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NOTICE OF ERRATA

ORIGINAL

Date: May 26, 2015

To: Kay Mecca, Director
Docket Control

From: Coash & Coash, Inc.

Re: APS / Rates – Four Corners Rate Rider
E-01345A-11-0224
Reporter's Transcript of Proceedings
Volume II taken on 08-05-2014

Please place the attached Pages 391 through 400, inclusive, within the Original transcript we filed with Docket Control on 08-06-2014.

The original transcript that was filed on that date did not include those pages.

Electronic files sent on 08-06-2014, all pages included, were distributed to the Commissioners, Administrative Law Judge, ACC Legal and Hearing Divisions, Applicant and any party who purchased a copy.

Thank you.

Arizona Corporation Commission
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input.

Q. Okay. So then, I'm just trying to reconcile what your beef with Staff's problem is then. Maybe you can elaborate on that, given that definition you just gave me.

A. Staff proposed holding the fair value rate of return constant, and we think the math doesn't work if you do that, because the only way to balance the equation there is to reduce the authorized return on equity. And I will say that reduction in the return on equity isn't just for the incremental acquisition of Southern California Edison's share of Four Corners 4 and 5. It's on the entire rate base in that case. So it's essentially lowering the authorized return on equity, if you do what Staff has proposed, to 9.85 percent from the 10 percent that was authorized in the case.

Q. Okay. I was going to save some of this for Ms. Blankenship, but maybe you're the better one to answer.

Were you here yesterday with Mr. Guldner's testimony?

A. I was.

Q. I got into this issue of these nonfuel costs a little bit with Mr. Guldner, and he said you would be the better one to talk to. Because, quite frankly, maybe we have a difference of opinion of what should be included in the accounting order that was actually issued. Because as I read it, the nonfuel costs that are to be included in that would seem to me to include the decommissioning costs as well as the acquisition costs, but obviously you guys take a different position on that.

Are you saying that the position that we're taking, that can't be, that they can't include in those nonfuel costs the decommissioning costs and the acquisition costs? Is that what APS's position is, or do you just disagree?

MR. MUMAW: Your Honor, I hate to interject. I'm not aware that RUCO has taken any issue with how Ms. Blankenship has calculated the deferral. So I'd like to ask him to what testimony is he referring?

BY MR. POZEFSKY:

Q. Let me take RUCO's position part out of it and just keep it pretty plain, on just what the wording in there means and how you understand it. So I'll rephrase my question, if I can.

The issue I raised with Mr. Guldner yesterday was this definition of nonfuel cost which is in the accounting order. If you read that definition, it talks about, they're authorized for deferral, including depreciation, amortization of the acquisition adjustment, decommissioning costs, operating and maintenance cost, property taxes, final coal reclamation costs, the documented debt cost of acquiring SCE's interest in Units 4 and 5 and miscellaneous other costs.

One could surmise from that definition that they could include in nonfuel costs the acquisition costs and the decommissioning costs. If you are the better person to ask that, how is that wrong?

ALJ JIBILIAN: Mr. Pozefsky, for the record, can you tell us what you were reading from?

MR. POZEFSKY: Yes, sure. I'm reading from the accounting order. It's Decision No. 73130. If you go to Page 37, Footnote 122, and it's in reference to Line 7 of that same page, which said accordingly, we believe the accounting order is appropriate that allows deferral of the nonfuel costs.

ALJ JIBILIAN: Thank you.

MR. MUMAW: Your Honor, could I hear the question reread? Not the discussion you just had with Mr. Pozefsky, but just the question itself?

(The question was read by the Certified. Reporter as follows: "The issue I raised with Mr. Guldner yesterday was this definition of nonfuel cost which is in the accounting order.

If you read that definition, it talks about, they're authorized for deferral, including depreciation, amortization of the acquisition adjustment, decommissioning costs, operating and maintenance cost, property taxes, final coal reclamation costs, the documented debt cost of acquiring SCE's interest in Units 4 and 5 and miscellaneous other costs.

"One could surmise from that definition that they could include in nonfuel costs the acquisition costs and the decommissioning costs.")

