9 **TRANSACTION ON WHICH THE PARTIES IN THIS CASE AGREE.**

10 **A.** All parties, with the exception of the Sierra Club (who suggests that ever more  
11 analysis is needed regarding the net present value of the transaction), agree that  
12 APS's acquisition of SCE's share of Units 4 and 5 (i) will provide needed  
13 baseload capacity for the future, (ii) will provide both economic and non-  
14 economic benefits for APS customers, the Navajo Nation and Arizona, (iii) was  
15 reasonably priced, and (iv) was timed prudently. In sum, no party has challenged  
16 the prudence of this transaction. Indeed, Staff's expert consultant James Letzelter  
17 concluded:

- 18 1. The additional 179 MW is both used and useful;
- 19 2. APS considered an appropriate range of resource options;
- 20 3. APS's economic analysis of the acquisition was sound;
- 21 4. The economics of the transaction favor APS customers;
- 22 5. The timing of the transaction was prudent;
- 23 6. The risks of the acquisition are offset by the expected favorable  
economics;
- 24 7. Several ancillary benefits add to the positive impact that the  
transaction will have for customers; and
- 25 8. Overall, the Four Corners transaction was prudent.

26 *See Direct Testimony of Staff Witness J. Letzelter at page 3, lines 1-9.*

1 **Q. PLEASE SUMMARIZE YOUR UNDERSTANDING OF THE POINTS OF**  
2 **DISAGREEMENT AMONG THE THREE PARTIES ADDRESSING**  
3 **REVENUE REQUIREMENTS.**

4 A. As to the revenue requirement, there is really just one area of significant  
5 disagreement: What return should be applied to the acquired share of Four  
6 Corners and to the deferrals? For the reasons discussed below, this disagreement  
7 is based upon inaccurate assumptions or misapplication of the concept of FVROR  
8 in prior proceedings, and does not provide a basis to significantly reduce the  
9 \$65.44 million updated revenue requirement for the Four Corners Rate Rider  
10 requested by APS. *See also* Rebuttal Testimony of APS Witnesses Blankenship  
11 and Snook.

12 Specifically, Staff Witness Kalbarczyk has misapplied the FVROR as determined  
13 in the Settlement Agreement. RUCO, on the other hand, does not use the concept  
14 of FVROR at all and has applied an incremental debt rate to calculate the revenue  
15 requirement, which is not consistent with either the Four Corners Deferral Order  
16 or the Settlement.

17 **Q. WHAT ARE THE POSITIONS OF THE OTHER PARTIES?**

18 A. The Sierra Club disagrees with many of the assumptions used to determine the  
19 net present value of the transaction to APS customers; certain large customers  
20 disagree with the application of the Four Corners Rate Rider to AG-1 customers.  
21 My testimony focuses on the disagreements raised by Staff and RUCO regarding  
22 the application of Decision Nos. 73130 and 73183. APS Witnesses Blankenship  
23 and Snook also address Staff and RUCO's positions in their Rebuttal Testimony.  
24 The Sierra Club's contentions are refuted primarily in the Rebuttal Testimony of  
25 APS Witness Wilde. The concerns of AG-1 customers are discussed in the  
26 Rebuttal Testimony of APS Witness Snook.

1 IV. RATE OF RETURN DISCUSSION

2 Q. **WHAT WAS THE INTENT OF DECISION NO. 73130?**

3 As discussed in my Direct Testimony, Decision No. 73130 determined the  
4 Company had satisfied the criteria imposed by Decision No. 67744 related to the  
5 “Self-Build Moratorium” and authorized an accounting order allowing APS to  
6 defer for later recovery the costs of owning and operating the SCE interest in  
7 Four Corners Units 4 and 5, as well as costs associated with the shutdown of Four  
8 Corners Units 1-3 between the time of acquisition/closure and when those costs  
9 were actually reflected in retail electric rates.

10 Q. **DOES APS’S APPLICATION COMPLY WITH DECISION NO. 73130?**

11 A. Yes, APS’s Application complies with the requirements and intent of Decision  
12 No. 73130. *See* APS Witness Blankenship’s Rebuttal Attachments EAB-20 and  
13 EAB-21 that demonstrate APS’s compliance with the Decision.

14 Q. **WHAT DOES SECTION 10.2 OF THE 2012 RATE CASE SETTLEMENT,  
15 DECISION NO. 73183, SAY?**

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

18 [T]his rate case shall remain open for the sole purpose of  
19 allowing APS to file a request, no later than December 31,  
20 2013, that its rates be adjusted to reflect the proposed Four  
21 Corners transaction, should the Commission allow APS to  
22 pursue the acquisition and should the transaction thereafter  
23 close. **Specifically, APS may within ten (10) business days  
24 after any Closing Date but no later than December 31,  
25 2013, file an application with the Commission seeking to  
26 reflect in rates the rate base and expense effects  
27 associated with the acquisition of SCE’s share of Units 4  
28 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**

1 Plan of Administration to include in the PSA the post-  
2 acquisition Operations and Maintenance expense associated  
3 with Four Corners Units 1-3 as a cost of producing off  
4 system sales until closure of Units 1-3, provided that such  
5 costs do not exceed off-system sales revenue in any given  
6 year. APS's rates shall be adjusted only if the Commission  
7 finds the Four Corners transaction to be prudent. [Emphasis  
8 added]

9 As stated in this section, it allows APS to seek to include in rates three distinct  
10 items: (1) the rate base and expense effects associated with the acquisition of  
11 SCE's share of Units 4 and 5; (2) the rate base and expense effects associated  
12 with the retirement of Units 1-3; and (3) any cost deferral (resulting in Decision  
13 No. 73130). APS fully complied with the intent of the Settlement Agreement.  
14 See Rebuttal Testimonies of APS Witnesses Snook and Blankenship.

15 Q. **DOES STAFF WITNESS DENNIS KALBARCZYK'S TESTIMONY**  
16 **COMPLY WITH DECISION NO. 73183 AND IS IT CONSISTENT WITH**  
17 **THE SETTLING PARTIES INTENT? IF NOT, PLEASE EXPLAIN.**

18 A. No. Mr. Kalbarczyk's recommendation is inconsistent with how the FVROR was  
19 calculated in the Settlement. As, shown in APS Witness Snook's testimony, if  
20 APS were to use Staff's recommended figures and calculate the rate of return  
21 consistent with the Settlement and past orders, the revenue requirement requested  
22 here would be equal to or greater than in APS's original filing.

23 Q. **DOES RUCO'S TESTIMONY COMPLY WITH DECISION NOS. 73130**  
24 **AND 73183? IF NOT, PLEASE EXPLAIN?**

25 A. No, it does not. RUCO misapplied Decision No. 73130 by applying the marginal  
26 cost of debt used for the cost deferral per that Decision as the applicable going  
27 forward rate of return. That is a clear misreading of Decision No. 73130 and is  
28 not consistent with the Settlement established precedent concerning FVROR. See  
Rebuttal Testimony of Snook.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

V. VALUE OF THE TRANSACTION

**Q. YOUR DIRECT TESTIMONY DISCUSSED THE REASONS THAT APS WAS COMMITTED TO PROCEEDING WITH THIS TRANSACTION. DO THOSE REASONS CONTINUE TO APPLY TODAY?**

A. Yes. APS remains committed to the Four Corners Power Plant, to this transaction and to obtaining proper rate treatment for the transaction. Four Corners provides needed fuel diversity to APS's generation portfolio that (like electric utilities across the country) is increasingly becoming more dependent upon natural gas. Although APS encountered several challenges and delays through the process of acquiring Units 4-5 and retiring Units 1-3, the facts still remain that Four Corners is vital to the Navajo Nation's economy and to those communities surrounding the plant, the environment will benefit from the retirement of the less efficient and older Units 1-3, and Four Corners Units 4-5 are forecast to provide long-term value to APS customers. As noted by Staff Witness James Letzelter, as well as RUCO, this transaction continues to provide substantial economic benefits to APS's customers, the Navajo Nation and Arizona and is anticipated to do so throughout the remaining life of the plant.

VI. CONCLUSION

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

A. The Company's Application should be granted. Notwithstanding Sierra Club, the only significant disagreement among the parties originates either from a misinterpretation of Decision Nos. 73183 and 73130 or from a misapplication of the FVROR. APS complied with both Orders and the purchase of SCE's interest in Four Corners Units 4-5 was and remains a good deal for APS customers, the Navajo Nation, and Arizona.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

A. Yes.

**Leland R. Snook**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**REBUTTAL TESTIMONY OF LELAND R. SNOOK**

**On Behalf of Arizona Public Service Company**

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

**July 3, 2014**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**Table of Contents**

I. INTRODUCTION .....1

II. SUMMARY .....2

III. STAFF’S APPLICATION OF THE FVROR IS INCORRECT .....3

IV. RUCO DOES NOT RECOMMEND AN ACTUAL FVROR .....9

V. TREATMENT OF AG-1 CUSTOMERS .....9

VI. BILL IMPACT.....10

VII. CONCLUSION .....11

FVROR with Updated Four Corners FVRB.....Rebuttal Attachment LRS-1

Schedule 7 - Sample Bill Impact Analysis.....Rebuttal Attachment LRS-2

1  
2 **REBUTTAL TESTIMONY OF LELAND R. SNOOK**  
3 **ON BEHALF OF ARIZONA PUBLIC SERVICE COMPANY**  
4 **(Docket No. E-01345A-11-0224)**

5 I. INTRODUCTION

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

8 A. My name is Leland R. Snook. My business address is 400 North 5<sup>th</sup> Street,  
9 Phoenix, Arizona, 85004. I am Director of Rates and Rate Strategy for Arizona  
10 Public Service Company (“APS” or “Company”). I have management  
11 responsibility for all aspects relating to rates and pricing.

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

14 A. My background and experience are set forth in Appendix A to this Rebuttal  
15 Testimony.

16 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**  
17 **PROCEEDING?**

18 A. The purpose of my Rebuttal Testimony is to address Staff Witness Dennis  
19 Kalbarczyk’s testimony on the Fair Value Rate of Return (“FVROR”) that Staff  
20 used to calculate the Four Corners revenue requirement. I also address RUCO  
21 Witness Robert Mease’s use of incremental debt costs for that same purpose,  
22 although APS Witness Blankenship does so in greater detail. I will also discuss  
23 the testimony of the large customer groups and electric suppliers who oppose  
24 applying the Four Corners Rate Rider to AG-1 customers. Finally, I sponsor the  
25 bill impact analysis resulting from APS’s updated revenue requirement  
26 calculation.  
27  
28

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

II. SUMMARY

**Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.**

A. Staff Witness Mr. Kalbarczyk has applied the concept of FVROR inconsistently with (1) how FVROR was determined in the Settlement adopted by Decision No. 73183 (May 24, 2012), (2) the express language of the Settlement itself, and (3) prior Commission decisions on FVROR.

RUCO Witness Mr. Mease does not ever determine a FVROR. He simply takes the incremental debt cost used to calculate the Four Corners Deferral in Decision No. 73130 and misapplies it as a rate of return to determine the incremental revenue requirement for the Four Corners acquisition.

