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BEFORE THE ARIZONA CORPORATION COMMISSION

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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, AND TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN.

Docket No. E-01345A-11-0224

Arizona Corporation Commission
DOCKETED

JUN 19 2014

DOCKETED BY *nr*

NOTICE OF FILING

The RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCO") provides notice of filing the Direct Testimony of Robert B. Mease, in the above-referenced docket.

RESPECTFULLY SUBMITTED this 19th day of June, 2014.

Daniel W. Pozefsky
Chief Counsel

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2 of the foregoing filed this 19th day
3 of June, 2014 with:

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ARIZONA PUBLIC SERVICE COMPANY

DOCKET NO. E-01345A-11-0224

DIRECT TESTIMONY

OF

ROBERT B. MEASE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JUNE 19, 2014

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3 **EXECUTIVE SUMMARY**

4 Arizona Public Service Company ("APS" or "Company") is the largest Class A electric
5 utility and is principal operating subsidiary of Pinnacle West Capital Corporation. APS is
6 an electric utility serving approximately 1.1 million retail customers throughout the state of
7 Arizona. On November 22, 2010, APS filed with the Arizona Corporation Commission
8 ("Commission") an application for authorization to purchase the generating assets from
9 Southern California Edison ("SCE") at the Four Corners Power Plant. In addition, the
10 Company's application requested an accounting order be authorized for the deferral of
11 certain costs associated with the acquisition. On April 24, 2012, by Decision No. 73130,
12 the Commission approved APS request to move forward with the purchase of SCE
13 generating assets and also approved the Company's request for an accounting order
14 authorizing the deferral of certain costs.

15 On June 1, 2011, APS filed an application requesting an increase in rates and for a
16 determination and approval of a just and reasonable return. On May 24, 2012, by Decision
17 No. 73183, the Commission approved a Settlement Agreement reached by most of the
18 parties in the case. As part of the Settlement Agreement, the parties agreed to leave the
19 docket open until December 31, 2013, for APS to file a request to adjust its rates to reflect
20 the rate base and expense effects associated with the acquisition of SCE's interest in Four
21 Corners Units 4 and 5, the retirement of Units 1, 2 and 3, as well as any cost deferral
22 authorized in the Commission's Decision in the Four Corners Acquisition Docket.

23 On December 30, 2013, APS purchased SCE's 48 percent share in Units 4 and 5 and now
24 request that the Commission approve a Four Corners rate rider to permit recovery of
\$62.52 million annual revenue requirement. (On May 17, 2014, the Company provided
updated schedules and their request increased to \$65.43 million) The revenue
requirement reflects the cost associated with APS's acquisition of SCE's share of Units 4
and 5, the retirement of Four Corners Units 1, 2 and 3, and for the deferred costs
authorized in Decision No. 73130.

While the Company is requesting \$65.43 million in additional revenues RUCO in proposing
additional revenues of \$49.20 million.

1 **INTRODUCTION**

2 **Q. Please state your name, position, employer and address.**

3 **A.** My name is Robert Mease and I'm Chief of Accounting and Rates for the Residential
4 Utility Consumers Office. ("RUCO") My business address in 1110 W. Washington
5 Street, Suite 220, Phoenix, AZ.

6
7 **Q. Please state your educational background and qualifications in the utility
8 regulation field.**

9 **A.** Attachment 1, which is attached to this testimony, describes my educational
10 background, work experience and regulatory matters in which I have participated. In
11 summary, I joined RUCO in October of 2011. I graduated from Morris Harvey College in
12 Charleston, WV and attended Kanawha Valley School of Graduate Studies. I am a
13 Certified Public Accountant and currently licensed in the state of West Virginia. My
14 years of work experience include serving as Vice President and Controller of Energy
15 West, Inc. a public utility and energy company located in Great Falls, Montana. While
16 with Energy West I had responsibility for all utility filings and participated in several rate
17 case filings on behalf of the utility. As Energy West was a publicly traded company
18 listed on the NASDAQ Exchange I also had responsibility for all filings with the
19 Securities and Exchange Commission.

20
21 **Q. Please state the purpose of your testimony.**

22 **A.** The purpose of my testimony is to present RUCO's proposals and conclusions
23 regarding the "APPLICATION TO APPROVE FOUR CORNERS RATE RIDER," as filed
24 by APS on December 30, 2013.

1 **Q. Can you briefly discuss the history of this filing by APS and why the Company is**
2 **applying for an increase in its rates without a general rate case filing?**

3 A. On November 22, 2010 APS filed an application for Commission authorization to
4 purchase the generating assets of Units 4 and 5 of the Four Corners plant owned by
5 Southern California Edison ("SCE") in addition to the approval to close APS Four
6 Corners Units 1, 2 and 3. Also included in the application was APS' request for an
7 accounting order authorizing the deferral of certain costs related to both the purchase of
8 Units 4 and 5 and the closure of Units 1, 2, and 3.

9
10 APS was also required to satisfy the conditions as outlined in Decision No. 67744 that
11 required APS to obtain Commission authorization before APS acquires any unit or
12 interest in a generating unit other than "the acquisition of temporary generation needed
13 for system reliability, distributed generation of less than fifty MW per location, renewable
14 resources, or the up-rating of APS generation" when the in-service date is prior to
15 January 1, 2015.

