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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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- BOB STUMP, Chairman
- GARY PIERCE
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IN THE MATTER OF THE APPLICATION OF
 ARIZONA PUBLIC SERVICE COMPANY FOR A
 HEARING TO DETERMINE THE FAIR VALUE OF
 THE UTILITY PROPERTY OF THE COMPANY
 FOR RATEMAKING PURPOSES, TO FIX A JUST
 AND REASONABLE RATE OF RETURN
 THEREON, TO APPROVE RATE SCHEDULES
 DESIGNED TO DEVELOP SUCH RETURN.

Docket No. E-01345A-11-0224

**NOTICE OF FILING DIRECT
TESTIMONY OF ARIZONA
INVESTMENT COUNCIL**

GALLAGHER & KENNEDY, P.A.
 2575 E. CAMELBACK ROAD
 PHOENIX, ARIZONA 85016-9225
 (602) 530-8000

Pursuant to the requirements of the Procedural Order dated March 25, 2014 in this matter,
 attached is the Direct Testimony of Gary Yaquinto on behalf of the Arizona Investment Council.

Your assistance is appreciated.

RESPECTFULLY SUBMITTED this 19th day of June, 2014.

GALLAGHER & KENNEDY, P.A.

By Michael M. Grant

Michael M. Grant
 Jennifer A. Cranston
 2575 East Camelback Road
 Phoenix, Arizona 85016-9225
 Attorneys for Arizona Investment Council

Original and 13 copies filed this
19th day of June, 2014, with:

Docket Control
 Arizona Corporation Commission
 1200 West Washington Street
 Phoenix, Arizona 85007

Arizona Corporation Commission
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1 **Copy** of the foregoing delivered this
19th day of June, 2014, to:

2
3 Lyn A. Farmer
4 Chief Administrative Law Judge
5 Arizona Corporation Commission
6 1200 West Washington Street
7 Phoenix, Arizona 85007

8 **Copies** of the foregoing mailed this
19th day of June, 2014, to:

9 Meghan H. Grabel
10 Thomas L. Mumaw
11 Pinnacle West Capital Corporation
12 P.O. Box 53999, MS 8695
13 Phoenix, Arizona 85072-3999

14 C. Webb Crockett
15 Patrick J. Black
16 Fennemore Craig, P.C.
17 3003 North Central Avenue, Suite 2600
18 Phoenix, Arizona 85012-2913
19 Attorneys for Freeport-McMoRan
20 Copper & Gold, Inc. and Arizonans
21 for Electric Choice and Competition

22 Daniel Pozefsky
23 Residential Utility Consumer Office
24 1110 West Washington Street, Suite 220
Phoenix, Arizona 85007

Michael A. Curtis
William P. Sullivan
Melissa A. Parham
Curtis, Goodwin, Sullivan,
Udall & Schwab, P.L.C.
501 East Thomas Road
Phoenix, Arizona 85012-3205
Attorneys for the Town of Wickenburg
and Town of Gilbert

Barbara Wyllie-Pecora
14410 West Gunsight Drive
Sun City West, Arizona 85375

Timothy M. Hogan
Arizona Center for Law
in the Public Interest
202 East McDowell Road, Suite 153
Phoenix, Arizona 85004
Attorneys for Western Resource Advocates,
Southwest Energy Efficiency Project
and ASBA/AASBO; Local Counsel for
Sierra Club Environmental Law Program

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

Jeff Schlegel, Arizona Representative
Southwest Energy Efficiency Project
1167 West Samalayuca Drive
Tucson, Arizona 85704-3224

Kurt J. Boehm
Jody M. Kyler
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202-4454
Attorneys for Kroger Co.

1 Jeffrey W. Crockett
Brownstein Hyatt Farber Schreck, LLP
2 One East Washington Street, Suite 2400
Phoenix, Arizona 85004
3 Attorneys for Arizona Association
of Realtors

4
5 John William Moore, Jr.
7321 North 16th Street
Phoenix, Arizona 85020
6 Attorneys for Kroger Co.

7 Cynthia Zwick
1940 East Luke Avenue
8 Phoenix, Arizona 85016

9 Michael W. Patten
Roshka DeWulf & Patten, PLC
10 One Arizona Center
400 East Van Buren, Suite 800
11 Phoenix, Arizona 85004-2262
Attorneys for Tucson Electric Power

12 Bradley Carroll
13 Tucson Electric Power Co.
One South Church Avenue, Suite 210
14 Tucson, Arizona 85701

15 Greg Patterson
Munger Chadwick
16 2398 East Camelback Road, Suite 240
Phoenix, Arizona 85016
17 Attorneys for Arizona Competitive
Power Alliance

18 Karen S. White, Staff Attorney
19 Samuel T. Miller
USAF Utility Law Field Support Center
20 139 Barnes Avenue, Suite 1
Tyndall AFB, Florida 32403