As to AG-1, APS proposed to apply the Four Corners Rate Rider to only a subset of the AG-1 customer bill: to the portion covering the services that APS provides and not to the portion representing a pass through of charges from such customer's Alternative Generation Providers. The "Large Customer Group" and "Actual or Potential AG-1 Suppliers"<sup>1</sup> object to this middle-ground proposal, wanting a complete exemption from the charge. One could as easily support this view as they could argue that the Four Corners charge should be assessed to the entire AG-1 customer bill, rather than simply a portion of it. APS's proposal achieves a reasonable balance and treats all customers eligible for AG-1 in a similar manner.

---

<sup>1</sup> Freeport-McMoRan Copper & Gold, Inc., Arizonans For Electric Choice and Competition, The Kroger Co., WalMart Stores, Inc., and Sam's West, Inc. (collectively referred to as the "Large Customer Group"), along with Noble American Energy Solutions L.L.C., Constellation NewEnergy, Inc., Direct Energy, L.L.C., and Shell Energy North America L.P (collectively referred to as "Actual or Potential AG-1 Suppliers").

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

III. STAFF'S APPLICATION OF THE FVROR IS INCORRECT

**Q. PLEASE DESCRIBE HOW STAFF WITNESS DENNIS KALBARCZYK CALCULATED HIS PROPOSED FVROR IN THIS MATTER.**

A. Mr. Kalbarczyk did not calculate a FVROR to apply to the Fair Value of the Four Corners asset. Rather, he took the 6.09% return on Fair Value Rate Base ("FVRB") referenced in the Settlement and applied it to the Original Cost of the Four Corners acquisition.

**Q. WHY IS APPLYING THE FVROR CALCULATED IN THE SETTLEMENT TO THE FOUR CORNERS ASSET INCORRECT?**

A. Because doing so ignores the Settlement's express intent that the Rate Rider reflect the "rate base and expense" effects of the Four Corners acquisition. It results in a FVROR on the new Four Corners asset that is demonstrably incorrect both as a matter of mathematics and in the context of Commission precedent.

In Section 10 of the Settlement, the parties agreed to hold open the underlying rate case to allow APS to seek to add the Four Corners acquisition to rate base as if the new asset had been a part of the Company's original rate case filing. To recognize the "rate base and expense effects" of that addition as the Settlement requires, one cannot simply cut and paste the 6.09% FVROR calculated using the Company's Settlement-authorized rate base and apply it to the new acquisition as a stand-alone asset.

**Q. WHY NOT?**

A. FVROR is the output of a formula whose components will change as items are added to or subtracted from rate base. The exact formula is as follows:

$$\text{FVROR} = \frac{[(\text{WACC} \times \text{Original Cost Rate Base}) + (1\% \times \text{Fair Value Increment})]}{\text{Fair Value Rate Base}}$$

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

Most of the inputs to this formula will change as rate base changes:

- Fair Value Rate Base is calculated by adding the Original Cost Rate Base (“OCRB”) to the “Reconstruction Cost New Less Depreciation” (“RCND”) of that Original Cost number and dividing that sum by 2. Fair Value Rate Base will thus clearly change with the value of either the OCRB or the RCND rate base.
- The Fair Value Increment is calculated by subtracting from the OCRB the Fair Value Rate Base (“FVRB”). Again, that number will change as either rate base calculation changes.
- The only static numbers in the formula are the WACC of 8.33% used in the Settlement and the 1% return on the Fair Value Increment.

Without the Four Corners acquisition, the OCRB and FVRB authorized in the Settlement resulted in a FVROR that equaled 6.09%. *See* Figure A below. But both of those numbers change when the new Four Corners asset is added to rate base, as contemplated by the Settlement. It is simply a matter of mathematics.

The following chart walks through three calculations of the FVROR formula: one with the Original Settlement calculation, a stand-alone Four Corners acquisition calculation and the combination of the Settlement and the Four Corners acquisition.

**Figure A: Settlement and Four Corners Revenue Requirement to Calculate the FVROR**

		<u>Settlement</u>	<u>Four Corners</u>	<u>Four Corners + Settlement</u>
		(dollars in thousands)		
1.	OCRB	\$ 5,662,998	\$ 225,934	\$ 5,888,932
2.	WACC	8.33%	8.33%	8.33%
3.	Resulting Operating Income (line 1 * line 2)	\$ 471,728	\$ 18,820	\$ 490,548
4.	FVRB	\$ 8,167,126	\$ 225,934	\$ 8,393,060
5.	Incremental FVRB Over OCRB, i.e. Fair Value Increment (line 4 - line 1)	\$ 2,504,128	\$ 0	\$ 2,504,128
6.	Return on Fair Value Increment	1.00%	1.00%	1.00%
7.	Return on Fair Value Increment * Fair Value Increment (line 6 * line 5)	\$ 25,041	\$ 0	\$ 25,041
8.	OCRB + FVRB Required Operating Income (line 3 + line 7)	\$ 496,769	\$ 18,820	\$ 515,590
9.	FVROR (line 8 / line 4)	6.09%	8.33%	6.14%

Each of these calculations effectively recognize the 8.33% WACC and 1% return on Fair Value Increment used in the Settlement. The slight increase to the FVROR percentage in the Four Corners plus Settlement scenario is not caused by any enhanced return on that asset, but simply reflects how the math changed when the rate base changed. APS still recovers only an 8.33% WACC and earns only a 1% return on the Fair Value increment, the numbers already used in the Settlement.

Mr. Kalbarczyk's treatment, on the other hand, effectively prevents APS from realizing the cost of capital on its investment. The return that results from Mr. Kalbarczyk's recommendation is \$8.3 million less than the actual "rate base effect" of the transaction shown in Figure A above and is thus inconsistent with that express Settlement requirement.

1  
2 **Q. ARE THE OCRB AND RCND FOR THE FOUR CORNERS ACQUISITION ACTUALLY THE SAME?**

3 A. No. By its very definition, RCND for the newly acquired Four Corners plant  
4 would cost significantly more to reconstruct and build new than the acquisition  
5 price. For example, applying the RCND accepted in the rate case for the  
6 Company's pre-existing share of Four Corners scaled to the newly acquired  
7 portion of the plant would result in a RCND of \$716 million. This number stands  
8 in sharp contrast to the OCRB of about \$226 million and would make the FVRB  
9 of the Four Corners acquisition \$471 million.

10 **Q. WHAT EFFECT WOULD APPLYING AN ACTUAL RCND TO THE FOUR CORNERS ASSET HAVE HAD ON APS'S REQUEST IN THIS PROCEEDING?**

11  
12 A. If APS had done so, there would have been a meaningful difference between the  
13 FVROR and the WACC. In fact, doing so would have *reduced* the FVROR to  
14 6.00% -- below the 6.09% FVROR noted in the Settlement. Ironically, however,  
15 the resulting change in FVRB would also have *increased* APS's request in this  
16 proceeding by over \$4 million to \$69.45 million.

17  
18 If APS had applied a 6.09% FVROR to FVRB in that scenario, as Mr.  
19 Kalbarczyk argues is somehow required, rather than the 6.00% that results  
20 mathematically, the revenue request would have been even larger. *See* Rebuttal  
21 Attachment LRS-1 for the details of this calculation. These examples all show  
22 that the exact FVROR is asset-specific and the overall FVROR is the weighted  
23 sum of these asset-specific FVRORs. One cannot plug and play one FVROR  
24 value to a different mix of plant and expect a reasonable result.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**Q. WHY DID APS ASSUME IN ITS DIRECT TESTIMONY THAT FAIR VALUE, ORIGINAL COST, AND RCND ARE ALL THE SAME FOR THE FOUR CORNERS ASSET?**

A. APS made a simplifying assumption to reflect just the cost of acquiring Southern California Edison's ("SCE") share of the Four Corners Units 4 and 5 because the asset was new to APS.

**Q. IS IT APPROPRIATE TO USE THE 6.09% FVROR DESCRIBED IN THE SETTLEMENT FOR THE FOUR CORNERS RATE BASE ADDITION SOUGHT HERE?**

A. No. Because, as I indicated above, doing so effectively mixes apples and oranges. The FVROR is one number when focused on the Four Corners asset in isolation; it is a different number when calculated using the pre-Four Corners Settlement rate base; and it is yet a different number when one adds the Four Corners purchase to the Settlement rate base amount. As described above, the FVROR is not a static number and treating it as such will result in flawed revenue recovery. For example, when the new Four Corners asset is taken on its own, FVROR and WACC are actually the same number – in this case, 8.33%. Recall the formula:

$$\text{FVROR} = \frac{[(\text{WACC} \times \text{Original Cost Rate Base}) + (1\% \times \text{Fair Value Increment})]}{\text{Fair Value Rate Base}}$$

As discussed above, Fair Value Rate Base is determined by adding OCRB and RCND and dividing that total by 2. However, because the asset is new to APS, the OCRB and RCND were assumed to be identical. This means that Fair Value Rate Base and Original Cost Rate Base were also deemed to be identical. For ease of illustration, I will refer to that Rate Base number as "Y." Recall also that the Fair Value Increment is the difference between Fair Value Rate Base and Original Cost Rate Base. In this case, Y-Y=0. Plugging each of these inputs into

1  
2 the Fair Value Rate of Return formula above makes clear that, for the Four  
3 Corners asset on its own, the FVROR and the WACC are also the same number:

4 
$$\text{FVROR} = (\text{WACC} \times Y) + (1\% \times 0) / Y$$

5  
6 
$$\text{FVROR} = (\text{WACC} \times Y) / Y$$

7 
$$\text{FVROR} = \text{WACC}$$

8  
9 In this case, the WACC used in the Settlement is 8.33%. This means that the  
10 FVROR that should be applied to the Fair Value of the new Four Corners asset is  
11 also 8.33% - the precise number that APS used to calculate the revenue  
12 requirement in this proceeding. Arbitrarily applying a 6.09% value instead of  
13 8.33% prevents APS from any opportunity of earning its WACC on the Four  
14 Corners asset, in violation of Section 5 of the Settlement Agreement.

15 **Q. DOES MR. KALBARCZYK'S RECOMMENDATION CONFLICT WITH**  
16 **PRIOR ACC PRECEDENT?**

17 **A.** Yes. The formula used to calculate FVROR in Decision No. 73183 was far from  
18 unique. To APS's knowledge, that formula has been used in almost every case  
19 since the Commission began to value a FVRB Increment. And even before that  
20 time, the Commission acknowledged that the FVROR must be sufficient to allow  
21 the utility to recover its WACC. In particular, the Commission recognized that

22 "[t]he beginning point of our inquiry [concerning Fair Value Rate of  
23 Return] must be the cost of capital. It is difficult to imagine a  
24 situation in which a reasonable return on FVRB would yield *less*  
than the cost of capital which comprises that rate base.

25 *In re Arizona Water Company*, Decision No. 53537 (April 27, 1983) at 15  
(emphasis in original).

1  
2 Mr. Kalbarczyk's recommendation fails the above test of a "reasonable return on  
3 FVRB" by a wide mark, under-recovering the WACC associated with the Four  
4 Corners transaction by some \$8.3 million per year.

