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1 Thomas A. Loquvam  
 2 Thomas L. Mumaw  
 3 Pinnacle West Capital Corporation 2014 OCT 20 P 4: 35  
 4 400 North 5<sup>th</sup> Street, MS 8695  
 5 Phoenix, Arizona 85004  
 6 Tel: (602) 250-3631  
 7 Fax: (602) 250-3393  
 8 E-Mail: Thomas.Loquvam@pinnaclewest.com  
Thomas.Mumaw@pinnaclewest.com

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

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OCT 20 2014

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Attorneys for Arizona Public Service Company

**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

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

ORIGINAL

16 IN THE MATTER OF THE COMMISSION'S  
 17 INQUIRY INTO CONSIDERATION OF  
 18 DEVELOPING PROCEDURES FOR RATE  
 19 CASES OR OTHER UTILITY SPECIFIC  
 APPLICATION PROCESSES IN ORDER TO  
 STUDY AND CONSIDER RATE DESIGN  
 OPTIONS FOR ELECTRIC AND GAS  
 PUBLIC SERVICE CORPORATIONS.

DOCKET NO. AU-00000C-14-0329

**COMMENTS OF ARIZONA  
PUBLIC SERVICE COMPANY**

20 APS thanks Commission Staff for the thoughtful and hard work that is evident in  
 21 its September 29 Sample Process. APS believes it is critical to establish a process that  
 22 allows interested parties to assess rate design separately from revenue requirements.  
 23 Without a separate process, stakeholders will be diverted by topics that do not  
 24 immediately implicate rate design, including the establishment of revenue requirements  
 25 and allocating revenue requirements to specific classes of customers. With these other  
 26 topics at issue, it would be difficult to conduct important discussions on the increasing  
 27 role of emerging technologies, the ways in which customers use or produce energy, and  
 28 how these factors impact electric utility rates. Following the same process will translate

1 into the same result: a continuation of rate design that does not match the way customers  
2 use utility services.

3 The Sample Process is an excellent first step in avoiding further rate design  
4 stagnation, and APS agrees with much of its content. The following comments are  
5 intended to strengthen the Sample Process by offering ways to streamline the  
6 proceeding, eliminate unnecessary information, avoid possible customer confusion, and  
7 manage the possibility that the parties focus on non-rate design related issues. APS  
8 hopes that its comments will further the chances of having a successful rate design  
9 proceeding that culminates in an outcome that benefits customers and facilitates the  
10 equitable adoption of current and future generation technologies on the basis of  
11 economic decision-making.

12 **I. Rate Design Can Be Addressed in a Revenue Neutral Proceeding with an**  
13 **Outcome that is Implemented at the End of the Next Rate Case.**

14 The Commission may address rate design in a revenue neutral manner outside of  
15 a rate case. A.R.S. § 40-250(B) permits the Commission to consider, without a general  
16 rate case, proposed changes to rate schedules, classification, rules, and regulations “not  
17 increasing or resulting in an increase” to rates:

18 When there is filed with the commission any schedule stating an individual  
19 or joint rate, fare, toll, rental, charge, classification, contract, practice, rule  
20 or regulation **not increasing or resulting in an increase**, the commission  
21 may, without answer or other pleadings by the interested corporation, but  
upon reasonable notice, conduct a hearing concerning the propriety of the  
rate, fare, toll, rental, charge, classification, contract, practice, rule or  
regulation, and pending the hearing and the decision thereon, it shall not go  
into effect.

22 (emphasis added). Similarly, the rate case filing requirements found in Arizona  
23 Administrative Code R14-2-103 only apply to proposed increases to rates or charges:

24 Purpose: the purpose of this General Order is to define the specific financial  
25 and statistical information required to be filed with a request by a public  
26 service corporation doing business in Arizona for a determination of the  
value of the property of the corporation and of the rate of return to be  
earned thereon, **with regard to proposed increased rates or charges.**

1 R14-2-103(A)(1) (emphasis added). Thus, the statutes and rules governing rate-related  
2 filings in Arizona expressly contemplated filings outside of a general rate case provided  
3 that those rate-related filings are revenue neutral.