16
17 On April 24, 2012 Decision No. 73130 was issued by the Arizona Corporation
18 Commission approving both the purchase of the generating assets from SEC, the
19 closure of Units, 1, 2, and 3 and the accounting order authorizing the deferral of the
20 certain costs related to both the purchase and closure transactions. It was also
21 determined during the course of the application review that APS had satisfied the
22 conditions as outlined in Decision No. 67744.

23
24

1 **ACCOUNTING ORDER**

2 **Q. Before we go any further can you explain the purpose of the accounting order as**
3 **requested by APS?**

4 A. The ACC Staff defines an accounting order as a "rate-making mechanism for use by
5 regulatory authorities that provides regulated utilities the ability to defer costs that would
6 otherwise be expensed using generally accepted accounting principles and provides for
7 alternative rate-making treatment of capital costs and other costs via the creation of
8 regulatory assets and liabilities."¹

9

10 **Q. Did RUCO agree that an accounting order should be granted in this case?**

11 A. RUCO agreed that the circumstances warranted a variation from the usual ratemaking
12 treatment of plant acquired between rate cases. RUCO disagreed with APS' request to
13 earn a return on the deferred accounts, stating that it would be "simply guaranteeing the
14 Company a return rather than providing it with an opportunity to recover that return via
15 its operating efficiency."

16

17 **Q. Was the accounting order requested by APS approved by the Commission**
18 **authorizing the deferral of certain cost(s)?**

19 A. Yes. "Accordingly, we believe an accounting order is appropriate that allows deferral of
20 the non-fuel costs, except that we will include as "non-fuel costs" only the documented
21 debt cost of acquiring SCE's interest in Units 4 and 5, and will not authorize any carrying
22 charges on any deferred costs."²

23

24 ¹ Decision No. 73130 Page 35 Lines 10 - 14

² Decision No. 73130, Page 37, Lines 7 thru 9

1 **Q. Can you please define what “non-fuel costs” were identified in Decision No. 73130**
2 **that the Commission approved for deferral?**

3 A. The “non-fuel costs” that are authorized for deferral include depreciation, amortization of
4 the acquisition adjustment, decommissioning costs, operations and maintenance costs,
5 property taxes, final coal reclamation costs, the documented debt costs of acquiring
6 SCE’s interest in Units 4 and 5, and miscellaneous other costs. APS estimated that the
7 costs to wind down operations at Units 1 – 3 would be approximately \$20 million and
8 would be incurred between the acquisition date of Units 4 and 5 through 2016.”³

9
10 **Q. Did RUCO agree with APS that the proposed closure of Units 1 – 3 and the**
11 **purchase of Units 4 and 5 was for the benefit of ratepayers and should move**
12 **forward?**

13 A. Yes. RUCO agreed that APS’ analyses showed that the APS transaction saves APS’
14 customers’ money and “has a lower bill impact than that of every likely alternative.
15 RUCO also agreed that APS’ proposed transaction significantly reduces carbon dioxide
16 and other pollutant emissions; “preserves the diversity of APS’ current generation
17 portfolio while tempering the Company’s exposure to volatile natural gas prices,” it
18 maintains the mix of reliable base load energy; and it “saves hundreds of jobs and
19 millions of dollars of revenue that are critical to the Navajo Nation and local economy.”

20
21
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³ Decision No. 73130 Page 37 Footnote 122

1 **Q. Did APS comply with Decision No. 73130 when submitting this application for**
2 **recovery of costs related to the purchase of Units 4 and 5?**

3 A. No. The Company did not calculate its authorized return on cost deferral's in
4 accordance with Decision No. 73130. The decision specified that only the documented
5 debt cost of acquiring SCE's interest in Units 4 and 5 would be approved, and will not
6 authorize any carrying charges on any deferred costs."⁴

7
8 **Q. Can you please explain how APS calculated its rate base and expense**
9 **adjustments when submitting this application?**

10 A. In the Company's filing of this application APS prepared all supporting schedules and
11 calculated all rate base and expense adjustments resulting from the closure of Units 1, 2
12 and 3. The Company also prepared supporting schedules and identified specific
13 adjustments for the purchase of Units 4 and 5. The Company then offset the rate base
14 and expense amounts of Units 1, 2 and 3, that were closed in 2013, against the
15 acquired rate base and projected expenses of Units 4 and 5, going forward, and the net
16 adjustments were then used to increase the rate base that was approved in Decision
17 No. 73183.

18
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⁴ Decision No. 73130, Page 37, Lines 7 thru 9

1 **Q. After the Company made the offsetting rate base and expense adjustments what**
2 **was their next step in calculating the increase in revenues?**

3 A. The Company then carried forward the net adjustments to Schedule EAB-4, Four
4 Corners Revenue Requirement Calculation, and completed the remaining line items to
5 reflect a bottom line increase in revenues of \$65.42.

6
7 **Q. What did the Company use as a rate of return when calculating its final revenue**
8 **increase?**

9 A. The Company calculated its revenue increase at 8.33 percent as was authorized in
10 Decision No. 73183. The authorized rate of return includes both an interest element as
11 well as a return on equity. From RUCO's understanding of Decision No. 73130 only the
12 documented debt cost of acquiring SCE's interest in Units 4 and 5 would be allowed for
13 recovery and not the Company's authorized rate of return which also includes a return
14 on equity.