5 **IV. RUCO DOES NOT RECOMMEND AN ACTUAL FVROR**

6 **Q. DOES RUCO'S FVROR RECOMMENDATION SUFFER FROM THE  
7 SAME DEFICIENCIES AS STAFF'S?**

8 A. As a practical matter, the answer is yes. However, RUCO does not represent that  
9 its proposal to use a 4.725% return for purposes of calculating an incremental  
10 revenue requirement produces a reasonable FVROR, as is required by law.  
11 Rather, RUCO interprets Decision No. 73130 (April 24, 2012) as somehow  
12 mandating the use of an incremental debt cost for this purpose. In reality, that  
13 Decision does not address how revenue requirements should be calculated for the  
14 Four Corners Transaction once that Transaction is reflected in rates, a point that  
15 APS Witness Blankenship underscores in her Rebuttal Testimony. Decision No.  
16 73130 solely addressed the return to be accrued on the deferred costs during the  
17 deferral period, which APS presently is estimating to run from December 30,  
18 2013 through November of 2014. APS's calculation of the deferrals associated  
19 with the Four Corners Transaction reflected that accrued return both in the  
20 original filing and in the Company's April 30<sup>th</sup> update. *See* Rebuttal Testimony of  
21 APS Witness Blankenship.

22 **V. TREATMENT OF AG-1 CUSTOMERS**

23 **Q. HOW DID APS PROPOSE TO APPLY THE PERCENTAGE INCREASE  
24 IN ITS ORIGINAL APPLICATION?**

25 A. APS proposed to apply the percentage increase as an equal percentage to the base  
26 rate portion of customers' bills as contemplated by the Settlement. APS requested  
27 the percentage increase be applied to the "APS" portion of an AG-1 customer's  
28

1  
2 bill, but not to the portion representing a pass through of charges from such  
3 customer's Alternative Generation Provider. E-36XL customers were treated  
4 similarly to AG-1 customers due to their unique generation service requirements.

5 **Q. DID ANY INTERVENOR ADDRESS THE APPLICATION OF THE RATE**  
6 **RIDER TO AG-1 CUSTOMERS? IF SO, PLEASE EXPLAIN THEIR**  
7 **POSITION.**

8 A. Yes. Both the Large Customer Group and the Actual or Potential AG-1 Suppliers  
9 addressed assessing the Four Corners Rate Rider to AG-1 customers. Both stated  
10 that AG-1 customers should be completely excluded from the Four Corners Rate  
11 Rider because that charge is related to generation plant.

12 **Q. DOES APS AGREE WITH THEIR PROPOSED TREATMENT?**

13 A. No. The Settlement made no distinction between the generation component of a  
14 rate schedule and the other components of base rates, and APS has therefore  
15 proposed to assess the Four Corners Surcharge on each and every element of base  
16 rates for each rate schedule. However, APS was aware that AG-1, also approved  
17 in the Settlement, exempts AG-1 customers from paying the generation  
18 component of their underlying rate schedule. In an attempt to give both  
19 provisions meaning, APS filed the middle-ground approach discussed above.

20 **Q. WHAT WOULD BE THE IMPACT OF THE COMMISSION ADOPTING**  
21 **THE POSITION OF THESE INTERVENORS?**

22 A. As noted in Mr. Kevin Higgins' Testimony, the Four Corners Rate Rider would  
23 increase all other customer bills by approximately 0.02%, or \$581,410.

24 **VI. BILL IMPACT**

25 **Q. WHAT IS THE UPDATED REVENUE REQUIREMENT REQUESTED**  
26 **BY THE COMPANY AND WHAT WILL BE THE IMPACT ON**  
27 **CUSTOMERS?**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

A. APS Witness Blankenship's Testimony describes the details of the updated revenue requirement calculation, but APS is seeking recovery of \$65.44 million or approximately 2.1% on the average residential customer bill.<sup>2</sup> A sample bill analysis is attached to my Testimony as Rebuttal Attachment 2. 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. WHAT IS APS PROPOSING AS THE EFFECTIVE DATE FOR THE RATE RIDER TO BE IMPLEMENTED?**

A. APS has assumed that the Rider will become effective on December 1, 2014 for purposes of calculating the deferral. As noted in APS Witness Blankenship's testimony, if the Rider is implemented after that date, there will be additional cost deferrals to recover, although it is the Company's recommendation that any deferrals not captured in the Commission's final order in this matter be carried over until the Company's next general rate proceeding.

**VII. CONCLUSION**

**Q. PLEASE SUMMARIZE YOUR CONCLUSIONS ABOUT THE COMPANY'S REBUTTAL TESTIMONY.**

A. Mr. Kalbarczyk application of the FVROR is inconsistent with how it was determined in the Settlement (Decision No. 73183), the language of the Settlement Agreement, and with prior Commission decisions on FVROR.

---

<sup>2</sup> Note that the Rider schedule attached to APS Witness Blankenship's Testimony shows the percentage increase of 2.33%. The difference between that number and the 2.1% referenced in my Testimony above is that the Rider is applied to only the base rate portion of a customer's bill. However it is important to a customer to know the total bill impact, which is why the 2.1% bill impact is included in my testimony.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

Mr. Mease simply takes the marginal debt cost from Decision No. 73130, which was intended to be used only to calculate the Four Corners Cost Deferral, and mistakenly applies it as a rate of return in determining the revenue requirement for the Four Corners acquisition.

Finally, the Company's proposal regarding the application of the Four Corners Surcharge to those services directly provided to AG-1 customers by APS, rather than the AG-1 customer's entire bill, achieves a reasonable balance of two different provisions of the Settlement. Moreover, it treats all customers eligible for AG-1 in a similar manner

**Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

**A. Yes.**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**Appendix A**  
**Statement of Qualifications**

**Leland R. Snook**

Leland R. Snook is Arizona Public Service Company's Director, Rates and Rate Strategy. He has over 25 years' experience in the electric utility business as a utility professional. Mr. Snook holds a Bachelor of Science Degree in Electrical Engineering from Texas Tech University and is a registered professional electrical engineer in the state of Arizona.

Mr. Snook's areas of expertise include development and analysis of electric utility revenue requirements, modeling of cost of service, rate schedule design, embedded and marginal cost analysis and formulation of utility service policies. Mr. Snook has previously testified before the Arizona Corporation Commission on customer service contract and rate schedule matters.

Mr. Snook has held his current position at Arizona Public Service Company for approximately six years. Prior to assuming that position, he served as the Director of Federal Regulation for APS. Before joining APS, Mr. Snook had a twenty-two year career with Tucson Electric Power Company, where he served in various professional and leadership roles.

**ARIZONA PUBLIC SERVICE COMPANY**  
**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	Original Cost	RCND	Fair Value	Line No.
1.	Adjusted Rate Base per Settlement	\$ 5,662,998	\$ 10,671,253	\$ 8,167,126	1.
2.	Four Corners Rate Base Pro Forma Adjustments	225,934	716,142	471,038	2.
3.	Adjusted Rate Base with Four Corners (line 1 + line 2)	5,888,932	11,387,395	8,638,164	3.
4.	Adjusted Operating Income per Settlement	496,769	496,769	496,769	4.
5.	Four Corners Income Statement Pro Forma Adjustments	(20,680)	(20,680)	(20,680)	5.
6.	Adjusted Operating Income with Four Corners (line 4 + line 5)	476,089	476,089	476,089	6.
7.	Current Rate of Return (Line 6 / Line 3)	8.08%	4.18%	5.51%	7.
8.	Required Operating Income (Line 9 * Line 3)	490,548	490,548	490,548	8.
9.	Required Rate of Return	8.33%	4.60%	6.01%	9.
10.	Adjusted Operating Income Deficiency (Line 8 - Line 6)	14,459	14,459	14,459	10.
11.	Gross Revenue Conversion Factor per Settlement	1.6566	1.6566	1.6566	11.
12.	Requested Increase in Base Revenue Requirements (Line 10 * Line 11)	\$ 23,953	\$ 23,953	\$ 23,953	12.
13.	Fair Value Increment	41,483		45,497	13.
14.	Requested Increase in Base Revenue Requirements (Line 12 + Line 13)	\$ 65,436		\$ 69,450	14.
15.	Required Rate of Return with Fair Value			6.00%	15.

ARIZONA PUBLIC SERVICE COMPANY  
Estimated Monthly Bill Impacts of Four Corners Adjustor

	Requested December 2014		Requested December 2014		Requested December 2014	
	Current Annual Average Monthly Bill <sup>1</sup>	Annual Average Monthly Bill <sup>2</sup>	Current Summer Monthly Bill	Summer Monthly Bill	Current Winter Monthly Bill	Winter Monthly Bill
<b>Residential (Average - All Rates)</b>						
Average kWh per Month	1,100	1,100	1,337	1,337	863	863
Base Rates	\$ 123.90	\$ 123.90	\$ 161.07	\$ 161.07	\$ 86.72	\$ 86.72
Four Corners Adjustment	\$ -	\$ 2.89	\$ -	\$ 3.75	\$ -	\$ 2.02
PSA - Forward Component	\$ 1.41	\$ 1.41	\$ 1.71	\$ 1.71	\$ 1.10	\$ 1.10
PSA - Historical Component	\$ 0.31	\$ 0.31	\$ 0.37	\$ 0.37	\$ 0.24	\$ 0.24
TCA	\$ 7.70	\$ 7.70	\$ 9.36	\$ 9.36	\$ 6.04	\$ 6.04
RES	\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11
DSMAC	\$ 2.03	\$ 2.03	\$ 2.47	\$ 2.47	\$ 1.59	\$ 1.59
EIS	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.02	\$ 0.02
LFCR	\$ 1.33	\$ 1.36	\$ 1.70	\$ 1.74	\$ 0.95	\$ 0.97
Total	\$ 140.82	\$ 143.74	\$ 180.82	\$ 184.61	\$ 100.77	\$ 102.81
<b>Bill Impact</b>		\$ 2.92				
		2.07%				

	Annual Average Monthly Bill <sup>1</sup>		Annual Average Monthly Bill <sup>2</sup>		Summer Monthly Bill		Summer Monthly Bill		Winter Monthly Bill		Winter Monthly Bill	
	Annual Average Monthly Bill <sup>1</sup>	Annual Average Monthly Bill <sup>2</sup>	Summer Monthly Bill	Summer Monthly Bill	Winter Monthly Bill	Winter Monthly Bill						
<b>Residential (Rate E-12)</b>												
Average kWh per Month	691	691	780	780	602	602						
Base Rates	\$ 86.40	\$ 86.40	\$ 108.04	\$ 108.04	\$ 64.76	\$ 64.76						
Four Corners Adjustment	\$ -	\$ 2.02	\$ -	\$ 2.52	\$ -	\$ 1.51						
PSA - Forward Component	\$ 0.88	\$ 0.88	\$ 1.00	\$ 1.00	\$ 0.77	\$ 0.77						
PSA - Historical Component	\$ 0.20	\$ 0.20	\$ 0.22	\$ 0.22	\$ 0.17	\$ 0.17						
TCA	\$ 4.84	\$ 4.84	\$ 5.46	\$ 5.46	\$ 4.22	\$ 4.22						
RES	\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11						
DSMAC	\$ 1.28	\$ 1.28	\$ 1.44	\$ 1.44	\$ 1.11	\$ 1.11						
EIS	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.01	\$ 0.01						
LFCR	\$ 0.93	\$ 0.95	\$ 1.14	\$ 1.17	\$ 0.71	\$ 0.73						
Total	\$ 98.66	\$ 100.70	\$ 121.43	\$ 123.98	\$ 75.86	\$ 77.39						
<b>Bill Impact</b>		\$ 2.04										
		2.07%										