4 This statutory and regulatory framework for changing rate schedules,  
5 classifications, and rules in a revenue neutral manner is consistent with Arizona case  
6 law, and in particular *Scates v. Arizona Corporation Comm'n*.<sup>1</sup> In *Scates*, the court held  
7 that the “Commission was without authority to increase [a] rate without any  
8 consideration of the overall impact of that rate increase upon the return of Mountain  
9 States, and without, as specifically required by [Arizona] law, a determination of  
10 Mountain states’ rate base.”<sup>2</sup> But the court explicitly left open the possibility that it  
11 would not require a rate case, and a finding of fair value, if a public service corporation  
12 filed a “new rate schedule [that] was a modernization designed to produce the same  
13 revenue as had been earned under the old schedule.”<sup>3</sup>

14 The Commission’s legal authority to modernize rate design in a manner that  
15 produces the same revenue produced by prior rate design is clear. APS views Staff’s  
16 Sample Process as just that—an example of how a revenue-neutral rate design  
17 proceeding might occur. But there are no particular rules establishing a process for  
18 applications “not increasing or resulting in an increase” to rates under A.R.S. § 40-  
19 250(B). Staff’s Sample Process, and APS’s proposed modifications, provide a good  
20 framework for how a rate design proceeding might unfold.

## 21 **II. Specific Comments Regarding the Sample Process**

22 The Sample Process contemplates a process in which utilities essentially file  
23 everything required in a general rate case, using actual information where possible and  
24 forecasted information otherwise. APS supports a rate design process that includes all  
25 information necessary to design rates, but avoids information that is not required.  
26

27 <sup>1</sup> 118 Ariz. 531 (Ct. App. 1978).

28 <sup>2</sup> *Id.* at 537.

<sup>3</sup> *Id.* at 536.

1           Designing rates only requires limited categories of information. As many know,  
2 rate design is the process to determine prices for utility service by assigning the  
3 collection of a pre-determined revenue amount to specific rates. To do so, one needs to  
4 know the relevant billing determinants. For APS, the primary billing determinants are  
5 kWh, kW, and the number of customers or customer equivalents. One also needs to  
6 know the annual revenues to be used. And because rate design is a revenue-neutral  
7 process that occurs independent of establishing a new revenue requirement, this analysis  
8 can be based on current rates—one need not know what a future revenue requirement  
9 request could be. It is also helpful, although not critical, to know the unit cost of the  
10 relevant billing determinants. Unit costs are APS's cost to supply a kW or a kWh, and  
11 the cost to serve a customer or customer-equivalent separate from supplying either  
12 energy or capacity. These costs are established in a cost-of-service study, and are  
13 represented as cents per kWh, dollars per kW/month, and dollars per customer-  
14 equivalent per month.

15           APS's primary concern with the Sample Process as written is that it involves a  
16 large amount of information that directly concerns potential future revenue  
17 requirements, not rate design. Given the information that is needed and helpful for rate  
18 design—billing determinants, current revenues, and unit costs—the Sample Process  
19 requires additional information that is not needed, including the actual revenue  
20 requirement that will be proposed in the future. Including the actual revenue increase  
21 that ACME will propose in 2016 will distract from, and possibly derail, the rate design  
22 process. The purpose of the rate design proceeding is to exclusively focus on rate design.  
23 If ACME were to identify the revenue increase that it intends to propose, parties would  
24 immediately focus on the impact of and support for that revenue increase. The revenue  
25 portion of the rate design filing will inevitably become the focal point of the proceeding,  
26 and the opportunity to resolve critical rate design issues without the typical rate case  
27 distractions will have been lost. In light of how little it would help the rate design  
28

1 process, APS proposes to eliminate the requirement that a utility foreshadow a potential  
2 future revenue requirement request during the rate design phase of the proceeding.

3  
4 **1. Approximately 8 to 9 months (September or October of 2015) before filing**  
5 **its rate case application, ACME would docket a pre-filing with the Commission.**

6 APS agrees with the need to ensure that sufficient time exists to appropriately  
7 consider rate design. The sole concern that APS has with this aspect of the Sample  
8 Process is that filing in September or October of 2015 might not provide enough time to  
9 permit customer input or for all stakeholders to be adequately heard. In addition, if the  
10 rate design proceeding were to be prolonged, it might push into the timeframe for filing  
11 the revenue requirement application. If that were to happen, the rate design proceeding  
12 would either become subsumed into the revenue requirement proceeding—an outcome  
13 that would make the separate rate design process an unproductive effort—or require  
14 parallel proceedings.

15 To address this potential dilemma, APS believes it would be prudent to provide  
16 an additional 3 or 4 months of time for the rate design process to conclude. This would  
17 involve ACME filing its 2015 rate design application one quarter earlier, with a target  
18 date on or before June 1, 2015. The filing would contain one quarter of actual revenue  
19 (Q1 of 2015) and projections for the balance of 2015. ACME would update the  
20 projected revenues with actual information as available throughout the rate design  
21 proceeding in the same manner contemplated by the Sample Process. APS's comments  
22 on the specific type of information that should be included in the rate design filing  
23 appear in response to paragraph 4 and 5 below.