15
16 **Q. What is the documented cost of debt for the purchase of Units 4 and 5?**

17 A. Per APS's latest filing of amended schedules the documented cost of debt was reduced
18 from 5.25 percent to 4.725 percent.

19
20 **Q. So is RUCO recommending a reduction in the calculation of a rate of return on the**
21 **deferral of costs related to the purchase of Units 4 and 5?**

22 A. Yes. RUCO is proposing a reduction in rate of return of 3.61 percent (8.33 percent less
23 4.725 percent) resulting in a reduction in revenues of approximately \$16.3 million.

24

1 **ACQUISITION ADJUSTMENT**

2 **Q. Mr. Mease, did the Company request an “acquisition adjustment” in its request for**
3 **a change in rates resulting from this transaction?**

4 A. Yes. An acquisition adjustment was requested in APS’s original filing seeking approval
5 to move forward with the acquisition on Units 4 and 5. The acquisition adjustment was
6 approved by the Commission in Decision No. 10-0327. The Company’s increase in rate
7 base of \$225.9 million is primarily related to the acquisition premium that APS is
8 requesting.

9
10 **Q. Can you please provide a definition of an acquisition adjustment?**

11 A. An acquisition adjustment is “The difference between the price an acquiring company
12 pays to purchase a target company and the net original cost of the target utility
13 company’s assets. An acquisition adjustment is the premium paid for acquiring a
14 company more than its tangible assets or book value.”

15
16 **Q. Does the Commission have a specific policy addressing an acquisition**
17 **adjustment when a utility company pays in excess of book value for another**
18 **utility’s assets?**

19 A. There is no specific policy that I’m aware but there is a statement included in Staff’s
20 Data Request No. 39.3 to APS that reads as follows, “Staff’s understanding of the
21 general rule in Arizona is that the Commission does not permit recovery of an
22 acquisition adjustment arising from the sale of assets barring extraordinary
23 circumstances.”

24

1 **Q. Also in Data Request No. 39.3 APS was ask to explain what extraordinary**
2 **circumstances exist that would justify the Commission's recognition of an**
3 **acquisition adjustment in this case? What was APS response to this request?**

4 **A. APS responded as follows:**

5 Decision No. 73130 (April 24, 2012) established the Four Corners acquisition
6 from SCE as an extraordinary circumstance that warranted both an exemption
7 from the "self-built" moratorium imposed by the Commission in Decision No
8 67744 (April 5, 2005) and the "best practices" for resource acquisition later
9 codified in the Commission's Resource Planning Rules. See A.A.C. R14-2-
10 702(B) (5).

11 The acquisition was also extraordinary in the level of customer benefit (over \$400
12 million on a net present value basis), the ability to preserve APS's customers'
13 existing benefits from the Company's pre-existing share of Four Corners 4 and 5,
14 and the significant environmental benefit (specifically cited in Decision No. 73130
15 at pages 8 – 11) from the closure of Units 1 – 3 by the end of 2013. None of
16 these benefits would have happened absent this transaction.

17 **Q. Mr. Mease, I have one more question related to Staff Data Request No. 39.3. Part**
18 **(b) of the request ask APS to please explain how this transaction would not likely**
19 **have occurred without the acquisition adjustment. What was APS response to**
20 **this request?**

21 **A. APS response to (b) as follows:**

22 The transaction could never have occurred absent the agreement by APS to pay
23 a sufficient amount to compensate SCE for its exit of the facility prior to mid-2016.
24 SCE would not have agreed to a selling price that placed it in a worse economic
position than not selling, and even if SCE would have agreed to a contract that
was financially irresponsible, the sale would never have received the necessary
CPUC approval.

And neither APS nor any other rational utility would agree to pay nearly \$300
million for a plant and then write off five sixths of that investment less than a year
later. The significant operational benefits from additional ownership of Four
Corners 4 and 5 justifying APS' acquisition would all accrue to APS customers,
leaving APS shareholders with nothing to show for management's good faith
efforts to benefit customers but a staggering write off.

1 Q. **Based on the response by APS to part (b) of this request, does it appear that APS**
2 **was certain in its answer that they, APS, would get approval to include an**
3 **acquisition adjustment, otherwise, the purchase would not have occurred?**

4 A. Yes. By their response above I believe it's safe to make that assumption. However, as
5 stated in the Conclusions of Law, Page 43, of Decision No. 73130, "IT IS FURTHER
6 ORDERED that Arizona Public Service Company is authorized to defer for possible later
7 recovery through rates, all non-fuel costs (as defined herein) of owning, operating, and
8 maintaining the acquired Southern California Edison interest in Four Corners Units 4
9 and 5 and associated facilities. Nothing in this Decision shall be construed in any way
10 to limit the Commission's authority to review the entirety of the acquisition and to make
11 any disallowances thereof due to imprudence, errors or inappropriate application of the
12 requirements of this Decision.

13
14 Q. **Has anything come to your attention that would make you question APS's belief**
15 **that the acquisition adjustment that they are requesting could be disallowed by**
16 **the Commission?**

17 A. Yes. When reviewing Pinnacle West Capital Corporation Notes to Consolidated
18 Financial Statement, for the period ending December 31, 2013, page 100, discussing
19 the Four Corners transaction we noted the following, "While we expect the ACC to
20 approve the recovery of the acquisition adjustment, should recovery be disallowed, it will
21 be reclassified from plant-in-service to goodwill subject to impairment testing."