	Annual Average Monthly Bill <sup>1</sup>		Annual Average Monthly Bill <sup>2</sup>		Summer Monthly Bill		Summer Monthly Bill		Winter Monthly Bill		Winter Monthly Bill	
	Annual Average Monthly Bill <sup>1</sup>	Annual Average Monthly Bill <sup>2</sup>	Summer Monthly Bill	Summer Monthly Bill	Winter Monthly Bill	Winter Monthly Bill						
<b>Commercial (Rate E-32, 0-20 kW)</b>												
Average kWh per Month	1,430	1,430	1,575	1,575	1,285	1,285						
Base Rates	\$ 202.38	\$ 202.38	\$ 233.37	\$ 233.37	\$ 171.39	\$ 171.39						
Four Corners Adjustment	\$ -	\$ 4.72	\$ -	\$ 5.44	\$ -	\$ 3.99						
PSA - Forward Component	\$ 1.83	\$ 1.83	\$ 2.01	\$ 2.01	\$ 1.64	\$ 1.64						
PSA - Historical Component	\$ 0.40	\$ 0.40	\$ 0.44	\$ 0.44	\$ 0.36	\$ 0.36						
TCA	\$ 3.73	\$ 3.73	\$ 4.11	\$ 4.11	\$ 3.35	\$ 3.35						
RES	\$ 14.68	\$ 14.68	\$ 16.17	\$ 16.17	\$ 13.19	\$ 13.19						
DSMAC	\$ 2.64	\$ 2.64	\$ 2.91	\$ 2.91	\$ 2.37	\$ 2.37						
EIS	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03						
LFCR	\$ 2.15	\$ 2.19	\$ 2.46	\$ 2.51	\$ 1.83	\$ 1.87						
Total	\$ 227.84	\$ 232.60	\$ 261.50	\$ 266.99	\$ 194.16	\$ 198.19						
<b>Bill Impact</b>		\$ 4.76										
		2.09%										

ARIZONA PUBLIC SERVICE COMPANY  
Estimated Monthly Bill Impacts of Four Corners Adjustor

	Requested		Requested		Requested	
	Current	December 2014	Current	December 2014	Current	December 2014
	Annual Average Monthly Bill <sup>1</sup>	Annual Average Monthly Bill <sup>2</sup>	Summer Monthly Bill	Summer Monthly Bill	Winter Monthly Bill	Winter Monthly Bill
<b>Commercial (Rate E-32, &gt;20 kW)</b>						
Average kWh per Month	7,182	7,182	7,752	7,752	6,612	6,612
Base Rates	\$ 842.33	\$ 842.33	\$ 987.28	\$ 987.28	\$ 697.38	\$ 697.38
Four Corners Adjustment	\$ -	\$ 19.63	\$ -	\$ 23.00	\$ -	\$ 16.25
PSA- Forward Component	\$ 9.17	\$ 9.17	\$ 9.90	\$ 9.90	\$ 8.44	\$ 8.44
PSA - Historical Component	\$ 2.01	\$ 2.01	\$ 2.17	\$ 2.17	\$ 1.85	\$ 1.85
TCA	\$ 19.48	\$ 19.48	\$ 22.03	\$ 22.03	\$ 16.93	\$ 16.93
RES	\$ 73.72	\$ 73.72	\$ 79.57	\$ 79.57	\$ 67.87	\$ 67.87
DSMAC	\$ 16.50	\$ 16.50	\$ 18.65	\$ 18.65	\$ 14.34	\$ 14.34
EIS	\$ 0.15	\$ 0.15	\$ 0.16	\$ 0.16	\$ 0.14	\$ 0.14
LFCR	\$ 9.16	\$ 9.35	\$ 10.65	\$ 10.87	\$ 7.67	\$ 7.83
Total	\$ 972.52	\$ 992.34	\$ 1,130.41	\$ 1,153.63	\$ 814.62	\$ 831.03
<b>Bill Impact</b>		\$ 19.82				
		2.04%				

	Requested		Requested		Requested	
	Current	December 2014	Current	December 2014	Current	December 2014
	Annual Average Monthly Bill <sup>1</sup>	Annual Average Monthly Bill <sup>2</sup>	Summer Monthly Bill	Summer Monthly Bill	Winter Monthly Bill	Winter Monthly Bill
<b>Commercial (Rate E-32 M)</b>						
Average kWh per Month	62,238	62,238	68,381	68,381	56,094	56,094
Base Rates	\$ 6,431.10	\$ 6,431.10	\$ 7,407.24	\$ 7,407.24	\$ 5,454.95	\$ 5,454.95
Four Corners Adjustment	\$ -	\$ 149.85	\$ -	\$ 172.59	\$ -	\$ 127.10
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	\$ 160.83	\$ 160.83	\$ 172.21	\$ 172.21	\$ 149.44	\$ 149.44
RES	\$ 256.60	\$ 256.60	\$ 256.60	\$ 256.60	\$ 256.60	\$ 256.60
DSMAC	\$ 136.17	\$ 136.17	\$ 145.81	\$ 145.81	\$ 126.53	\$ 126.53
EIS	\$ 1.31	\$ 1.31	\$ 1.44	\$ 1.44	\$ 1.18	\$ 1.18
LFCR	\$ 67.35	\$ 68.78	\$ 76.93	\$ 78.57	\$ 57.78	\$ 58.99
Total	\$ 7,150.27	\$ 7,301.55	\$ 8,166.70	\$ 8,340.93	\$ 6,133.82	\$ 6,262.13
<b>Bill Impact</b>		\$ 151.28				
		2.12%				

	Requested		Requested		Requested	
	Current	December 2014	Current	December 2014	Current	December 2014
	Annual Average Monthly Bill <sup>1</sup>	Annual Average Monthly Bill <sup>2</sup>	Summer Monthly Bill	Summer Monthly Bill	Winter Monthly Bill	Winter Monthly Bill
<b>Commercial (Rate E-32 L)</b>						
Average kWh per Month	290,507	290,507	314,925	314,925	266,089	266,089
Base Rates	\$ 24,707.54	\$ 24,707.54	\$ 29,453.69	\$ 29,453.69	\$ 19,961.38	\$ 19,961.38
Four Corners Adjustment	\$ -	\$ 575.69	\$ -	\$ 686.27	\$ -	\$ 465.10
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	\$ 588.97	\$ 588.97	\$ 653.49	\$ 653.49	\$ 524.44	\$ 524.44
RES	\$ 513.20	\$ 513.20	\$ 513.20	\$ 513.20	\$ 513.20	\$ 513.20
DSMAC	\$ 498.69	\$ 498.69	\$ 553.32	\$ 553.32	\$ 444.05	\$ 444.05
EIS	\$ 6.10	\$ 6.10	\$ 6.61	\$ 6.61	\$ 5.59	\$ 5.59
Total	\$ 26,766.82	\$ 27,342.51	\$ 31,670.65	\$ 32,356.92	\$ 21,862.96	\$ 22,328.06
<b>Bill Impact</b>		\$ 575.69				
		2.15%				

ARIZONA PUBLIC SERVICE COMPANY  
Estimated Monthly Bill Impacts of Four Corners Adjustor

	Requested		Requested		Requested	
	Current	December 2014	Current	December 2014	Current	December 2014
	Annual Average Monthly Bill <sup>1</sup>	Annual Average Monthly Bill <sup>2</sup>	Summer Monthly Bill	Summer Monthly Bill	Winter Monthly Bill	Winter Monthly Bill
<b>Industrial (Rate E34/35)</b>						
Average kWh per Month	3,693,933	3,693,933	3,841,873	3,841,873	3,545,992	3,545,992
Base Rates	\$ 251,228.00	\$ 251,228.00	\$ 262,539.00	\$ 262,539.00	\$ 239,917.00	\$ 239,917.00
Four Corners Adjustment	\$ -	\$ 5,853.62	\$ -	\$ 6,117.16	\$ -	\$ 5,590.07
PSA - Forward Component	\$ 4,717.15	\$ 4,717.15	\$ 4,906.07	\$ 4,906.07	\$ 4,528.23	\$ 4,528.23
PSA - Historical Component	\$ 1,034.30	\$ 1,034.30	\$ 1,075.72	\$ 1,075.72	\$ 992.88	\$ 992.88
TCA	\$ 7,433.21	\$ 7,433.21	\$ 7,796.73	\$ 7,796.73	\$ 7,069.69	\$ 7,069.69
RES	\$ 3,335.00	\$ 3,335.00	\$ 3,335.00	\$ 3,335.00	\$ 3,335.00	\$ 3,335.00
DSMAC	\$ 4,433.18	\$ 4,433.18	\$ 4,649.98	\$ 4,649.98	\$ 4,216.37	\$ 4,216.37
EIS	\$ 77.58	\$ 77.58	\$ 80.68	\$ 80.68	\$ 74.47	\$ 74.47
Total	\$ 272,258.42	\$ 278,112.04	\$ 284,383.18	\$ 290,500.34	\$ 260,133.64	\$ 265,723.71
<b>Bill Impact</b>		\$ 5,853.62				
		2.15%				

Notes:

(1) Bill excludes regulatory assessment charge, taxes and fees. Adjustor levels in effect as of June 1, 2014

**Elizabeth A.  
Blankenship**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**REBUTTAL TESTIMONY OF ELIZABETH A. BLANKENSHIP**

**On Behalf of Arizona Public Service Company**

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

**July 3, 2014**

**Table of Contents**

1

2 I. INTRODUCTION .....1

3 II. SUMMARY .....1

4 III. UPDATED FOUR CORNERS RATE RIDER REVENUE REQUIREMENT .....2

5 IV. RUCO’S COST OF DEBT RECOMMENDATION.....5

6 V. MISCELLANEOUS ISSUE .....7

7 VI. CONCLUSION .....7

8

9 Schedule 1 – APS’s Current Balance Sheet ..... Rebuttal Attachment EAB-1

10 Schedule 2 – APS’s Current Income Statement..... Rebuttal Attachment EAB-2

11 Schedule 3 – APS’s Forecast of Earnings through 2015 ..... Rebuttal Attachment EAB-3

12 Schedule 4 – Revenue Requirement Calculation ..... Rebuttal Attachment EAB-4

13 Schedule 4(a) – APS’s Adjusted Balance Sheet ..... Rebuttal Attachment EAB-5

14 Schedule 4(b) – APS’s Rate Base Pro Forma Adjustments ..... Rebuttal Attachment EAB-6

15 ..... Rebuttal Attachment EAB-6

16 Schedule 4(c) – APS’s Adjusted Income Statement ..... Rebuttal Attachment EAB-7

17 Schedule 4(d) – APS’s Income Statement Pro Formas..... Rebuttal Attachment EAB-8

18 Schedule 5 – Four Corners Adjustment Schedule..... Rebuttal Attachment EAB-9

19 Four Corners Acquisition SCE Fair Value Pro Forma [Rate Base] ..... Rebuttal Attachment EAB-10

20 ..... Rebuttal Attachment EAB-10

21 Four Corners Auxillary Plant Pro Forma [Rate Base] ..... Rebuttal Attachment EAB-11

22 Four Corners Deferral Balance Pro Forma [Rate Base]..... Rebuttal Attachment EAB-12

23 Incremental Operations and Maintenance Expenses Related to the Acquisition Pro  
Forma [Income Statement] ..... Rebuttal Attachment EAB-13

24 Incremental Property Taxes and Other Taxes Related to the Acquisition Pro Forma  
[Income Statement] ..... Rebuttal Attachment EAB-14

25 Incremental Depreciation and Amortization Expense Related to the Acquisition  
26 Pro Forma [Income Statement] ..... Rebuttal Attachment EAB-15

27 Incremental Final Coal Reclamation Related to the Acquisition Pro Forma  
[Income Statement] ..... Rebuttal Attachment EAB-16

28

1 Incremental Decommissioning Expense Pro Forma [Income  
Statement] ..... Rebuttal Attachment EAB-17  
2  
3 Amortization of the Four Corners Deferral Balance Pro Forma [Income  
Statement] ..... Rebuttal Attachment EAB-18  
4 Interest / Income Tax Adjustment Related to Rate Base Pro Formas [Income  
Statement] ..... Rebuttal Attachment EAB-19  
5  
6 Calculation of Deferred Costs ..... Rebuttal Attachment EAB-20  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

1                   **REBUTTAL 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**  
          **ADDRESS.**

5    A.    My name is Elizabeth A. Blankenship.    I am a Manager in the  
6           Revenue/Regulatory Accounting Department for Arizona Public Service  
7           Company (“APS” or “Company”). My business address is 400 North 5th Street,  
8           Phoenix, Arizona 85004.