24  
25 **2. ACME shall notify Staff and RUCO of its plan to use this optional rate**  
26 **design pre-filing process at least 90 days prior to its pre-filing.**

27 APS agrees with this aspect of the Sample Process.  
28

1           **3. The pre-filing shall contain all the information and schedules to be filed in its**  
2           **June 1, 2016 filing, including all pro-forma adjustments.**

3           The challenge posed by filing all rate case schedules and pro-forma adjustments  
4 emerges when one weighs the benefits of including that information against the risk of  
5 shifting the focus of the proceeding to the revenue requirement and potentially confusing  
6 customers. If the rate design proceeding included a proposed revenue requirement  
7 increase, customers, and stakeholders might misinterpret the filing as a premature 2016  
8 rate increase. Moreover, as discussed above, if ACME were to include all rate case  
9 schedules, parties would not focus on rate design, but instead waste their time assessing  
10 the potential future revenue requirements information contained in the filed schedules.  
11 Assessing this information is critical to establish an appropriate revenue requirement,  
12 but not to design rates. To design rates, four core categories of information are needed:  
13 specified annual revenues, relevant billing determinants, a cost-of-service study, and  
14 specific rate design proposals. Filing all rate schedules in the rate design proceeding will  
15 inject large amounts of information that concerns the revenue requirement, with the  
16 likely result that the revenue requirements data becomes the focus of the proceeding.

17           In addition, it is doubtful that sufficiently detailed information would exist in  
18 2015 to make the additional rate schedules—which concern rate base, operating income,  
19 cost of capital, and the various hypothetical pro forma adjustments to such schedules—  
20 worthwhile. Pro forma adjustments, for instance, typically concern detailed adjustments  
21 to precise costs, revenues, rate base, or capital costs made in response to known and  
22 measurable changes during or after the test year. In mid-2015, it is unlikely that ACME  
23 would have the information needed to populate the to-be-filed-in-2016 pro-forma  
24 adjustments. In APS's case, not only does the Company not project expenses by the  
25 FERC Uniform System of Account numbers, it does not budget to that level of  
26 accounting detail. Because ACME could not file meaningful cost-related B, C, and D  
27 schedules (which would not assist the rate design process even if they were filed), APS  
28 proposes that they not be required for the rate design proceeding.

1           Moreover, including an estimate of the actual revenue increase to be proposed  
2 would make it more difficult to assess the impact of the rate design changes on  
3 customers. For instance, if a rate design change causes a customer's bill to decrease  
4 under current revenue levels, that decrease will be obscured by the proposed revenue  
5 increase. And since the proposed revenue increase is not necessary to design rates, the  
6 impact of the rate design change will have been obscured for no purpose.

7           A final reason to avoid including an actual revenue increase to be proposed (even  
8 if it is only an estimated increase) concerns disclosures to the Securities and Exchange  
9 Commission and the investment community. If ACME were investor owned and it were  
10 to file in mid-2015 the actual revenue increase it intended to propose in 2016, ACME  
11 would be required to disclose that number to the public. But the disclosure would be at  
12 least two years before any rate increase takes effect. And since ACME would not have  
13 complete 2015 data, the pro forma adjustments, or any information regarding post-test  
14 year plant to create the proposed revenue increase, the disclosure would likely create  
15 confusion and uncertainty in the investor community. At times, this type of confusion  
16 and uncertainty can translate into investors perceiving instability, a perception that  
17 invariably comes back to hurt customers in the form of an increased cost of debt. Given  
18 these risks, APS does not believe that the rate design proceeding should include actual  
19 revenue requirement projections, particularly because the actual numbers are not needed  
20 for, and will actually undermine, the rate design proceeding.

21           Instead, APS proposes that the Sample Process be streamlined to focus on  
22 information that is needed to design rates by only requiring that utilities include  
23 schedules G and H with the rate design filing. ACME would display its actual revenue in  
24 these schedules, as well as illustrative increases to its actual revenue of 3%, 6%, 9% and  
25 12% (as discussed below in response to paragraph 9). Limiting the rate design filing to  
26 this information will avoid the potential of parties getting side-tracked with  
27 hypothetically proposed revenue requirements and increase the likelihood that the rate  
28 design proceeding is resolved before ACME's June 2016 filing date.