1 In addition, in Mr. Guldner's direct testimony in the original filing for the approval to
2 move forward with the purchase of Units 4 and 5, he states

3 "And I guess it's my opinion that you clearly can argue about
4 how you measure the return component. And for example, in
5 the Palo Verde Unit 3 order, the return component that was
6 authorized in that case was a debt-only return. And I think
7 that's actually what the Company ask for was rather than have
8 the three components of debt, equity and the tax gross-up, in
9 that case the debt expense was deferred as the return
10 component. And so I think it's fair to argue how you calculate
11 that return component."

8 **Q. What is APS requesting as an acquisition adjustment in this application?**

9 **A.** After making all the accounting entries related to the purchase of SCE's interest in the
10 Four Corners generating facilities Units 4 and 5 the Company is requesting an
11 adjustment of \$243.9 million.

13 **Q. Does RUCO believe that there are specific risks, either operational or financial,
14 associated with the purchase of Units 4 and 5?**

15 **A.** Certainly there are risks involved in any business transaction of this magnitude but more
16 specifically the relevant environmental risks associated with the Company's investment
17 in coal operated facilities. These risks are generally well known and were discussed at
18 length between the time the Company filed its application for the approval of the
19 transaction and the final Decision authorizing the Company to move forward. While the
20 purchase transaction as presented in the original application filed with, and agreed to,
21 by the Commission in Decision No. 73130 was authorized to move forward the inherent
22 risks remain the same or have compounded since the Company filed its original
23 application for authorization to move forward.

1 **Q. Can you discuss several of the risks that you are referring to in you previous**
2 **answer?**

3 A. Yes. As the Company stated in their response to RUCO Data Responses to Nos. 2.6
4 and 2.7, when asked. "Has APS identified and attempted to quantify potential risks from
5 further EPA rulings that may impact the economics of Four Corners?"

6 Yes. As explained in their response RUCO DR 2.6, "The potential risks from
7 further EPA rulings were identified in APS's 2014 Integrated Resource Plan
8 ("IRP") – Chapter 3 & Section E. As further identified in their response to DR. 2.7
9 the Company responded as follows:

10 Uncertainty pertaining to regional haze regulations (BART) – APS has assumed
11 and included the installation costs of SCR controls in the analysis.

12 Uncertainty pertaining to National Ambient Air Quality Standard (NAAQS) –
13 Because the proposed ozone NAAQS were withdrawn by EPA and the agency
14 has yet to establish new NAAQS for ozone, it is difficult to estimate the impact, if
15 any, of new standards on the Four Corners evaluation.

16 Uncertainties pertaining to RCRA regulations – Proposed regulations include two
17 different scenarios – Subtitle C (hazardous) and Subtitle D (non-hazardous). For
18 the Four Corners evaluation and all other studies, APS has assumed EPA will
19 choose to regulate CCR under Subtitle D and has included cost estimates in the
20 analyses. The Subtitle C option was not evaluated because APS does not believe
21 CCRs to be hazardous waste, but APS estimates the CCR costs would be 20%
22 higher than Subtitle C.

23 Uncertainty pertaining to Greenhouse gas (GHG) - New source performance
24 standards (NSPS) regulations – APS has included in its analysis the potential for
carbon pricing in the form of three carbon price forecasts, see response to Staff
35.31 and 35.35

Uncertainty pertaining to Effluent limitation guidelines (ELG) – Any revisions to
the ELG would impact the discharge limits at Four Corners which may be faced
with increased capital and O&M expenses to achieve and maintain compliance.
This risk was not evaluated because the EPA is not expected to have a final rule
until late 2015 and it is uncertain what, if any, impact will come from such
regulation.

1 **Q. Do you believe that the Company shareholders should share in the risks**
2 **associated with the purchase of Units 4 and 5?**

3 A. Yes. Other than the general business risks that are associated with any merger or
4 acquisition, there are additional risks as identified above. The ratepayer should not
5 have to bear the burden of assuming all risks in this transaction. By the Commission's
6 authorizing for recovery in rates only the documented debt cost of acquiring SCE's
7 interest in Units 4 and 5, the Commission recognizes that there is an inherent risk that
8 should be shared between the ratepayer and Company shareholders.

9
10 **Q. Is RUCO recommending that APS recover its acquisition costs?**

11 A. Yes. RUCO did not take exception to an acquisition adjustment in APS original filing
12 requesting Commission authorization to move forward with the purchase of Units 4 and
13 5 and has not changed its position in this filing. Decision No. 73130, shares the risk of
14 this transaction between the Company and ratepayers, so RUCO continues to support
15 the acquisition adjustment as was authorized in that decision.

16
17 **Q. Does RUCO believe that the Commission will be establishing a policy on**
18 **acquisition premiums based on its Decision No. 73130?**

19 A. RUCO's position is that the Commission should approve the acquisition adjustment
20 because the transaction is in the public interest and without it there may not have be a
21 transaction. RUCO believes that in most cases an acquisition adjustment is unwarranted
22 and such a policy favoring a premium on its face value would provide little motivation for
23 a Company not to overpay. That is not an issue in this case.

24

1 **RUCO'S RECOMMENDATIONS**

2 **Q. Can you please summarize what RUCO is recommending in this application?**

3 A. RUCO is proposing a reduction in revenue requirements as requested by APS from
4 \$65.43 million to \$49.20 million. The reduction of \$16.23 million is due to APS's
5 requesting a rate of return on rate base adjustments of 8.33 percent while RUCO is
6 proposing that the return on the adjusted rate base of 4.725 percent.