9  
10   **Q.    DID YOU SUBMIT DIRECT TESTIMONY IN THIS PROCEEDING?**

11   A.    Yes, my Direct Testimony was filed on December 30, 2013.

12  
13   **Q.    WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**  
          **PROCEEDING?**

14           The purpose of my Rebuttal Testimony is to provide the updated Four Corners  
15           Rate Rider revenue requirement with information through April 30, 2014, to  
16           review the revenue requirement calculations submitted by Staff and RUCO, and  
17           to address the cost of debt used by RUCO as its rate of return and a miscellaneous  
18           item raised by Staff.

19  
20   II.   SUMMARY

21   **Q.    PLEASE SUMMARIZE YOUR TESTIMONY.**

22   A.    On December 30, 2013, APS purchased Southern California Edison’s (“SCE”) 48  
23           percent share in Units 4 and 5. Subsequently, APS filed an application to request  
24           recovery of a \$62.53 million annual revenue requirement through the Four  
25           Corners Rate Rider. APS updated the revenue requirement as of April 30, 2014  
26           and is now requesting recovery of a \$65.44 million annual revenue requirement.  
27           This increase is primarily related to the delay in the assumed rate effective date,  
28

1 which is described in more detail in Section III below. My testimony provides the  
2 updated revenue requirement needed to include the Four Corners Transaction  
3 (“Transaction”) in base rates as contemplated in the Settlement and Decision No.  
4 73183 (May 24, 2012). Specifically, my testimony includes the updated  
5 calculation of the \$65.44 million revenue requirement, including all rate base and  
6 income statement pro forma adjustments. The revenue requirement assumes a  
7 rate effective date of December 1, 2014.  
8

9 My testimony also reviews both Staff and RUCO witnesses’ testimonies  
10 regarding the Four Corners Rate Rider revenue requirement. Specifically, I  
11 address RUCO Witness Mr. Mease’s misinterpretation of Decision No. 73130  
12 (April 24, 2012) to apply the marginal cost of debt to derive the revenue  
13 requirement.  
14

15 **III. UPDATED FOUR CORNERS RATE RIDER REVENUE REQUIREMENT**

16 **Q. DID APS UPDATE THE FOUR CORNERS RATE RIDER REVENUE  
REQUIREMENT FOR REBUTTAL TESTIMONY?**

17 A. Yes. APS updated the revenue requirement with the most up-to-date information  
18 as of April 30, 2014, including the timing assumption of the deferral period,  
19 (which was extended to reflect the rate effective date of December 1, 2014). The  
20 updated revenue requirement and supporting schedules, including the detailed pro  
21 forma calculations, are attached to my testimony as Rebuttal Attachments EAB-1  
22 through EAB-21. Please note that Attachment EAB-3 is confidential and will be  
23 provided pursuant to an executed Protective Agreement.  
24

25 **Q. PLEASE DESCRIBE THE MAJOR CHANGES IN THE REVENUE  
REQUIREMENT FROM APS’S DIRECT TESTIMONY.**

26 A. The table below shows the main components driving the change in the revenue  
27 requirement from APS’s original Application filed December 30, 2014:  
28

	<b>\$ in millions</b>
Original As Filed Revenue Requirement (12/30/13)	\$62.53
Change in Deferral Period (6 months to 11 months)	2.86
All Other Changes	0.05
<b>Updated Revenue Requirement (04/30/14)</b>	<b>\$65.44</b>

As the table above shows, lengthening the deferral period from the original assumption of June 30, 2014 to November 30, 2014 caused almost all of the change to the revenue requirement.

**Q. DOES APS ANTICIPATE UPDATING THE REVENUE REQUIREMENT THROUGHOUT THE REMAINDER OF THE PROCEEDING?**

A. Yes. APS will update the revenue requirement if there is a significant change, such as an adjustment to the deferral period.

**Q. DID APS PROVIDE THE UPDATED REVENUE REQUIREMENT TO THE OTHER PARTIES PRIOR TO THE SUBMISSION OF THEIR DIRECT TESTIMONY?**

A. Yes. On June 2, 2014, in response to a data request from Staff (Staff 39.16), APS provided the updated revenue requirement as of April 30, 2014, including the supporting schedules.

**Q. DID ANY OTHER PARTIES ADDRESS THE UPDATED REVENUE REQUIREMENT?**

A. Yes. Staff and RUCO both presented revenue requirement testimony. Both parties agreed with the pro forma adjustments that APS included in the Application.<sup>1</sup> RUCO's testimony reflects the April 30<sup>th</sup> update. Staff's testimony used some, but not all the updated data, but APS does not believe Staff opposes

---

<sup>1</sup> Staff Witness Dennis Kalbarczyk presented revenue requirement testimony. He updated the marginal cost of debt rate in his testimony to reflect APS's debt issuance. Mr. Kalbarczyk included the rate of 4.7% in his calculation, which was based on a rounded figure that APS provided in a discovery response. The correct rate is 4.725%, as can be seen in APS's calculations. APS believes Staff will accept using the correct full cost of debt of 4.725% in the deviation of the revenue requirement.

any of the April 30<sup>th</sup> updates. However, Staff and RUCO each proposed different methods to determine the rate of return – a topic that I will discuss in greater detail later in my testimony. APS Witness Snook also addresses this topic.

**Q. WHAT WERE STAFF AND RUCO’S RECOMMENDATIONS TO THE REVENUE REQUIREMENT?**

A. Staff proposed an \$8.39 million revenue reduction to APS’s updated revenue requirement.<sup>2</sup> Staff stated the Fair Value Rate of Return (“FVROR”) of 6.09 percent calculated in the Settlement Agreement should have been applied to the Original Cost Rate Base (“OCRB”) adjustments, rather than the Weighted Average Cost of Capital (“WACC”) of 8.33 percent.

RUCO proposed a \$16.24 million revenue requirement reduction. RUCO proposed using the marginal cost of debt rate of 4.725 percent as the rate of return instead of the 8.33 percent WACC. The table below summarizes the ACC jurisdictional revenue requirement adjustments that Staff and RUCO recommended, as well as APS’s updated revenue requirement.

Description	APS Revised Filing (4/30/14)	Staff Direct Testimony	RUCO Direct Testimony
(dollars in millions)			
1. Revenue Requirement Increase	\$ 65.44	\$ 57.05	\$ 49.20
2. Adjusted Rate Base	\$225.93	\$225.93	\$225.93
3. Debt Rate for Deferral	4.725%	4.70%	4.725%
4. Rate of Return for Revenue Requirement	8.33%	6.09%	4.725%
5. Percentage Rate Surcharge	2.33%	2.03%	1.50%
6. Change in Revenue Requirement	-0-	-\$ 8.39	-\$ 16.24

<sup>2</sup> Staff’s Direct Testimony used APS’s originally-filed information as a starting point for their revenue requirement analysis. Because APS does not believe Staff opposes any of the April 30<sup>th</sup> updates, APS updated its testimony to reflect the most updated numbers.

1 **Q. DOES APS AGREE WITH STAFF'S AND RUCO'S**  
2 **RECOMMENDATIONS?**

3 A. No. APS disagrees with both Staff and RUCO with respect to the appropriate rate  
4 of return to apply to the rate base adjustments. APS does not believe that Staff  
5 applied the FVROR correctly for several reasons, as explained in the Rebuttal  
6 Testimony of APS Witness Leland R. Snook. APS believes that RUCO's  
7 application of the marginal cost of debt rate to the revenue requirement is  
8 inconsistent with Section 10.2 of the Settlement Agreement (Decision No. 73183)  
9 and the Four Corners Deferral Order (Decision No. 73130).

10 **IV. RUCO'S COST OF DEBT RECOMMENDATION**

11 **Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF RUCO WITNESS**  
12 **ROBERT MEASE'S TESTIMONY REGARDING HOW THE COST OF**  
13 **DEBT SHOULD BE APPLIED IN THE FOUR CORNERS RATE RIDER**  
14 **CALCULATION.**

15 A. Mr. Mease's only point of disagreement centered on the rate of return that should  
16 be used to calculate the revenue requirement. To that end, Mr. Mease applied  
17 only the 4.725% cost of debt to determine the revenue requirement, rather than  
18 the WACC of 8.33%. This resulted in a proposal of a \$49.20 million revenue  
19 requirement, reducing APS's calculation by \$16.24 million. Mr. Mease points to  
20 the Decision No. 73130 (the Four Corners Deferral Order), specifically page 37,  
21 lines 7-9, as the basis for using the 4.725% cost of debt to determine the revenue  
22 requirement.

23 **Q. DO YOU AGREE WITH RUCO'S APPLICATION OF THE DEBT RATE**  
24 **TO THE TOTAL FOUR CORNERS REVENUE REQUIREMENT?**

25 A. No. Mr. Mease's proposal relies entirely on language that applies only to the  
26 deferral balance and not to all of the components that make up the \$65.44 million  
27  
28

1 revenue requirement in this proceeding.<sup>3</sup> Section 10.2 of the Settlement  
2 Agreement specifically allowed APS to seek to reflect in rates three buckets of  
3 items associated with Four Corners in this proceeding: (1) the rate base and  
4 expense effects associated with the acquisition of SCE's share of Units 4 and 5;  
5 (2) the rate base and expense effects associated with the retirement of Units 1-3;  
6 and (3) any cost deferral authorized in Docket No. E-01345A-10-0474 (resulting  
7 in Decision No. 73130). In regards to the debt rate to be applied to this deferral,  
8 Decision No. 73130 plainly required that APS could only defer "the documented  
9 debt cost of acquiring SCE's interest in Units 4 and 5." APS calculated the  
10 deferral consistent with this requirement, applying only the 4.725% documented  
11 cost of debt to the deferred costs. See Rebuttal Attachment EAB-20 at line 19.  
12 The revenue requirement of \$65.44 million in this proceeding includes that debt-  
13 return only deferral balance.