1       **4. The schedules in the pre-filing shall contain actual numbers through June**  
2 **30, 2015.**

3       **5. The schedules in the pre-filing shall contain projected numbers for July 1**  
4 **through December 31, 2015.**

5           Responding to both Paragraphs 4 and 5, APS proposes that ACME file a rate  
6 design application on or before June 2015. As discussed in response to Paragraph 1, it is  
7 likely that more time will be needed for any rate design proceeding, and the  
8 consequences of delaying the June 2016 rate case filing (and thus the rate effective date)  
9 could harm ACME financially. To account for this earlier schedule, APS proposes that  
10 actual numbers through March 2015 be included in the filing, and that ACME use  
11 projected numbers from April 1, 2015 through December 31, 2015. Although APS's  
12 proposal would initially involve one less quarter of actual information, APS proposes  
13 that ACME update the filed revenue information each quarter as the actual information  
14 becomes available during 2015. In addition, given that both the Sample Process and  
15 APS's proposed modifications would not include filing actual numbers for the three  
16 most significant revenue months for the two largest Arizona electric utilities (July,  
17 August, and September) the difference between the two processes is far less significant  
18 than it might seem.

19  
20       **6. The pre-filing shall contain a full cost of service study as required by**  
21 **Commission rules.**

22           APS agrees with this aspect of the Sample Process. A.A.C. R14-103(B)(1)  
23 permits utilities to use "a historical accounting period other than the test year ... for cost  
24 of service purposes provided that [the] customer mix in the historical period used is  
25 representative of the test year." APS believes that its 2014 customer mix would be very  
26 representative of the contemplated 2015 test year and would file a cost-of-service study  
27 based upon actual 2014 information.

28

1       **7. The pre-filing shall contain all the rate design changes ACME will be**  
2 **requesting in its rate case to be filed June 1, 2016, including any new proposed**  
3 **adjustors/surcharges and any modifications to existing adjustors/ surcharges.**

4           APS agrees with including all proposed rate design changes in the rate design  
5 application. Adjustors, however, and in particular the revenues attributable to adjustors,  
6 are likely better considered within the context of the revenue requirement phase. For  
7 instance, when APS resets its Power Supply Adjustor to zero, it impacts the fuel portion  
8 of APS's base rates. Similarly, other adjustor charges are transitioned to base rates in  
9 typical rate cases. APS believes that it is more logical to consider how changes to  
10 adjustors impact base rates in the context of the broader discussion of an actual revenue  
11 requirement proposal.

12  
13       **8. The pre-filing shall contain ACME's testimony explaining in detail its reasons**  
14 **for requesting the substantial rate design changes.**

15           APS agrees with this aspect of the Sample Process.

16  
17       **9. ACME's pre-filing testimony shall contain a detailed discussion and table**  
18 **showing the bill impacts to the average and median use customers for both summer**  
19 **and winter for all customer classes due to both the revenue increase and the**  
20 **proposed rate design changes, including all adjustors. These bill impacts shall be**  
21 **provided for a revenue increase of 100%, 75%, 50%, 25% and 0% of ACME's**  
22 **requested revenue increase.**

23           APS agrees that the pre-filing testimony should discuss in detail the bill impacts  
24 for the proposed rate design changes. And APS agrees that it would be useful to have  
25 varying levels of revenue to assess how the rate design changes might impact customers  
26 in difference circumstances. For the reasons discussed in Paragraphs 1-4, however, APS  
27 believes that any information about revenue increases in the rate design filing should  
28 only be illustrative, and not reflect the future potential revenue requirement.

1           Nonetheless, APS agrees that showing revenue gradations in the context of the  
2 rate design proceeding might facilitate a robust discussion about rate design. The issue is  
3 simply whether those revenue gradations reflect an actual revenue increase that ACME  
4 will propose, or whether the potential revenue increments remain hypothetical. APS  
5 proposes that the rate design filing include the current revenue levels and hypothetical  
6 increases of 3%, 6%, 9% and 12%. These ranges will provide the same insight  
7 contemplated by the Sample Process, but avoid the distractions and potential confusion  
8 that might be caused by including actual revenue increases in the rate design filing.

