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9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10 COMMISSIONERS

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

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

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**ARIZONA PUBLIC SERVICE  
 COMPANY'S RESPONSE TO AG-1  
 CUSTOMERS' AND AG  
 GENERATION SERVICE  
 PROVIDERS' JOINT MOTION TO  
 EXTEND EXPERIMENTAL RATE  
 RIDER SCHEDULE AG-1**

21 Arizona Public Service Company ("APS" or "Company") hereby responds to the  
 22 Motion filed November 20, 2014 with the Arizona Corporation Commission  
 23 ("Commission") by a group of APS customers presently taking service under Schedule  
 24 AG-1 ("AG-1 Customers") and several providers of that service ("AG Generation  
 25 Service Providers") requesting an indefinite extension of Schedule AG-1 after its present  
 26 termination date of July 1, 2016. For the reasons set forth below, APS opposes the  
 27 Motion and requests that the Commission deny the request for an extension of Schedule  
 28 AG-1 at the present time.

1           **I.       BACKGROUND OF AG-1.**

2           Schedule AG-1 is an experimental rate rider proposed by the Company in its last  
3 general rate case and approved by the Commission as part of a comprehensive  
4 Settlement Agreement in Decision No. 73183 (May 24, 2012). Under provisions of AG-  
5 1, large customers that have at least 10MW of load can designate an alternative  
6 Generation Service Provider (“AGSP”) to supply portions of their generation  
7 requirements. APS contracts with the AGSP and passes the AGSP’s charges through to  
8 the customer with a minimal markup for administrative costs attributable to the program.  
9 Because the rate rider is limited by the Settlement and Decision No. 73183 to 200 MW  
10 in total, the Company conducted a lottery supervised by an independent third party to  
11 select participating APS customers. Thirteen eligible APS customers applied for the  
12 program. Eight were selected, and the others were placed on a waiting list should any of  
13 the initial eight winners drop out of the program. Additional APS customers were  
14 eligible but did not apply for the program during the initial enrollment period.

15           The AG-1 Schedule incorporated both into the Settlement Agreement and  
16 Decision No. 73183 specifically indicates that this experimental rate rider is limited to a  
17 four year term starting on the effective date of the rates approved by the Commission,  
18 which was July 1, 2012.<sup>1</sup> The parties to the Settlement Agreement could have expressly  
19 made AG-1 effective until the conclusion of the Company’s next rate case, but declined  
20 to do so. APS was well aware and made no secret of the fact that it expected to lose  
21 between \$5 million and \$15 million per year as a result of AG-1. Some of that could be  
22 and has been mitigated by a change to the PSA that permitted APS to retain wholesale  
23 margins from generation resources freed up on account of AG-1, but losses still amount  
24 to millions of dollars each year. Indeed, the financial impact of the program was the key  
25 reason that the program was limited to 200 MW and four years. APS would not have  
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27 <sup>1</sup> “This rate rider shall be available for four years from the effective date of Schedule AG-1, unless  
28 extended by the Commission.” See Decision No. 73183, Attachment A, at Attachment J to the  
Settlement Agreement, page 1.

1 agreed to continue AG-1 after the four year experiment without either fixing the inherent  
2 flaws of the program to make it compensatory or spreading the revenue shortfall to other  
3 customers in the context of a rate case. The phrase “unless extended by the  
4 Commission” did contemplate the possibility of the program being extended but only  
5 after an opportunity to evaluate the program as provided for in Paragraph 17.2 of the  
6 2012 Settlement Agreement and address the known deficiencies in AG-1.  
7

8 **II. THE SETTLEMENT PROVIDED FOR A SPECIFIC PROCESS**  
9 **BY WHICH THE COMMISSION COULD CONSIDER THE**  
10 **FATE OF AG-1.**

11 The Settlement Agreement has a specific process for Commission consideration  
12 of what to do with Schedule AG-1 after the expiration of the experiment in 2016. APS  
13 was to file a report with supporting testimony indicating whether the program should be  
14 continued, modified, or terminated. Although it was anticipated then that this decision  
15 would be made in the Company’s next rate case, APS was and remains prepared to file  
16 that study and supporting testimony on or before June 1, 2015, either as part of a general  
17 rate design proceeding conducted prior to establishing a new revenue requirement for  
18 APS or in a standalone proceeding focused exclusively on AG-1. Because the present  
19 form of AG-1 does not expire until July 1, 2016, the Commission would have more than  
20 a year to resolve the issue using the procedure anticipated in the Settlement Agreement.  
21 Thus, there is no need to rush to a quick decision without the benefit of any analysis by  
22 APS of the impacts of merely continuing the current program or the input of other  
23 parties, several of which initially opposed AG-1 and only acquiesced to it as part of a  
24 Settlement Agreement and only for its proposed four year term.

25 **III. AG-1 RESULTS IN A SIGNIFICANT UNDERRECOVERY OF COSTS.**

26 As noted previously, APS has lost millions of dollars on the AG-1 rate each year  
27 since the program started. APS has not determined all the reasons for this loss, although  
28 such a detailed analysis was to be a part of the report to the Commission alluded to

1 above. However, two primary reasons are: (1) the reserve capacity charge is applied to  
2 only 15% of the load served by an AGSP, when in reality APS backs up 100% of that  
3 load; and (2) the administrative charge of \$.0006 per kWh proved woefully inadequate.  
4 There are other defects in the program concerning the current unbundled generation  
5 charge and imbalance service but the two primary flaws and those most easily fixed are  
6 those identified above.  
7

#### 8 **IV. WHO SHOULD BENEFIT FROM ANY PROPOSED EXTENSION** 9 **OF THE AG-1 PROGRAM.**

10 The AG-1 Customers and the AG-Generation Service Providers appear to assume  
11 that the *status quo* should simply continue indefinitely. But that hardly seems fair to  
12 those customers who participated in the 2012 lottery and lost. They could at least look  
13 forward to another chance in 2016 should the Commission extend the life of AG-1 in  
14 one form or another. That opportunity would be denied them and perhaps other  
15 customers if the Motion is granted at this time.

16 There are several ways the Commission could ultimately address this issue. They  
17 could direct APS to conduct a new lottery for the entire 200 MW or they could simply  
18 award some of the 200 MW to the 2012 losers and conduct a lottery for any remaining  
19 MW or something in between. Any of these procedures would have its pros and cons,  
20 but to simply assume that the *status quo* should carry on past July 1, 2016 without  
21 hearing from these other customers and carefully considering alternatives strikes APS as  
22 both unfair and unnecessary given the extended amount of time between now and mid-  
23 2016.

#### 24 **V. CONCLUSION**

25 APS opposes the Joint Motion as being premature at best. The 2012 Settlement  
26 Agreement calls for a careful review of the AG-1 program before any Commission  
27 decision as to its continuance past July 1, 2016. There is more than sufficient time for  
28

1 that review in order to consider whether to fix the program, end it, or make other APS  
2 customers pay for it. Such review should also encompass an examination of the selection  
3 process to determine if there is a fairer and better what to administer any future AG-1  
4 type of special rate rider.

5 RESPECTFULLY SUBMITTED this 1<sup>st</sup> day of December 2014.

6  
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10 ORIGINAL and thirteen (13) copies  
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12 December 2014, with:

13 Docket Control  
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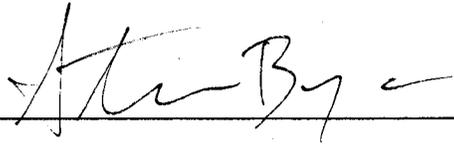
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