14  
15 Decision No. 73130 did not say or imply that the cost of debt should be used in  
16 place of the WACC on the entire asset when the plant was placed in rate base.  
17 The debt-only capital treatment was strictly limited to the deferral balance.  
18 RUCO, however, extends the reach of that debt-return only treatment to all *three*  
19 of the items that make up the revenue requirement for this asset – not just the  
20 deferral balance. In leaving the rate case open to adjust rates to reflect the Four  
21 Corners transaction, the Settlement intended to allow the Four Corners asset the  
22 same rate of return treatment as the other assets comprising rate base in the  
23 Settlement's 2010 adjusted Test Year. Reducing the rate of return on that asset  
24 from the 8.33% WACC to a 4.725% documented debt cost would be inconsistent  
25 with the Settlement.

26  
27 <sup>3</sup> Decision No. 73130 states that the Commission approved "an accounting order ... that allows **deferral**  
28 of the non-fuel costs, except that we will include as "non-fuel costs" only the documented debt cost of  
acquiring SCE's interest in Units 4 and 5, and will not authorize any carrying charges on any **deferred**  
costs." [emphasis added]

1 **Q. DID APS COMPLY WITH DECISION NO. 73130 IN ITS APPLICATION**  
2 **OF THE DEBT RATE TO DEFERRED COSTS?**

3 Yes. APS included a specific pro forma adjustment titled "Four Corners Deferral  
4 Balance" that complied with Decision No. 73130 and used the documented debt  
5 cost of 4.725% (*see* Rebuttal Attachment EAB-20 at line 19) to determine the  
6 cost deferral to include in the Four Corners Rate Rider.

7 V. MISCELLANEOUS ISSUE

8 **Q. DOES APS AGREE WITH STAFF WITNESS KALBARCZYK'S**  
9 **SUGGESTION ON PAGE 15, LINES 10-18 OF HIS DIRECT TESTIMONY**  
10 **TO MODIFY THE FOUR CORNERS RATE RIDER TARIFF SHEET**  
11 **LANGUAGE?**

12 A. Yes. APS agrees to add a sentence to the Four Corners Rate Rider Tariff sheet to  
13 state that the Rate Rider "will only remain in effect until the conclusion of APS's  
14 next rate case." A redlined copy of the updated tariff sheet is provided as Rebuttal  
15 Attachment EAB-9.

16 VI. CONCLUSION

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

18 A. APS complied with the intent and language of both Decision Nos. 73130 and  
19 73183 in determining the cost deferral and the ultimate revenue requirement in  
20 the Four Corners Rate Rider and therefore, Staff and RUCO's proposals should  
21 not be accepted. Lastly, the updated revenue requirement provided in my  
22 testimony reflects the most recent data and assumptions and should be used to  
23 determine the Four Corners Rate Rider.

24 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

25 A. Yes.

26

27

28

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

	March 31, 2014	December 31, 2013
<b>ASSETS</b>		
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Plant in service and held for future use	\$ 15,253,694	\$ 15,196,598
Accumulated depreciation and amortization	(5,357,699)	(5,296,501)
Net	9,895,995	9,900,097
Construction work in progress	646,236	581,369
Palo Verde sale leaseback, net of accumulated depreciation (Note 6)	124,157	125,125
Intangible assets, net of accumulated amortization	144,291	157,534
Nuclear fuel, net of accumulated amortization	144,048	124,557
Total property, plant and equipment	10,954,727	10,888,682
<b>INVESTMENTS AND OTHER ASSETS</b>		
Nuclear decommissioning trust (Note 13)	657,862	642,007
Assets from risk management activities (Note 7)	21,626	23,815
Other assets	34,411	33,709
Total investments and other assets	713,899	699,531
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	103,400	3,725
Customer and other receivables	245,272	299,055
Accrued unbilled revenues	88,907	96,796
Allowance for doubtful accounts	(2,504)	(3,203)
Materials and supplies (at average cost)	223,401	221,682
Fossil fuel (at average cost)	36,496	38,028
Income tax receivable	289	135,179
Assets from risk management activities (Note 7)	16,951	17,169
Deferred fuel and purchased power regulatory asset (Note 3)	--	20,755
Other regulatory assets (Note 3)	76,317	76,388
Other current assets	45,176	39,153
Total current assets	833,705	944,727
<b>DEFERRED DEBITS</b>		
Regulatory assets (Note 3)	719,596	711,712
Unamortized debt issue costs	22,686	21,860
Other	114,437	114,865
Total deferred debits	856,719	848,437
<b>TOTAL ASSETS</b>	<b>\$ 13,359,050</b>	<b>\$ 13,381,377</b>

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)

	<u>March 31,</u> 2014	<u>December 31,</u> 2013
<b>LIABILITIES AND EQUITY</b>		
<b>CAPITALIZATION</b>		
Common stock	\$ 178,162	\$ 178,162
Additional paid-in capital	2,379,696	2,379,696
Retained earnings	1,823,914	1,804,398
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(29,747)	(30,313)
Derivative instruments	(20,364)	(23,059)
Total shareholder equity	<u>4,331,661</u>	<u>4,308,884</u>
Noncontrolling interests (Note 6)	154,915	145,990
Total equity (Note S-1)	<u>4,486,576</u>	<u>4,454,874</u>
Long-term debt less current maturities (Note 2)	<u>2,920,614</u>	<u>2,671,465</u>
Total capitalization	<u>7,407,190</u>	<u>7,126,339</u>
<b>CURRENT LIABILITIES</b>		
Short-term borrowings (Note 2)	--	153,125
Current maturities of long-term debt (Note 2)	540,424	540,424
Accounts payable	219,910	281,237
Accrued taxes (Note 5)	173,040	122,460
Accrued interest	47,207	48,132
Common dividends payable	--	62,500
Customer deposits	75,999	76,101
Deferred income taxes	21,951	2,033
Liabilities from risk management activities (Note 7)	19,907	31,892
Liabilities for asset retirements	25,536	32,896
Deferred fuel and purchased power regulatory liability	18,897	--
Other regulatory liabilities (Note 3)	116,903	99,273
Other current liabilities	118,934	130,774
Total current liabilities	<u>1,378,708</u>	<u>1,580,847</u>
<b>DEFERRED CREDITS AND OTHER</b>		
Deferred income taxes	2,355,237	2,347,724
Regulatory liabilities (Note 3)	783,702	801,297
Liabilities for asset retirements	344,708	313,833
Liabilities for pension and other postretirement benefits (Note 4)	405,597	476,017
Liabilities from risk management activities (Note 7)	29,106	70,315
Customer advances	115,033	114,480
Coal mine reclamation	208,183	207,453
Deferred investment tax credit	152,114	152,361
Unrecognized tax benefits (Note 5)	26,284	42,209
Other	153,188	148,502
Total deferred credits and other	<u>4,573,152</u>	<u>4,674,191</u>
<b>COMMITMENTS AND CONTINGENCIES (SEE NOTES)</b>		
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 13,359,050</u>	<u>\$ 13,381,377</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 March 31,	
	2014	2013
ELECTRIC OPERATING REVENUES	\$ 685,545	\$ 685,827
OPERATING EXPENSES		
Fuel and purchased power	249,786	230,679
Operations and maintenance	208,285	220,752
Depreciation and amortization	101,748	103,706
Income taxes	10,478	16,060
Taxes other than income taxes	45,613	39,768
Total	<u>615,910</u>	<u>610,965</u>
OPERATING INCOME	<u>69,635</u>	<u>74,862</u>
OTHER INCOME (DEDUCTIONS)		
Income taxes	1,210	2,332
Allowance for equity funds used during construction	7,442	6,864
Other income (Note S-2)	2,762	1,343
Other expense (Note S-2)	(5,056)	(6,296)
Total	<u>6,358</u>	<u>4,243</u>
INTEREST EXPENSE		
Interest on long-term debt	48,896	46,221
Interest on short-term borrowings	1,413	1,429
Debt discount, premium and expense	1,011	1,011
Allowance for borrowed funds used during construction	(3,770)	(3,990)
Total	<u>47,550</u>	<u>44,671</u>
NET INCOME	<u>28,443</u>	<u>34,434</u>
Less: Net income attributable to noncontrolling interests (Note 6)	<u>8,925</u>	<u>8,392</u>
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	<u>\$ 19,518</u>	<u>\$ 26,042</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 March 31,	
	2014	2013
NET INCOME	\$ 28,443	\$ 34,434
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Derivative instruments:		
Net unrealized gain (loss), net of tax benefit (expense) of \$(599) and \$(38)	(421)	58
Reclassification of net realized loss, net of tax benefit of \$1,323 and \$3,300	3,116	5,052
Pension and other postretirement benefits activity, net of tax expense of \$606 and \$576	566	882
Total other comprehensive income	3,261	5,992
COMPREHENSIVE INCOME	31,704	40,426
Less: Comprehensive income attributable to noncontrolling interests	8,925	8,392
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 22,779	\$ 32,034

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

**Attachment(s) Intentionally Omitted – Contains Confidential Information**

**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
1.	Adjusted Rate Base	\$ 5,662,998 (a)	\$ 10,671,253	\$ 8,167,126 (a)	\$ 225,934 (b)	\$ 5,888,932	\$ 10,897,187	\$ 8,393,060
2.	Adjusted Operating Income	496,769	496,769	496,769	(20,680) (c)	476,089	476,089	476,089
3.	Fair Value Adjustment Embedded in Operating Income	25,041	25,041	25,041		25,041	25,041	25,041
4.	Adjusted Operating Income without Fair Value Adjustment (Line 2 - Line 3)	471,728	471,728	471,728		451,048	451,048	451,048
5.	Current Rate of Return (Line 4 / Line 1)	8.33%	4.42%	5.78% (d)		7.66%	4.14%	5.37%
6.	Required Operating Income (Line 7 * Line 1)	471,728	471,728	471,728		490,548	490,548	490,548
7.	Required Rate of Return	8.33% (e)	4.42% (e)	5.78% (e)		8.33% (e)	4.50% (e)	5.84% (e)
8.	Adjusted Operating Income Deficiency (Line 4 - Line 6)	-	-	-		39,500	39,500	39,500
9.	Gross Revenue Conversion Factor (f)	1.6566	1.6566	1.6566		1.6566	1.6566	1.6566
10.	Requested Increase in Base Revenue Requirements (Line 8 * Line 9)	-	-	-		65,436	65,436	65,436
11.	2010 Adjusted Base Revenues (g)					\$ 2,810,916	\$ 2,810,916	\$ 2,810,916
12.	Percentage Base Rate Increase (Line 10 / Line 11)					2.33%	2.33%	2.33%