7

8 APS Requested Revenue Increase \$ 65,436

9 RUCO's Recommended Revenue Increase \$ 49,198

10 RUCO's Recommended Reduction in Revenues \$ 16,238

11 (See Attachment 2)

12

13 **RATE DESIGN**

14 **Q. Has RUCO update the rate design schedules, as were filed by the Company,**
15 **based on its recommended increase in revenues?**

16 A. Yes. See Attachment 3. Rates have been established using the same methodology as
17 requested by APS. The percentage increase is being applied as an equal percentage to
18 the base rate portion of customers' bills as was agreed to in the Settlement Agreement.
19 The average monthly bill for APS residential customers will increase by approximately
20 \$2.17, representing a 1.5 percent increase in their monthly billing. (See Attachment 3)

21

22 **Q. Mr. Mease, does this conclude your testimony?**

23 A. Yes.

24

ATTACHMENT 1

ROBERT B. MEASE, CPA Education and Professional Qualifications

EDUCATION

Bachelors Degree Business Administration / Accounting - Morris Harvey College.

Attended West Virginia School of Graduate Studies and studied Accounting and Public Administration

Attended numerous courses and seminars for Continuing Professional Educational purposes.

WORK EXPERIENCE

Controller

Knives of Alaska, Inc., Diamond Blade, LLC, and Alaska Expedition Company.

Financial Manager / CFO

All Saints Camp & Conference Center

Energy West, Inc.

Vice President, Controller

- Led team that succeeded in obtaining a \$1.5 million annual utility rate increase
- Coached accountants for proper communication techniques with Public Service Commission, supervised 9 professional accountants
- Developed financial models used to negotiate an \$18 million credit line
- Responsible for monthly, quarterly and annual financial statements for internal and external purposes, SEC filings on a quarterly and annual basis, quarterly presentations to Board of Directors and shareholders during annual meetings, coordinated annual audit
- Communication with senior management team, supervised accounting staff and resolved all accounting issues, reviewed expenditures related to capital projects
- Monitored natural gas prices and worked with senior buyers to ensure optimal price obtained

Junkermier, Clark, Campanella, Stevens

Consulting Staff

- Established a consulting practice that generated approximately \$160k the first year of existence
- Prepared business plan and projections for inclusion in clients financing documents
- Prepared written reports related to consulting engagements performed
- Developed models used in financing documents and made available for other personnel to use
- Performed Profit Enhancement engagements
- Participated during audit of large manufacturing client for two reporting years

Prior to 1999, held various positions: TMC Sales, Inc. as **Vice President / Controller**, with American Agri-Technology Corporation as **Vice President / CFO** and with Union Carbide Corporation as **Accounting Manager**. (**Union Carbide was a multi-national Fortune 500 Company that was purchased by Dow Chemical**)

PROFESSIONAL AFFILIATIONS

Member - Institute of Management Accountants

Member - American Institute of CPA's

Member – Society of Utility and Regulatory Financial Analysts

Past Member –WV Society of CPA's and Montana Society of CPA's

RESUME OF RATE CASE AND REGULATORY PARTICIPATION WITH RUCO

<u>Utility Company</u>	<u>Docket No.</u>
Arizona Water Company (Eastern Group)	W-01445A-11-0310
Pima Utility Company	W-02199A-11-0329 et al.
Tucson Electric Power Company	E-01933A-12-0291
Arizona Water Company (Northern Group)	W-01445A-12-0348
UNS Electric	E-04204A-12-0504
Global Water	W-01212A-12-0309 et al.
LPSCO	SW-01428A-13-0042 et al.
Johnson Utilities	WS-02987A-13-0477

Attachment 2

**REVENUE REQUIREMENT - REVISED
ACC JURISDICTIONAL - AS SUBMITTED BY COMPANY**
(Thousands of Dollars)

LINE NO.	DESCRIPTION	ORIGINAL SETTLEMENT			(D) PRO FORMA ADJUSTMENTS	ADJUSTED SETTLEMENT WITH ACQUISITION		
		(A) COMPANY ORIGINAL COST	(B) COMPANY RCND	(C) COMPANY FAIR VALUE		(E) RUCO ORIGINAL COST	(F) RUCO RCND	(G) RUCO FAIR VALUE
1	Adjusted Rate Base	\$ 5,662,998	\$ 10,671,253	\$ 8,167,126	\$ 225,934	\$ 5,888,932	\$ 10,897,187	\$ 8,393,060
2								
3	Adjusted Operating Income (Loss)	\$ 496,769	\$ 496,769	\$ 496,769	\$ (20,680)	\$ 476,089	\$ 476,089	\$ 476,089
4								
5	Fair Value Adjustment Embedded in Operating Income	25,041	25,041	25,041		25,041	25,041	25,041
6								
7	Adjusted Operating Income (Ln 3 - Ln 5)	471,728	471,728	471,728		451,048	451,048	451,048
8								
9	Current Rate of Return (Ln 7 / Ln 1)	8.33%	4.42%	5.78%		7.66%	4.14%	5.37%
10								
11	Required Operating Income (Ln 1 x Ln 13)	\$ 471,728	\$ 471,728	\$ 471,728		\$ 490,548	\$ 490,548	\$ 490,548
12								
13	Required Rate of Return	8.33%	4.42%	5.78%		8.33%	4.50%	5.84%
14								
15	Adjusted Operating Income Deficiency	-	-	-		\$ 39,500	\$ 39,500	\$ 39,500
16								
17	Gross Revenue Conversion Factor	1.6566	1.6566	1.6566		1.6566	1.6566	1.6566
18								
19	Requested Increase in Revenue Requirement (Ln 15 X Ln 17)	\$ -	\$ -	\$ -		\$ 65,436	\$ 65,436	\$ 65,436