9  
10           **10. The docket number assigned to the pre-filing shall be the docket number**  
11 **under which ACME's June 1, 2016 rate case application will be filed.**

12           APS agrees with this aspect of the Sample Process.

13  
14           **11. The time clock for ACME's June 1, 2016 rate application shall not begin**  
15 **until June 1, 2016 (i.e., sufficiency period for rate case begins June 1, 2016).**

16           APS agrees with this aspect of the Sample Process.

17  
18           **12. Within 20 days of ACME'S docketing of its pre-filing, the Hearing Division**  
19 **shall set the time frame for interested parties to intervene in this docket and shall**  
20 **also require ACME to provide notice to all customers and interested parties of**  
21 **ACME's intended rate increase and rate design changes.**

22           APS agrees with this aspect of the Sample Process.

23  
24           **13. Within 30 days of setting the timeframe for intervention, the Hearing**  
25 **Division shall schedule a procedural conference to discuss and set up a schedule**  
26 **for:**

- 1           a. Technical conferences for parties to discuss ACME's proposed rate  
2           design.
- 3
- 4           b. Date for parties to file a document listing all rate design issues/concepts  
5           on which parties (any or all) agree.
- 6
- 7           c. Date for parties to file testimony on all rate design issues / concepts on  
8           which they do not agree.
- 9
- 10          d. Date for parties to file testimony on any other rate design issues/  
11          concepts not proposed or discussed by ACME in its pre-filing.
- 12
- 13          e. Date(s) for hearing to present rate design issues/concepts on which  
14          parties agree and/or disagree.

15           APS agrees with the thrust of this element of the Sample Process. It might also be  
16 helpful if the parties could propose an agreed-upon schedule, including filing dates,  
17 while leaving suitable discretion to the presiding Administrative Law Judge on issues of  
18 procedure.

19

20           **14. Hearing Division shall set up the above schedule such that the Commission**  
21 **can vote on a Recommended Opinion and Order ("ROO") on the rate design at the**  
22 **Commission's Regular Open Meeting in June 2016 (during the rate case sufficiency**  
23 **period). Alternatively the Hearing Division shall take the rate design issues under**  
24 **advisement and shall issues a single ROO that addresses all rate case issues within**  
25 **the time frame that would be applicable to the revenue requirements phase of the**  
26 **proceeding.**

27           APS agrees with the premise of Paragraph 14: complete everything needed to  
28 design rates, including technical conferences, filed testimony, and any hearing, before

1 ACME files its rate case in June 2016. Having these items done before consideration of  
2 the revenue requirement is critical to ensuring that the parties are able to focus on rate  
3 design and arrive at a meaningful resolution. APS's concern does not necessarily relate  
4 to the wording of paragraph 14, but instead relates to what might result if ACME files a  
5 rate case with the rate design proceeding unresolved.

6 Any rate case filing must include a rate design proposal as outlined in the H  
7 Schedules required by R14-2-103(B)(1). But if ACME's 2015 rate design proceeding  
8 has not yet been decided by the Commission when ACME files its rate case, it is not  
9 clear what ACME would include in its H Schedules. Any H Schedule ACME does file  
10 could be rendered moot by a future decision regarding rate design. There are a few  
11 ways that the Sample Process could be modified to address this issue: (i) permitting  
12 ACME to forego filing H Schedules, and relying on the material filed in the rate design  
13 proceeding, including the analysis of the varying revenue levels (APS suggests 3%, 6%,  
14 9%, and 12%), to take the place of the H Schedules; (ii) permitting ACME to file H  
15 Schedules reflecting the position that ACME took in the rate design hearing  
16 contemplated in Paragraph 13 above; or (iii) permitting ACME to forego filing H  
17 Schedules, and requiring ACME to supplement its rate case filing with H Schedules as  
18 soon as a decision is issued in the rate design proceeding.

19 Aside from permitting flexibility regarding the H schedule filed with the rate  
20 case, the rate design process should protect against wasteful re-litigation of decided  
21 issues. To the extent that the rate design proceeding remains generally open and  
22 undecided during the rate case, it is likely that parties will rehash the rate design  
23 discussions, and possibly seek to re-inject unresolved rate design issues into the revenue  
24 requirement discussion. Doing so would thwart the purpose of having a separate rate  
25 design process, expend the resources of parties and Commission Staff, and may  
26 undermine the opportunity to make meaningful progress in updating rate design.

27 On the other hand, there are limited circumstances in which it might be  
28 appropriate for rate design issues to be introduced into the revenue requirement

1 proceeding. If a new party was genuinely unaware of the initial rate design proceeding,  
2 they should be permitted an opportunity to be heard on previously-decided rate design  
3 issues. Similarly, if significant circumstances change in a manner that was not  
4 reasonably foreseeable in the rate design proceeding, it would be appropriate for  
5 reconsidering rate design issues directly related to the changed circumstances.