**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 effectively reflects a zero return on any difference between Fair Value Rate Base and Original Cost Rate Base, and is mathematically equivalent to 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 Direct 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) (A)	Four Corners Pro Forma (b) (B)	Adjusted Settlement (c) (C)	Settlement (d) (D)	Four Corners Pro Forma (e) (E)	Adjusted Settlement (f) (F)	
1.	Gross utility plant in service	\$ 14,005,836	\$ 939,446	\$ 14,945,282	\$ 11,866,173	\$ 907,506	\$ 12,773,679	1.
2.	Less: Accumulated depreciation & amortization	5,219,000	555,872	5,774,872	4,528,867	536,973	5,065,840	2.
3.	Net utility plant in service	8,786,836	383,574	9,170,410	7,337,306	370,533	7,707,839	3.
Deductions:								
4.	Deferred income taxes	1,931,063	27,247	1,958,310	1,567,902	26,321	1,594,223	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	154,321	3,825,890	3,226,831	149,074	3,375,905	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	4,633	82,307	72,203	4,475	76,678	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	4,633	1,673,646	1,552,523	4,475	1,556,998	20.
21.	Total rate base	\$ 6,784,280	\$ 233,886	\$ 7,018,166	\$ 5,662,998	\$ 225,934	\$ 5,888,932	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  
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.	ACC	Total Co.	ACC	Total Co.	ACC
	Settlement Test Year 12/31/2010			Four Corners Fair Value Acquisition		Four Corners Auxiliary Plant	
	(A)	(B)	(C)	(D)	(E)	(F)	
1.	Gross Utility Plant in Service	\$ 14,005,836	\$ 11,866,173	\$ 858,942	\$ 829,738	\$ 11,541	\$ 11,149
2.	Less: Accumulated Depreciation & Amort.	5,219,000	4,528,867	555,395	536,512	477	461
3.	Net Utility Plant in Service	8,786,836	7,337,306	303,547	293,226	11,064	10,688
4.	Less: Total Deductions	3,671,569	3,226,831	127,074	122,753	-	-
5.	Total Additions	1,669,013	1,552,523	4,633	4,475	-	-
6.	Total Rate Base	\$ 6,784,280	\$ 5,662,998	\$ 181,106	\$ 174,948	\$ 11,064	\$ 10,688

WITNESS:

BLANKENSHIP BLANKENSHIP

(1) See Rate base per Settlement Decision No. 73183, 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  
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)	Four Corners Deferral Balance	Total Co. (I)	Total Four Corners Rate Base Pro Forma Adjustments	Total Co. (K)	Adjusted Settlement Test Year 12/31/2010
		ACC	ACC	ACC	ACC	ACC	ACC
		(H)	(J)	(L)	(M)	(N)	(O)
1.	Gross Utility Plant in Service	\$ 68,963	\$ 66,619	\$ 939,446	\$ 907,506	\$ 14,945,282	\$ 12,773,679
2.	Less: Accumulated Depreciation & Amort.	-	-	555,872	536,973	5,774,872	5,065,840
3.	Net Utility Plant in Service	68,963	66,619	383,574	370,533	9,170,410	7,707,839
4.	Less: Total Deductions	27,247	26,321	154,321	149,074	3,825,890	3,375,905
5.	Total Additions	-	-	4,633	4,475	1,673,646	1,556,998
6.	Total Rate Base	\$ 41,716	\$ 40,298	\$ 233,886	\$ 225,934	\$ 7,018,166	\$ 5,886,932

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 30, 2013 through November 30, 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)

Line No.	Description	Total Company			Line No.
		Settlement (A)	Pro Forma Adjustments (a) (B)	Settlement Results After Pro Forma Adjustments (C)	
Electric Operating Revenues					
1.	Revenues from Base Rates	\$ 2,952,324	\$ -	\$ 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	4,499	1,035,788	5.
6.	Operations and maintenance excluding fuel expenses	676,937	5,601	682,538	6.
7.	Depreciation and amortization	405,150	23,359	428,509	7.
8.	Income taxes	242,751	(18,472)	224,279	8.
9.	Other taxes	162,770	6,418	169,188	9.
10.	Total	<u>2,518,897</u>	<u>21,405</u>	<u>2,540,302</u>	10.
11.	Operating income	<u>570,276</u>	<u>(21,405)</u>	<u>548,871</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>(21,405)</u>	<u>548,871</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>\$ (21,405)</u>	<u>\$ 548,871</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)	
1.	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	4,346	1,010,349	5.
6.	Operations and maintenance excluding fuel expenses	779,461	5,412	784,873	6.
7.	Depreciation and amortization	352,026	22,565	374,591	7.
8.	Income taxes	216,195	(17,842)	198,353	8.
9.	Other taxes	139,417	6,200	145,617	9.
10.	Total	<u>2,493,102</u>	<u>20,680</u>	<u>2,513,782</u>	10.
11.	Operating income	<u>496,769</u>	<u>(20,680)</u>	<u>476,089</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>(20,680)</u>	<u>476,089</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>\$ (20,680)</u>	<u>\$ 476,089</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)

(7) (8)

Line No.	Description	Interest/Income Tax Adjustment Related to Rate Base Pro Formas			Total Income Statement Adjustments		
		Total Co. (M)	ACC (N)	Total Co. (O)	ACC (P)		
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	-		4,499	4,346		
6.	Oper Rev Less Fuel & Purch Pwr Costs	-		(4,499)	(4,346)		
	Other Operating Expenses:						
7.	Operations Excluding Fuel Expense	-		559	540		
8.	Maintenance	-		1,223	1,182		
9.	Subtotal	-		1,782	1,722		
10.	Depreciation and Amortization	-		23,359	22,565		
11.	Amortization of Gain	-		-	-		
12.	Administrative and General	-		3,819	3,689		
13.	Other Taxes	-		6,418	6,200		
14.	Total	-		35,378	34,176		
15.	Operating Income Before Income Tax	-		(39,877)	(38,522)		
16.	Interest Expense	6,873	6,639	6,873	6,639		
17.	Taxable Income	(6,873)	(6,639)	(46,750)	(45,161)		
18.	Composite Income Tax Rate - 39.51%	(2,715)	(2,622)	(18,472)	(17,842)		
19.	Operating Income (line 15 minus line 18)	\$ 2,715	\$ 2,622	\$ (21,405)	\$ (20,880)		

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 and will only remain in effect until the conclusion of APS's next rate case.

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                      2.33%

**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	\$ 858,942
2.	Less: Accumulated Depreciation and Amortization	<u>555,395</u>
3.	Net Utility Plant in Service	303,547
4.	Less: Total Deductions	127,074
5.	Total Additions	<u>4,633</u>
6.	<b>Total Rate Base</b>	<b><u>\$ 181,106</u></b>

**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	\$ 11,541
2.	Less: Accumulated Depreciation and Amortization	477
3.	Net Utility Plant in Service	11,064
4.	Less: Total Deductions	-
5.	Total Additions	-
6.	<b>Total Rate Base</b>	<b>\$ 11,064</b>

**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 November 30, 2014.

Line No.	Description	Total Company Amount
1.	Gross Utility Plant in Service	\$ 68,963
2.	Less: Accumulated Depreciation and Amortization	-
3.	Net Utility Plant in Service	68,963
4.	Less: Total Deductions	27,247
5.	Total Additions	-
6.	<b>Total Rate Base</b>	<b>\$ 41,716</b>

**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
<b>Electric Operating Revenues</b>		
1.	Revenues in base rates	\$ -
2.	Surcharge revenue	-
3.	Other electric revenue	-
4.	Total electric operating revenues	-
<b>Operating Expenses</b>		
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	5,601
10.	<b>Operating Income (before income tax)</b>	<b>(5,601)</b>
11.	Current Income Tax Rate - 39.51%	(2,213)
12.	<b>Operating Income After Tax</b>	<b>\$ (3,388)</b>

**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
<b>Electric Operating Revenues</b>		
1.	Revenues in base rates	\$ -
2.	Surcharge revenue	-
3.	Other electric revenue	-
4.	Total electric operating revenues	-
<b>Operating Expenses</b>		
5.	Electric fuel and purchased power	-
6.	Operations and maintenance excluding fuel expenses	-
7.	Depreciation and amortization	-
8.	Other taxes	6,418
9.	Total Operating Expenses	6,418
10.	<b>Operating Income (before income tax)</b>	<b>(6,418)</b>
11.	Current Income Tax Rate - 39.51%	(2,536)
12.	<b>Operating Income After Tax</b>	<b>\$ (3,882)</b>

**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
<b>Electric Operating Revenues</b>		
1.	Revenues in base rates	\$ -
2.	Surcharge revenue	-
3.	Other electric revenue	-
4.	Total electric operating revenues	-
<b>Operating Expenses</b>		
5.	Electric fuel and purchased power	-
6.	Operations and maintenance excluding fuel expenses	-
7.	Depreciation and amortization	13,378
8.	Other taxes	-
9.	Total Operating Expenses	13,378
10.	<b>Operating Income (before income tax)</b>	<b>(13,378)</b>
11.	Current Income Tax Rate - 39.51%	(5,286)
12.	<b>Operating Income After Tax</b>	<b>\$ (8,092)</b>

**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
<b>Electric Operating Revenues</b>		
1.	Revenues in base rates	\$ -
2.	Surcharge revenue	-
3.	Other electric revenue	-
4.	Total electric operating revenues	-
<b>Operating Expenses</b>		
5.	Electric fuel and purchased power	4,499
6.	Operations and maintenance excluding fuel expenses	-
7.	Depreciation and amortization	-
8.	Other taxes	-
9.	Total Operating Expenses	4,499
10.	<b>Operating Income (before income tax)</b>	<b>(4,499)</b>
11.	Current Income Tax Rate - 39.51%	(1,778)
12.	<b>Operating Income After Tax</b>	<b>\$ (2,721)</b>

**ARIZONA PUBLIC SERVICE COMPANY**  
**Detail of Pro Forma Adjustments to Operating Income as Shown on Schedule 4.d, page 2, column I**  
**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
<b>Electric Operating Revenues</b>		
1.	Revenues in base rates	\$ -
2.	Surcharge revenue	-
3.	Other electric revenue	-
4.	Total electric operating revenues	-
<b>Operating Expenses</b>		
5.	Electric fuel and purchased power	-
6.	Operations and maintenance excluding fuel expenses	-
7.	Depreciation and amortization	3,085
8.	Other taxes	-
9.	Total Operating Expenses	3,085
10.	<b>Operating Income (before income tax)</b>	<b>(3,085)</b>
11.	Current Income Tax Rate - 39.51%	(1,219)
12.	<b>Operating Income After Tax</b>	<b>\$ (1,866)</b>

**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 November 30, 2014, amortized over 10 years.

Line No.	Description	Total Company Amount
	<b>Electric Operating Revenues</b>	
1.	Revenues in base rates	-
2.	Surcharge revenue	-
3.	Other electric revenue	-
4.	Total electric operating revenues	-
	<b>Operating Expenses</b>	
5.	Electric fuel and purchased power	-
6.	Operations and maintenance excluding fuel expenses	-
7.	Depreciation and amortization	6,896
8.	Other taxes	-
9.	Total Operating Expenses	6,896
10.	<b>Operating Income (before income tax)</b>	<b>(6,896)</b>
11.	Current Income Tax Rate - 39.51%	(2,725)
12.	<b>Operating Income After Tax</b>	<b>\$ (4,171)</b>

**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
<b>Electric Operating Revenues</b>		
1.	Revenues in base rates	\$ -
2.	Surcharge revenue	-
3.	Other electric revenue	-
4.	Total electric operating revenues	-
<b>Operating Expenses</b>		
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.	<b>Operating Income (before income tax)</b>	-
11.	Interest Expense	6,873
12.	Taxable Income	(6,873)
13.	Current Income Tax Rate - 39.51%	(2,715)
14.	<b>Operating Income After Tax</b>	<b>\$ 2,715</b>

**ARIZONA PUBLIC SERVICE COMPANY**  
**Cost Deferral on 4C 4-5 With Financing Deferrals @ 100% x 5.25% Marginal LTD Rate, No Compounding**  
**12/30/2013 Purchase Date of SCE's Share, Units 1-2-3 Shut Down 12/31/2013**  
 (\$ in Millions)