Source of Schedule - Submitted by Company as Attachment EAB-4
(Revised on May 17, 2014 in Staff Data Request)

COMPARISON OF REVENUE REQUIREMENTS - RUCO'S RECOMMENDATION

(Thousands of Dollars)

Line No	FOUR CORNERS REVENUE REQUIREMENTS	(A) TOTAL COMPANY	(B) ACC JURISDICTION		(C) TOTAL COMPANY		(D) TOTAL COMPANY		(E) ACC JURISDICTION		(F) DEBT RATE
			JURISDICTION	WGT AVG COST OF CAPITAL	WGT AVG COST OF CAPITAL	DEBT RATE	WGT AVG COST OF CAPITAL	DEBT RATE			
1	Four Corners Acquisition Units 4 and 5	\$ 55,670	\$ 53,777	55.670%	\$ 55,670	\$ 55,670	55.670%	\$ 53,777	55.670%	\$ 53,777	53.777%
2	Four Corners Acquisition Adjustment	252,510	243,925	252.510%	252,510	252,510	252.510%	243,925	252.510%	243,925	243.925%
3	Four Corners Acquisition (Decommissioning Lia.)	(34,123)	(32,963)	(34.123)%	(34,123)	(34,123)	(34.123)%	(32,963)	(34.123)%	(32,963)	(32.963)%
4	Four Corners Acquisition (Coal Reclamation Lia.)	(92,951)	(89,791)	(92.951)%	(92,951)	(92,951)	(92.951)%	(89,791)	(92.951)%	(89,791)	(89.791)%
5	Four Corners Auxiliary Plant	11,065	10,689	11.065%	11,065	11,065	11.065%	10,689	11.065%	10,689	10.689%
6	Four Corners Deferred Costs Units 1, 2 and 3	41,716	40,298	41.716%	41,716	41,716	41.716%	40,298	41.716%	40,298	40.298%
7		<u>233,887</u>	<u>225,935</u>	<u>233.887%</u>	<u>233,887</u>	<u>233,887</u>	<u>233.887%</u>	<u>225,935</u>	<u>233.887%</u>	<u>225,935</u>	<u>225.935%</u>
8											
9	Settlement Pre-Tax Weighted Avg Cost of Capital	11.856%	11.856%	11.856%	11.856%	11.856%	11.856%	11.856%	11.856%	11.856%	11.856%
10											
11	Return on Rate Base (with Rev. Conversion Factor Adj)	27.861	26,913	27.861%	27,730	27,730	27.861%	26,913	27.730%	26,913	27.861%
12											
13	EXPENSE ADJUSTMENTS										
14	Incremental O&M Expense Related to Acquisition	5,601	5,411	5.601%	5,601	5,601	5.601%	5,411	5.601%	5,411	5.411%
15	Incremental Property Tax & Other Taxes	6,419	6,201	6.419%	6,419	6,419	6.419%	6,201	6.419%	6,201	6.201%
16	Incremental Depreciation Expense	2,671	2,580	2.671%	2,671	2,671	2.671%	2,580	2.671%	2,580	2.580%
17	Amortization of Four Corners Acquisition Adj.	10,707	10,343	10.707%	10,707	10,707	10.707%	10,343	10.707%	10,343	10.343%
18	Amortization of Four Corners Deferral Balance (10 Years)	6,896	6,662	6.896%	6,896	6,896	6.896%	6,662	6.896%	6,662	6.662%
19	Final Coal Reclamation on Acquired Portion	4,499	4,346	4.499%	4,499	4,499	4.499%	4,346	4.499%	4,346	4.346%
20	Decommissioning on Acquired Portion	3,085	2,980	3.085%	3,085	3,085	3.085%	2,980	3.085%	2,980	2.980%
21		<u>39,878</u>	<u>38,523</u>	<u>39.878%</u>	<u>39,878</u>	<u>39,878</u>	<u>39.878%</u>	<u>38,523</u>	<u>39.878%</u>	<u>38,523</u>	<u>38.523%</u>
22											
23	TOTAL REVENUE REQUIREMENT	\$ 67,739	\$ 65,436	67.739%	\$ 67,608	\$ 67,608	67.739%	\$ 65,436	67.608%	\$ 65,436	67.739%
24											
25											
26											

Source of Schedule - Prepared from Data Responses provided by APS and RUCO workpapers