6 Accordingly, APS proposes that the rate design process culminate in a final order,  
7 before the filing of the revenue requirements case, which will be implemented when new  
8 rates go into effect following the revenue requirements decision. Issues decided in this  
9 final order, however, could be re-litigated: (1) by a new intervenor in Phase Two if the  
10 new intervenor demonstrates with clear and convincing evidence that they neither knew  
11 nor should have known of the Phase One proceeding; and (2) if a party demonstrates  
12 that a significant change of circumstances has occurred that was not reasonably  
13 foreseeable during the Phase One proceedings, and the resulting re-litigation is limited  
14 to issues directly related to the changed circumstances. To protect the timeframe of the  
15 Phase Two proceeding, APS proposes that in no event will re-litigation of rate design  
16 issues by new intervenors or due to changed circumstances extend the Phase Two time  
17 clock by more than 5 days.

18  
19 **15. For purposes of discussion only, the revenue requirement contained in**  
20 **ACME's pre-filing will be used for all rate design technical conferences and**  
21 **testimony.**

22 As discussed in response to Paragraphs 1-4, significant challenges emerge if the  
23 rate design proceeding includes the actual revenue increases that ACME would file in its  
24 2016 rate case. Instead of actual revenue levels, APS proposes that the rate design  
25 proceeding be based on a 0% increase over the test year levels of revenue, along with  
26 hypothetical increments of 3, 6, 9, and 12% revenue increases.

1       **16. No decision will be made by the Commission on the appropriateness of**  
2 **ACME's rate base, expenses, or rate of return, i.e., revenue requirement, until after**  
3 **ACME files its full rate case on June 1, 2016. In other words, ACME's revenue**  
4 **requirement shall be decided as is typically done.**

5           APS agrees with this aspect of the Sample Process. In fact, APS notes that the  
6 ability to design rates without deciding a revenue requirement is what permits the rate  
7 design process to exist in the first place.

8  
9       **17. Any decision issued by the Commission on the rate design issues shall not be**  
10 **construed as a decision on any portion of the revenue requirement questions.**

11           APS agrees with this aspect of the Sample Process.

12  
13       **18. ACME's June 1, 2016 rate case filing shall contain all actual numbers for the**  
14 **2015 test year, i.e., no projected numbers.**

15           APS agrees with this aspect of the Sample Process. To clarify, however, APS  
16 interprets the proscription on projected numbers as making clear that the use of  
17 projected numbers during the rate design proceeding does not continue in the general  
18 rate case. For example, consistent with prior practice, Arizona utilities have included  
19 post-test year plant in rate case filings, and post-test year plant necessarily includes  
20 projections that are trued-up before the rate case concludes. There may also be pro  
21 forma adjustments to operating expenses or revenues that entail what some might  
22 characterize as projections. For example, annualizing test year revenues for end-of-test-  
23 year customer levels—a common and routine pro forma in Arizona rate cases—could be  
24 characterized as a “projection” of revenues. Normalizing revenues for weather might  
25 also be characterized as a “projection.” There are many more examples. Thus, Paragraph  
26 18 must be interpreted to only proscribe the use of projected numbers in the rate design  
27 proceeding.

28

1        **19. ACME's June 1, 2016 rate case filing shall not have a revenue increase that**  
2 **is more than one (1) percent higher than that contained in its pre-filing.**

3            As discussed above, APS proposes that ACME's pre-filing not include a potential  
4 future revenue requirement increase, which would render moot the 1% cap contemplated  
5 in Paragraph 19.

6  
7        **20. Because this process may substantially increase rate case expense, the**  
8 **Company shall agree to forego recovery of any rate case expense that is associated**  
9 **with this new process.**

10            APS interprets this paragraph as precluding the recovery of rate case expense that  
11 results from this new process, only. If ACME incurs a rate case expense that it would  
12 have incurred during a traditional rate case, and that expense would have been  
13 recoverable, APS does not interpret this paragraph from precluding recovery of that  
14 traditionally-incurred expense. Based on this interpretation, APS agrees with this aspect  
15 of the Sample Process.