Nicholas J. Enoch
Lubin & Enoch, P.C.
349 North Fourth Avenue
Phoenix, Arizona 85003
Attorneys for IBEW
Locals 387, 640 & 769

Jay I. Moyes
Steve Wene
Moyes Sellers & Hendricks
1850 North Central Avenue, Suite 1100
Phoenix, Arizona 85004
Attorneys for AzAg Group

Jeffrey J. Woner
K.R. Saline & Assoc., PLC
160 North Pasadena, Suite 101
Mesa, Arizona 85201

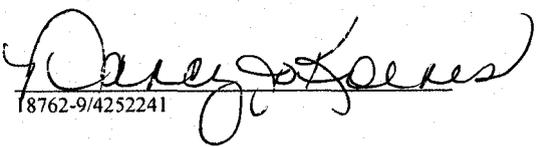
Craig A. Marks
Craig A. Marks, PLC
10645 North Tatum Boulevard, Suite 200-676
Phoenix, Arizona 85028
Attorneys for AARP

Scott S. Wakefield
Ridenour, Hienton & Lewis, P.L.L.C.
201 North Central Avenue, Suite 3300
Phoenix, Arizona 85004-1052
Attorneys for Wal-Mart Stores, Inc.
and Sam's West, Inc.

Steve W. Chriss
Senior Manager, Energy Regulatory Analysis
Wal-Mart Stores, Inc.
2011 Southeast 10th Street
Bentonville, Arkansas 72716-0550

Lawrence V. Robertson, Jr.
P.O. Box 1448
Tubac, Arizona 85646
Attorneys for SWPG/Bowie and
Noble/Constellation/Direct/Shell

- 1 Laura E. Sanchez
Natural Resources Defense Council
- 2 P.O. Box 65623
Albuquerque, New Mexico 87193
- 3
- 4 Samuel T. Miller
USAF Utility Law Field Support Center
139 Barnes Avenue, Suite 1
- 5 Tyndall AFB, Florida 32403
- 6 Jody Kyler
36 East Seventh Street, Suite 1510
- 7 Cincinnati, Ohio 45202
- 8 Douglas Fant
Suite A – 109, PMB 411
- 9 3655 West Anthem Way
Anthem, Arizona 85086
- 10 Nellis Kennedy-Howard
11 Travis Ritchie
Sierra Club Environmental Law Program
- 12 85 Second Street, 2nd Floor
San Francisco, California 94105
- 13 Attorneys for Sierra Club Environmental
Law Program
- 14
- 15 Janice Alward
Legal Division
Arizona Corporation Commission
- 16 1200 West Washington Street
Phoenix, Arizona 85007
- 17
- 18 Steve Olea, Director
Utilities Division
Arizona Corporation Commission
- 19 1200 West Washington Street
Phoenix, Arizona 85007

20
21 
22 18762-9/4252241

GALLAGHER & KENNEDY, P.A.
2575 E. CAMELBACK ROAD
PHOENIX, ARIZONA 85016-9225
(602) 530-8000

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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF
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FOR RATE MAKING PURPOSES, TO FIX A JUST
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THEREON, TO APPROVE RATE SCHEDULES
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Docket No. E-01345A-11-0224

Direct Testimony

of Gary Yaquinto

on Behalf of

Arizona Investment Council

June 19, 2014

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I. QUALIFICATIONS 1

II. ARIZONA INVESTMENT COUNCIL ("AIC") 2

III. TESTIMONY 2

GALLAGHER & KENNEDY, P.A.
2575 E. CAMELBACK ROAD
PHOENIX, ARIZONA 85016-9225
(602) 530-8000

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I. QUALIFICATIONS

Q. Please state your name, position and business address.

A. Gary M. Yaquinto. I am President and CEO of the Arizona Investment Council ("AIC").
Our offices are located at 2100 North Central Avenue, Phoenix, Arizona 85004.

Q. Please summarize your educational background and professional experience.

A. I earned B.S. and M.S. Degrees in Economics in 1974 from Arizona State University, as well as an MBA from the University of Phoenix in 2005. From 1975 to 1977, I was employed by the State of Wyoming as an economist responsible for evaluating the economic, fiscal and demographic effects of resource development in Wyoming. From 1977 to 1980, I was Chief Research Economist for the Arizona House of Representatives and from 1980 to 1984, I was employed as an economist in the consulting industry. Since 1984, I have worked in various capacities in government and the private sector in the area of utility regulation, including positions with the Commission's Utilities Division Staff, a competitive local exchange telephone carrier and as a consultant. I also served as the Chief Economist at the Arizona Attorney General's Office from 2003-2005 and as the Director of the Governor's Office of Strategic Planning and Budgeting from 2005-2006. I became AIC's President in December of 2006.