Attachment 3

Four Corners Rate Rider
Estimated Bill Impacts

	Requested		Requested		Requested	
	Current	Jul-14	Current	Jul-14	Current	Jul-14
	Annual	Annual	Summer	Summer	Winter	Winter
	Average	Average	Monthly	Monthly	Monthly	Monthly
	Monthly	Monthly	Bill	Bill	Bill	Bill
	Bills	Bills				
Residential (Average - All Rates)						
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	\$ -	\$ 2.17	\$ -	\$ 2.82	\$ -	\$ 1.52
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	\$ 7.12	\$ 7.12	\$ 8.65	\$ 8.65	\$ 5.58	\$ 5.58
RES	\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11
DSMAC	\$ 2.99	\$ 2.99	\$ 3.63	\$ 3.63	\$ 2.34	\$ 2.34
LFCR	\$ 0.28	\$ 0.29	\$ 0.36	\$ 0.37	\$ 0.20	\$ 0.20
TOTAL	\$ 140.12	\$ 142.30	\$ 179.90	\$ 182.73	\$ 100.29	\$ 101.81
Bill Impact		\$ 2.18		\$ 2.83		\$ 1.52
		1.55%		1.57%		1.51%

	Requested		Requested		Requested	
	Current	Jul-14	Current	Jul-14	Current	Jul-14
	Annual	Annual	Summer	Summer	Winter	Winter
	Average	Average	Monthly	Monthly	Monthly	Monthly
	Monthly	Monthly	Bill	Bill	Bill	Bill
	Bills	Bills				
Residential (Average - All Rates)						
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	\$ -	\$ 1.51	\$ -	\$ 1.89	\$ -	\$ 1.13
PSA - Forward Component	\$ 0.89	\$ 0.89	\$ 1.00	\$ 1.00	\$ 0.77	\$ 0.77
PSA - Historical Component	\$ 0.20	\$ 0.20	\$ 0.22	\$ 0.22	\$ 0.17	\$ 0.17
TCA	\$ 4.48	\$ 4.48	\$ 5.05	\$ 5.05	\$ 3.90	\$ 3.90
RES	\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11	\$ 4.11
DSMAC	\$ 1.88	\$ 1.88	\$ 2.12	\$ 2.12	\$ 1.64	\$ 1.64
LFCR	\$ 0.20	\$ 0.20	\$ 0.24	\$ 0.25	\$ 0.15	\$ 0.15
TOTAL	\$ 98.16	\$ 99.67	\$ 120.78	\$ 122.68	\$ 75.50	\$ 76.63
Bill Impact		\$ 1.51		\$ 1.90		\$ 1.13
		1.54%		1.57%		1.50%

	Requested		Requested		Requested	
	Current	Jul-14	Current	Jul-14	Current	Jul-14
	Annual	Annual	Summer	Summer	Winter	Winter
	Average	Average	Monthly	Monthly	Monthly	Monthly
	Monthly	Monthly	Bill	Bill	Bill	Bill
	Bills	Bills				
Residential (Rates E-12, 0-20kW)						
Average kWh per Month	1,430	1,430	1,575	1,575	1,285	1,285
Base Rates	\$ 202.30	\$ 202.30	\$ 232.85	\$ 232.85	\$ 171.75	\$ 171.75
Four Corners Adjustment	\$ -	\$ 3.54	\$ -	\$ 4.08	\$ -	\$ 3.01
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	\$ 3.58	\$ 3.58	\$ 3.94	\$ 3.94	\$ 3.22	\$ 3.22
RES	\$ 14.68	\$ 14.68	\$ 16.17	\$ 16.17	\$ 13.19	\$ 13.19
DSMAC	\$ 3.89	\$ 3.89	\$ 4.28	\$ 4.28	\$ 3.49	\$ 3.49
LFCR	\$ 0.45	\$ 0.46	\$ 0.52	\$ 0.53	\$ 0.39	\$ 0.39
TOTAL	\$ 227.13	\$ 230.68	\$ 260.21	\$ 264.30	\$ 194.04	\$ 197.05
Bill Impact		\$ 3.55		\$ 4.09		\$ 3.01
		1.56%		1.57%		1.55%

Four Corners Rate Rider
Estimated Bill Impacts

	Requested		Requested		Requested	
	Current	Jul-14	Current	Jul-14	Current	Jul-14
	Annual	Annual	Summer	Summer	Winter	Winter
	Average	Average	Monthly	Monthly	Monthly	Monthly
	Monthly	Monthly	Bill	Bill	Bill	Bill
	Bills	Bills				
Commercial (Rate E-32, >20 kW)						
Average kWh per Month	62,238	62,238	68,381	68,381	56,094	56,094
Base Rates	\$ 5,977.26	\$ 5,977.26	\$ 7,044.20	\$ 7,044.20	\$ 4,910.31	\$ 4,910.31
Four Corners Adjustment	\$ -	\$ 104.62	\$ -	\$ 123.29	\$ -	\$ 85.94
PSA - Forward Component	\$ 79.48	\$ 79.48	\$ 87.32	\$ 87.32	\$ 71.63	\$ 71.63
PSA - Historical Component	\$ 17.43	\$ 17.43	\$ 19.15	\$ 19.15	\$ 15.71	\$ 15.71
TCA	\$ 165.94	\$ 165.94	\$ 177.69	\$ 177.69	\$ 154.18	\$ 154.18
RES	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49
DSMAC	\$ 189.52	\$ 189.52	\$ 202.94	\$ 202.94	\$ 176.09	\$ 176.09
LFCR	\$ 13.16	\$ 13.43	\$ 15.37	\$ 15.68	\$ 10.96	\$ 11.18
TOTAL	\$ 6,595.28	\$ 6,700.17	\$ 7,699.16	\$ 7,822.76	\$ 5,491.37	\$ 5,577.53
Bill Impact		\$ 104.89 1.59%		\$ 123.60 1.61%		\$ 86.16 1.57%