16        **III. Summary of Proposed Changes**

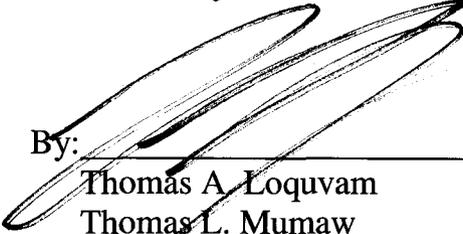
17            APS believes that the Sample Process provides an excellent framework for  
18 parties to make meaningful progress on updating rate design. APS comments and  
19 proposed modifications are designed to strengthen the process and avoid the dangers of  
20 trying to do too much during the relatively narrow, but critically important, process of  
21 designing rates. The following is a summary of APS's proposed modifications to the  
22 Sample Process, which presumes a June 1, 2016 rate case filing by ACME, based on a  
23 calendar year 2015 test year:

- 24            • Rate Design Pre-Filing Date: on or before June 1, 2015;
- 25            • Actual and forecasted data: filing to include actual revenue and billing  
26            determinant numbers from January 1 – March 31, forecasted numbers from  
27            April 1 – December 31, and updating those forecasted numbers during the  
28            year as actual numbers become available;

- 1 • Cost-of-Service Study: consistent with ACC regulations, ACME should be  
2 able to use a 2014 cost-of-service study;
- 3 • Pro-forma adjustments: weather normalize and customer annualize actual data  
4 to better sync up to forecasted data;
- 5 • Hypothetical revenue increase: no actual projected revenue increase, but  
6 instead use actual and forecasted 2015 revenue levels (with the two pro-forma  
7 adjustments referenced above), and show hypothetical increases of 3%, 6%,  
8 9%, and 12% for purposes of discussion only to demonstrate rate design  
9 sensitivities;
- 10 • Schedules to be filed: Schedules G and H, as well as a proof of revenue to  
11 facilitate rate design;
- 12 • Timing in relation to the rate case filing: to address what happens if the rate  
13 design process is not yet concluded when the rate case must be filed, either (i)  
14 permit ACME to forego filing H Schedules, and instead rely on the material  
15 filed in the rate design proceeding, including the analysis of the varying  
16 revenue levels (APS suggests 3%, 6%, 9%, and 12%), to take the place of the  
17 H Schedules; (ii) permit ACME to file H Schedules that reflect the position  
18 that ACME took in the rate design hearing; or (iii) permit ACME to  
19 supplement its rate case filing with H Schedules as soon as a decision is  
20 issued in the rate design proceeding;
- 21 • Final order on rate design: the rate design proceeding culminate in a final  
22 order that will be implemented when new rates are effective at the conclusion  
23 of the rate case proceeding. Limited opportunities for re-litigating rate design  
24 issues would remain, however, for new intervenors and in response to  
25 significantly changed circumstances that were not reasonably foreseeable; and
- 26 • Sufficiency: a finding of sufficiency will only be required for the June 2016  
27 filing and not the rate design filing.

1 APS attaches as Exhibit A to this filing a proposed rate design process that builds  
2 on the Sample Process and incorporates all of APS's proposed modifications.

3  
4 RESPECTFULLY SUBMITTED this 20th day of October 2014.

5  
6 By: 

7 Thomas A. Loquvam

8 Thomas L. Mumaw

9 Attorneys for Arizona Public Service Company

10 ORIGINAL and thirteen (13) copies  
11 of the foregoing filed this 20th day of  
12 October 2014, with:

13 Docket Control  
14 ARIZONA CORPORATION COMMISSION  
15 1200 West Washington Street  
16 Phoenix, Arizona 85007

17 COPY of the foregoing mailed this  
18 20th day of October 2014 to:

19 Lyn Farmer, Administrative Law Judge  
20 Hearing Division  
21 Arizona Corporation Commission  
22 1200 West Washington  
23 Phoenix, Arizona 85007

24 Janice Alward, Chief Counsel  
25 Legal Division  
26 Arizona Corporation Commission  
27 1200 West Washington  
28 Phoenix, Arizona 85007

Steve Olea, Director  
Utilities Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

Jeffrey W. Crockett, Esq.  
Brownstein Hyatt Farber Schreck LLP  
One East Washington, Suite 2400  
Phoenix, Arizona 85004  
Attorneys for Sulphur Springs Valley  
Electric Cooperative, Inc.