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II. ARIZONA INVESTMENT COUNCIL (“AIC”)

Q. What is the Arizona Investment Council and what is its mission?

A. The AIC is a non-profit association organized under Chapter 501(c)(6) of the Internal Revenue Code. AIC’s membership includes about 6,000 people – many of whom are debt and equity investors in Arizona utility companies and other Arizona businesses.

AIC advocates on its members’ behalf, primarily before regulatory bodies as well as the Legislature to enlarge and maximize their influence on public policies and government actions that impact investors, their investments and their investment decisions.

AIC works with the Commission and policymakers generally to find ways to support investment in Arizona’s essential backbone infrastructure, as well as improvements to, or remediation of, existing facilities. This aspect of our mission is complementary to our core advocacy of investor interests.

III. TESTIMONY

Q. What is the purpose of your testimony?

A. My testimony supports the application of Arizona Public Service Company for the Four Corners Rate Rider. The process for this rider was agreed to by the parties and authorized by the Commission in APS’ last general rate case. In support of its request, APS’ application follows the form and, as well, provides the substance agreed to by the more than 20 settling parties in Section 10 of that case’s Settlement Agreement. It was then approved by the Commission in Decision No. 73183. The parties agreed to and the

1 Commission authorized this process so the Company could timely secure rates related to
2 the rate base and expense effects of its acquisition of Southern California Edison's share
3 of Four Corners Units 4 and 5 as well as its closure of Units 1-3. As a signatory to that
4 agreement, my testimony supports APS' compliance filing.
5

6 **Q. Did you also participate in the negotiations that led to APS' 2011 rate case**
7 **settlement agreement?**

8 A. Yes. AIC was an intervenor in that case. I filed Direct Testimony in accordance with the
9 procedural schedule. We also participated in the discussions and negotiations among the
10 parties which led to the settlement agreement.
11

12 **Q. Did you sign the settlement agreement on behalf of AIC?**

13 A. I signed the agreement and also offered testimony in support of it.
14

15 **Q. Please provide more detail on the settlement agreement provisions which concern**
16 **this filing.**

17 A. Section 10.2 of the settlement agreement states:

18 [T]his rate case shall remain open for the sole purpose of allowing APS to
19 file a request, no later than December 31, 2013, that its rates be adjusted to
20 reflect the proposed Four Corners transaction, should the Commission
21 allow APS to pursue the acquisition and should the transaction thereafter
22 close. Specifically, APS may within ten (10) business days after any
23 Closing Date but no later than December 31, 2013 file an application with
the Commission seeking to reflect in rates the rate base and expense
effects associated with the acquisition of SCE's share of Units 4 and 5, the
rate base and expense effects associated with the retirement of Units 1-3,
and any cost deferral authorized in Docket No. E-01345A-10-0474. APS
shall also be permitted to seek authorization to amend the PSA Plan of

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

5 **Q. Mr. Yaquinto, has APS met the conditions the signatories agreed to and the**
6 **Commission approved as conditions precedent to making this filing?**

7 A. Yes. The Company's filing in support of the rate case rider states that APS acquired
8 SCE's interest in Four Corners on December 30, 2013 and it has now closed Units 1, 2
9 and 3. Commensurate with that acquisition, APS filed its rate rider application in
10 accordance with Section 10.2 of the settlement agreement and Decision No. 73138.

11
12 APS is requesting the rate relief associated with its acquisition as Staff, RUCO, the AIC
13 and many other parties agreed and as the Commission ordered in Decision No. 73183.
14 However, the Company is not seeking to amend its PSA Plan of Administration regarding
15 post-acquisition O&M costs because Units 1, 2 and 3 have already been closed. That
16 being the case, amendments to the PSA for this purpose – although authorized – are not
17 needed.

18
19 **Q. Why are these provisions of the settlement agreement and the decision approving it**
20 **important to the Company's investors?**

21 A. As APS witness Guldner explains, without the ability to seek timely rate relief related to
22 this acquisition, the Company's earnings will suffer and, I'd add, its credit ratings
23 certainly could be impacted as a result. The settling parties recognized those impacts

1 would be further exacerbated by the Settlement Agreement's rate "stay out" provision to
2 mid-2015 and the companion bar on a general rates increase at any time prior to July 1,
3 2016. Those are the primary reasons why we, the Company, Staff, RUCO and many
4 other parties supported this process in relation to APS' acquisition of Units 4 and 5. By
5 making this filing to adjust rates related to the transaction, the Company could agree to a
6 long general rates increase moratorium, but also be able to (1) minimize the earnings
7 erosion that would otherwise result from the stay out, (2) support its earnings profile in
8 the interim and (3) avoid negative earnings and ratings impacts for both investors and
9 customers. In short, this process is producing the result intended by the parties in the
10 Settlement Agreement and by the Commission in Decision No. 73138.

11
12 **Q. Do you have a recommendation for the Commission?**

13 A. Yes. I recommend the Commission approve APS' request for the Four Corners rate rider.
14

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

16 A. Yes, it does.
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