	Requested		Requested		Requested	
	Current	Jul-14	Current	Jul-14	Current	Jul-14
	Annual	Annual	Summer	Summer	Winter	Winter
	Average	Average	Monthly	Monthly	Monthly	Monthly
	Monthly	Monthly	Bill	Bill	Bill	Bill
	Bills	Bills				
Commercial (Rate E-32 M)						
Average kWh per Month	62,238	62,238	68,381	68,381	56,094	56,094
Base Rates	\$ 6,431.49	\$ 6,431.49	\$ 7,407.75	\$ 7,407.75	\$ 5,455.22	\$ 5,455.22
Four Corners Adjustment	\$ -	\$ 112.57	\$ -	\$ 129.66	\$ -	\$ 95.48
PSA - Forward Component	\$ 79.48	\$ 79.48	\$ 87.32	\$ 87.32	\$ 71.63	\$ 71.63
PSA - Historical Component	\$ 17.43	\$ 17.43	\$ 19.15	\$ 19.15	\$ 15.71	\$ 15.71
TCA	\$ 165.94	\$ 165.94	\$ 177.69	\$ 177.69	\$ 154.18	\$ 154.18
RES	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49
DSMAC	\$ 189.52	\$ 189.52	\$ 202.94	\$ 202.94	\$ 176.09	\$ 176.09
LFCR	\$ 14.07	\$ 14.36	\$ 16.09	\$ 16.42	\$ 12.05	\$ 12.29
TOTAL	\$ 7,050.42	\$ 7,163.28	\$ 8,063.43	\$ 8,193.42	\$ 6,037.37	\$ 6,133.09
Bill Impact		\$ 112.86 1.60%		\$ 129.99 1.61%		\$ 95.72 1.59%

	Requested		Requested		Requested	
	Current	Jul-14	Current	Jul-14	Current	Jul-14
	Annual	Annual	Summer	Summer	Winter	Winter
	Average	Average	Monthly	Monthly	Monthly	Monthly
	Monthly	Monthly	Bill	Bill	Bill	Bill
	Bills	Bills				
Residential (Rates E-12, 0-20kW)						
Average kWh per Month	290,507	290,507	314,925	314,925	266,089	266,089
Base Rates	\$ 24,709.54	\$ 24,709.54	\$ 29,456.69	\$ 29,456.69	\$ 19,962.38	\$ 19,962.38
Four Corners Adjustment	\$ -	\$ 432.48	\$ -	\$ 515.57	\$ -	\$ 349.39
PSA - Forward Component	\$ 370.96	\$ 370.96	\$ 402.16	\$ 402.16	\$ 339.80	\$ 339.80
PSA - Historical Component	\$ 81.34	\$ 81.34	\$ 88.18	\$ 88.18	\$ 74.50	\$ 74.50
TCA	\$ 607.71	\$ 607.71	\$ 674.34	\$ 674.34	\$ 541.08	\$ 541.08
RES	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49	\$ 152.49
DSMAC	\$ 694.07	\$ 694.07	\$ 770.16	\$ 770.16	\$ 617.97	\$ 617.97
LFCR						
TOTAL	\$ 26,616.11	\$ 27,048.59	\$ 31,544.02	\$ 32,059.59	\$ 21,688.22	\$ 22,037.61
Bill Impact		\$ 432.48 1.62%		\$ 515.57 1.63%		\$ 349.39 1.61%

	Requested		Requested		Requested	
	Current	Jul-14	Current	Jul-14	Current	Jul-14
	Annual	Annual	Summer	Summer	Winter	Winter
	Average	Average	Monthly	Monthly	Monthly	Monthly
	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
	Bills	Bills	Bill	Bill	Bill	Bill
<i>Industrial (Rate E34 / E35)</i>						
Average kWh per Month	3,581,412	3,581,412	3,729,201	3,729,201	3,433,622	3,433,622
Base Rates	\$ 249,125.86	\$ 249,125.86	\$ 259,882.57	\$ 259,882.57	\$ 238,369.15	\$ 238,369.15
Four Corners Adjustment	\$ -	\$ 4,360.36	\$ -	\$ 4,548.63	\$ -	\$ 4,172.09
PSA - Forward Component	\$ 4,573.47	\$ 4,573.47	\$ 4,762.19	\$ 4,762.19	\$ 4,384.74	\$ 4,384.74
PSA - Historical Component	\$ 1,002.80	\$ 1,002.80	\$ 1,044.18	\$ 1,044.18	\$ 961.41	\$ 961.41
TCA	\$ 8,618.22	\$ 8,618.22	\$ 9,090.63	\$ 9,090.63	\$ 8,145.81	\$ 8,145.81
RES	\$ 3,335.00	\$ 3,335.00	\$ 3,335.00	\$ 3,335.00	\$ 3,335.00	\$ 3,335.00
DSMAC	\$ 6,395.98	\$ 6,395.98	\$ 6,746.57	\$ 6,746.57	\$ 6,045.38	\$ 6,045.38
LFCR						
TOTAL	\$ 273,051.33	\$ 277,411.69	\$ 284,861.14	\$ 289,409.77	\$ 261,241.49	\$ 265,413.58
Bill Impact		\$ 4,360.36		\$ 4,548.63		\$ 4,172.09
		1.60%		1.60%		1.60%