Jack Blair, Chief Member Services Officer  
Sulphur Springs Valley Electric  
Cooperative, Inc.  
311 East Wilcox Drive  
Sierra Vista, Arizona 85635

Daniel W. Pozefsky  
Chief Counsel  
Residential Utility Consumer Office  
1110 West Washington, Suite 220  
Phoenix, Arizona 85007

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28

Lawrence Robertson, Jr.  
2247 East Frontage Road, Suite 1  
P.O. Box 1448  
Tubac, Arizona 85646

Paul O'Dair, Manager of Financial  
Services  
Navopache Electric Cooperative, Inc.  
1878 West White Mountain Boulevard  
Lakeside, Arizona 85929

Peggy Gillman, Manager of Public Affairs  
& Energy Service  
Mohave Electric Cooperative, Inc.  
P.O. Box 1045  
Bullhead City, Arizona 86430

J. Tyler Carlson, Chief Operating Officer  
Mohave Electric Cooperative, Inc.  
P.O. Box 1045  
Bullhead City, Arizona 86430

Charles Moore, Chief Executive Officer  
Navopache Electric Cooperative, Inc.  
1878 West White Mountain Boulevard  
Lakeside, Arizona 85929

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

Michael Curtis  
William P. Sullivan  
Curtis, Goodwin, Sullivan, Udall &  
Schwab, P.L.C.  
501 East Thomas Road  
Phoenix, Arizona 85012-3205  
Attorneys for Mohave Electric &  
Navopache

  
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## **Proposed Rate Design and Rate Case Process**

### **Step One - ACME files notice of intent to use alternative two phase process 90 days prior to start of Phase One**

- Notice would include declaration of intent to file a rate case and outline the general types of items that would be requested (for example, adjustment mechanisms, post-test year plant recovery, rate design, depreciation study, capital structure, etc.).
  - Notice would be similar to what APS filed as a precursor to its 2012 Test Year rate case.
- Notice filing opens the docket and triggers intervention of parties.

### **Step Two - ACME initiates Phase One in Rate Case "Pre-filing": Rate Design Focus**

- ACME makes pre-filing no sooner than 15 months prior to filing a full rate application. The pre-filing will address rate design issues, not revenue requirement or cost allocations to various classes of retail customers.
- ACME would waive the time clock established by R14-2-103 for Phase One, and request that the Hearing Division set a procedural schedule that establishes a Phase One time clock not to exceed 12 months.
- Issues addressed in Phase One may include:
  - Base rate design proposals for residential and commercial customers
  - AG-1-type rates
  - Economic development or other commercial rates
  - Changes in tariff language
  - Changes to bill format
- Changes to adjustment mechanisms will not be included in Phase One.
- Pre-Filing back up includes:
  - Testimony, rate schedules, SFRs relevant to rate design (G and H), and proofs of revenue. Assuming pre-filing date of on or about June, 2015:
    - Filing would be based on Q1 2015 actual revenues and billing determinants, and projected Q2-Q4 2015 revenues and billing determinants. Actual numbers would be published at the end of each quarter.
    - Filing would include 2014 Cost of Service as permitted by A.A.C. R14-103(B)(1). 2015 Cost of Service would be published in Phase Two as part of the "Revenue Requirement and Cost Allocation" Phase.
  - Bill impacts of rate design changes to customers across the range of various usage patterns and customer types (low energy users, high energy users, low income customers, general service customers etc.).

**Proposed Rate Design and Rate Case Process**

- Additional bill impact to customers under several illustrative Phase Two revenue requirement requests (3%, 6%, 9%, 12% revenue requirement increases).
- Recommended Opinion and Order on Phase One issues rendered upon conclusion of hearing.
- Commission votes on Recommended Opinion and Order and enters final order on Phase One issues, noting that the Phase One Order would not be implemented until the Phase Two Order is rendered. [Parties can appeal this order, as they could any other final Commission Order]
- Phase One Order would direct the Hearing Division:
  - (1) to allow new parties to intervene into Phase Two only if the applicant for Intervention demonstrates with clear and convincing evidence that they neither knew nor should have known of the Phase One proceeding unless their participation in Phase Two is limited to issues exclusively raised in Phase Two;
  - (2) to rule that no party to Phase One would be permitted to re-litigate Phase One issues in Phase Two without demonstrating a significant change of circumstances that was not reasonably foreseeable during the Phase One proceedings, and any re-litigation that did occur would be limited to issues directly related to the changed circumstances; and
  - (3) to require that any re-litigation of Phase One issues by parties who meet criterion (1) or (2) above would not extend the Phase Two time clock by any longer than 5 days.

**Step Three: ACME initiates Phase Two in Full Rate Case Filing: Revenue Requirement and Cost Allocation**

- ACME submits full rate case filing, consistent with Rule R14-2-103, at least 12 months after the "Rate Design Focus" pre-filing. Time clock for rate case filing begins upon sufficiency finding.
- Issues to address in Phase Two include:
  - Allowed jurisdictional base rates revenue requirement
  - Allowed ROE and other cost of capital/capital structure issues
  - Adjustment mechanism changes
  - Cost allocation between customer classes