	Jan. 2014 - November 2014 <sup>1</sup>	Annual Amount (c)
(a)	(b)	(c)
<b>A. Operation &amp; Maintenance</b>		
1 Incremental Four Corners O&M Attributable to Additional 48% ownership of Units 4&5	46.890	51.153
2 Incremental Four Corners O&M Attributable to Additional ownership of Common Facilities	6.388	6.969
3 Unrecovered Inventory on Units 1-3	6.067	
4 Unrecovered Plant Investment on Units 1-3 (\$1.8M for Unrecovered Plant; \$9.8M NBV for Ash Pond and \$14.1M for Seepage Intercept)	29.346	
5 Four Corners 1-3 on going and residual O&M (Estimated @ \$.6M per year)		0.551
6 Less: Four Corners Units 1-3 Test-Year O&M	42.176	46.010
7 Net Change to Operation & Maintenance (Sum L1 thru L5 less L6)	\$ 47.066	\$ 12.714
<b>B. Book Depreciation and Amortization</b>		
8 Book Depreciation on Estimated SCE Book Basis of Acquired Portion		2.042
9 Depreciation on Auxiliary Boiler		0.406
10 Decommissioning on Acquired Portion		1.480
11 Final Coal Reclamation on Acquired Portion		3.775
12 Net Change to Book Depreciation and Amortization (Sum L8 thru L11)	\$ 7.703	\$ 8.402
<b>C. Property and Other Taxes</b>		
13 Possessory Interest and Business Activity Taxes on Acquired Portion	5.277	5.757
14 Property Taxes on Acquired Portion	1.083	1.182
15 Property Tax on Auxiliary Boiler	0.085	0.093
16 Less: Property Taxes on Units 1-3	0.562	0.613
17 Net Change to Property and Other Taxes (Sum L13 thru L15 less L16)	\$ 5.883	\$ 6.419
<b>D. Deferred Debt Return</b>		
18 Increase in Rate Base Investment at Acquisition (Inc. Auxiliary Boiler)	\$ 191.870	
19 Marginal Cost of Debt	4.725%	
20 Deferred Debt Return (Line 18 * Line 19 * .9167)	\$ 8.311	
<b>E. Cost Deferral</b>		
21 Pre-Tax Cost Deferral Total Company (Line 7 + Line 12 + Line 17 + Line 20)	\$ 68.963	
22 ACC Share	96.6%	
23 Pre-Tax Cost Deferral ACC Share	\$ 66.619	
24 Deferred Taxes		
25 After-Tax Cost Deferral ACC Share (Line 23 - Line 24)	\$ 26.321	
26 Cumulative Pre-Tax ACC Cost Deferrals at End of Period (Line 23)	\$ 66.619	
27 Cumulative After-Tax ACC Cost Deferrals at End of Period (Line 25)	\$ 40.298	
28 Annual ACC Jurisdiction Deferral Amortization Starting 7/1/2014 (Line 26 amortized over 10 years)	\$ 6.662	
29 Total Company Deferral Amortization (Line 28 / .966)	\$ 6.896	

<sup>1</sup> Deferral return & expenses prorated on six months.

ARIZONA PUBLIC SERVICE COMPANY  
 FOUR CORNERS REVENUE REQUIREMENT ANALYSIS  
 TEST YEAR ENDING 12/31/2010 (Settlement)  
 (Thousands of Dollars)

Rebuttal Attachment EAB-21  
 Page 1 of 1

Line No.	<u>A. RATE BASE<sup>1</sup></u>	TOTAL COMPANY	ACC JURISDICTION
1)	Four Corners Fair Value	\$181,106	\$174,948
2)	Four Corners Auxiliary Plant	\$11,064	\$10,688
3)	Four Corners Deferral Balance	\$41,716	\$40,298
4)	Total Rate Base	\$233,886	\$225,934
5)	Settlement Allowed Rate of Return @ 8.33%		
6)	Return on Rate Base (Line 4 * Line 5)	\$19,483	\$18,820
	<u>B. COMPUTATION OF INCOME TAXES</u>		
7)	Weighted Cost of Long Term Debt @ 2.94%		
8)	Tax Rate @ 39.51%		
9)	Income Taxes ((Line 5 - Line 7)(Line 4)(Line 8))/(1 - Line 8)	\$8,234	\$7,954
10)	Settlement Revenue Conversion Factor Adjustment	\$144	\$139
	<u>C. EXPENSES<sup>2</sup></u>		
11)	Electric Fuel and Purchased Power	\$4,499	\$4,346
12)	Operations and Maintenance	\$5,601	\$5,411
13)	Depreciation and Amortization	\$23,359	\$22,565
14)	Other Taxes	\$6,418	\$6,200
15)	Total Expenses	\$39,877	\$38,522
	<u>D. REVENUE REQUIREMENT @8.33%</u>		
16)	RETURN, INCOME TAXES, and EXPENSES (Line 6 + Line 9 + Line 10 + Line 15)	\$67,738	\$65,436

<sup>1</sup>Attachment EAB-6, Schedule 4.b, Page 2 of 2

<sup>2</sup>Attachment EAB-7, Schedule 4.c, Page 2 of 2

**James C. Wilde**

**James C. Wilde**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**REBUTTAL TESTIMONY OF JAMES C. WILDE**

**On Behalf of Arizona Public Service Company**

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

**July 3, 2014**

**Table of Contents**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

I. INTRODUCTION .....1

II. SUMMARY .....1

III. SIERRA CLUB CRITICISMS OF APS’S ECONOMIC ANALYSIS ARE  
INVALID .....2

    1. Gas Prices .....2

    2. Carbon Prices .....3

    3. Operating Performance .....5

    4. Capital Improvements .....6

IV. CONCLUSION .....6



1 factors discussed by Dr. Hausman. Staff's own extensive review of the  
2 Transaction confirms the Company's economic analysis.

3  
4 **III. SIERRA CLUB CRITICISMS OF APS'S ECONOMIC ANALYSIS ARE**  
5 **INVALID**

6 1. *Gas Prices*

7 **Q. THE SIERRA CLUB QUESTIONS THE BASIS OF THE NATURAL GAS**  
8 **PRICES USED BY APS IN ITS NET PRESENT VALUE CALCULATION**  
9 **(“NPV”) AND ALLEGES THAT THE NATURAL GAS PRICES ARE TOO**  
10 **HIGH IN LATER YEARS. PLEASE RESPOND TO THOSE CONCERNS.**

11 A. First, it is important to note that the natural gas prices used by APS in this  
12 proceeding are the same as those used in the preparation of its 2014 Integrated  
13 Resource Plan (“IRP”) and are based on the New York Mercantile Exchange  
14 (“NYMEX”) forward market gas prices on September 30, 2013. The September  
15 2013 NYMEX forward market prices go through 2025. Beyond 2025, the gas  
16 prices are escalated at a conservative rate of 2.14% for the duration of the  
17 analysis. In addition, to accurately reflect the “delivered” fuel prices to the APS  
18 system, APS added delivery costs to the forward curve. The delivery costs are  
19 approximately 10% of the basin price.

20 Second, the Report on a Review of the Arizona Public Service Company Four  
21 Corners Acquisition, prepared for the Commission by The Liberty Consulting  
22 Group, expressly found:

23 [T]he natural gas prices used by APS are reasonable, and are  
24 actually conservatively low. . . .Accordingly, it is Liberty's view that  
25 actual gas prices may be higher than APS expects, making the  
26 benefit of the Four Corners acquisition even higher . . . .” (See Staff  
27 Direct Testimony of James Letzelter at Exhibit JCL-1, p. 9)



1 **Q. WOULD CRA'S CARBON PRICE FORECAST CHANGE THE VALUE**  
2 **OF THE FOUR CORNERS ACQUISITION?**

3 No, not significantly. Even with using the CRA recommended pricing, the 2012  
4 IRP still showed a nearly \$400 million customer benefit for proceeding with the  
5 purchase of SCE's share of Four Corners Units 4 and 5.

6 **Q. PLEASE CONTINUE.**

7 A. After the Waxman-Markey and Kerry-Lieberman bills failed, discussion of  
8 federal Green House Gas legislation largely faded. Due to this lack of progress  
9 on the legislative front, updated carbon prices were needed for the 2014 IRP.  
10 Thus, in its 2014 IRP filing, APS reviewed carbon markets trading in California  
11 as well as in the East and incorporated projected carbon costs based on the actual  
12 trading price of CO<sub>2</sub> allowances in the California market as of September 24,  
13 2013. These prices were materially higher than those prevailing in the East. APS  
14 used this same trading price in its 2014 IRP as the basis of its emissions prices in  
15 the calculation of the NPV of the Four Corners transaction in this docket.

16  
17 In 2014, after the present Four Corners filing was made, the EPA proposed rules  
18 for greenhouse gas emissions for existing sources in the Clean Power Plan.  
19 While the proposal does not yet address power plants located on Indian  
20 Reservation Lands, it does provide a number of ways to "reduce emissions" from  
21 existing sources, including heat rate improvements, re-dispatch, renewable  
22 generation and energy efficiency. It is noteworthy that the Clean Power Plan does  
23 not propose a carbon market as one of its building blocks for reducing carbon  
24 intensity. In light of this, it appears that using any carbon price in the Four  
25 Corners analysis may yield a conservatively low estimate of the value of the  
26 Transaction.

1 **Q. DID APS MAKE A UNIT CONVERSION ERROR IN ITS USE OF CRA'S**  
2 **CARBON PRICES AS SIERRA CLUB ALLEGES?**

3 A. No, APS did not make a conversion error. As discussed above, APS did not use  
4 CRA's prices in the calculation of the \$426 million benefit represented in this  
5 filing. APS did use CRA's price data in preparing the Company's 2012 IRP, but  
6 there was no conversion error made in that filing either.

7 3. *Operating Performance*

8 **Q. THE SIERRA CLUB QUESTIONS THE ABILITY OF FOUR CORNERS**  
9 **TO OPERATE EFFICIENTLY TWO DECADES FROM NOW. WHAT IS**  
10 **THE BASIS FOR APS'S ASSUMPTION THAT FOUR CORNERS WILL**  
11 **BE ABLE TO RUN AT THE ANTICIPATED CAPACITY FACTOR OVER**  
12 **THE REMAINING LIFE OF THE PLANT?**

13 A. The Sierra Club offers no evidence that, properly maintained, Units 4 and 5 could  
14 not continue to operate at current levels for the assumed life of the plants.  
15 Indeed, a historical look at the capacity factors of Units 4 and 5 shows exactly the  
16 opposite. Despite some swings (both up and down) year over year, the capacity  
17 factors for Units 4 and 5 have remained roughly the same over the past two  
18 decades, notwithstanding the increasing age of the facilities. Consistent with  
19 APS's future projections, Units 4 and 5 have had capacity factors averaging  
20 approximately 80% over the last couple of decades. There is no reason to believe  
21 that, if the Units are properly maintained, this trend will not continue in the  
22 decades to come. In fact, the current end of life assumption associated with those  
23 Units – 2038 – is tied to the expiration of the lease agreement with the Navajo  
24 Nation, not with the physical condition of the plants. Moreover, the projected  
25 costs of operating and maintaining Units 4 and 5 at that level of performance  
26 through 2038 have already been included in the Company's economic analysis.