MR. MUMAW: Mr. Pozefsky, you're asking the witness if nonfuel costs could include two of the items listed in the order as being included as nonfuel costs?

MR. POZEFSKY: Yes.

MR. MUMAW: Can you answer the question?

THE WITNESS: Yes, they could be included. I think the primary point we have about the deferral is that's speaking about the deferral period. And so, you know, 73130 was talking about what happens before Four Corners, if we make the acquisition, before it's actually included in rates, what happens to those costs. And so there's a deferral period that Ms. Blankenship can talk about all the elements that went into what we included in the deferral period that is now part of this application to include in rates.

BY MR. POZEFSKY:

Q. Right. And I understand what we're talking about now is between this rate case and the next rate case.

A. Yes.

Q. Right. And it's your position, APS's position that all those costs should be included at the -- well, with the exception of these deferral costs, should be included at the weighted average cost of capital, right?

A. The deferral is how much of the cost that we incurred from the acquisition to date, and we've actually projected through, I think November, the end of November. It's basically the costs that were authorized for deferral. Those got put on a credit card, if you will, for future recovery. And so we've proposed a ten-year amortization period of those costs. Those costs get amortized at the same weighted average cost of capital as a rate base, as the rate base item of the acquisition. So in this phase, we're talking about the provision in the last settlement that held the case open for inclusion in this case.

Q. Okay. And I guess at the end of the day, my question would be the same that I asked Mr. Guldner. While we may disagree on what would be moving forward the best or the proper rate of return, you would agree, it is within the Commission's discretion to determine what would be the appropriate return moving forward, correct?

A. I agree that the rate of return is at the Commission's discretion, and my view is that that was determined in the settlement agreement to be 10 percent return on equity at the capitalization ratio there results in the 8.33 percent weighted average cost of capital. So my view is that was the Commission's discretion in this matter was in that case, and they determined 8.33 percent.

Q. So I'm going to let it go after this. But with that, I just want to be sure I understand.

So at the end of the day, you're saying 10.2 basically requires in order to be met, the provisions of it, moving forward we go at the cost of equity -- excuse me, the cost of capital that was approved in the decision, correct? If the Commission is going to follow the terms of the settlement as you perceive them?

A. That's APS's view, is that 10.2, the statement about the rate base and expense effects associated with the -- let's see. Associated with the acquisition of

SCE's share of Four Corners 4 and 5, that that is in the context of this settlement agreement at the weighted average cost of capital for the rate base element of 8.33 percent. The expense effects are other items that are included in that ratemaking formula.

Q. Thank you, sir. That's all I have.

ALJ JIBILIAN: Ms. Wagner, at this time it is your turn.

MS. WAGNER: Yes, Your Honor. Thank you.

CROSS-EXAMINATION

BY MS. WAGNER:

Q. Good afternoon, Mr. Snook.

A. Good afternoon.

Q. Mr. Snook, you would agree that Decision No. 73183, which is the Commission's earlier decision in this docket, specifically adopts 6.09 percent as the fair value rate of return in a finding of fact; isn't that correct?

A. That is correct. It also adopts the 10 percent return on equity and the capitalization ratios that were in effect in that 2010 test year.

Q. And you would also agree that the same decision in a finding of fact states that a fair value rate of return of 6.09 percent on APS's fair value rate base produces rates that are just and reasonable; isn't that also correct?

A. Yes.

Q. All right. As I understand it, you are criticizing Staff's position in this matter for using the 6.09 percent fair value rate of return established in Decision No. 73183 as the fair value rate of return for the Four Corners acquisition; is that correct?

A. That's correct.

Q. All right. And you're suggesting that the 6.09 percent fair value rate of return authorized by the Commission should be recalculated to recognize the rate base effects of the Four Corners acquisition; is that a fair statement of your position?

A. Yes, it is.

Q. All right. Mr. Snook, it would be helpful to me if you would refer to your rejoinder testimony, Page 4. Let's begin at Line 8 and a half.

A. Okay.

Q. There I would refer you to Figure 1 where you set forth a number, 8,167,126; do you see that?

A. Yes, I do.

Q. All right. Am I correct to say that that number is APS's fair value rate base expressed in thousands as determined by the Commission in Decision No. 73183?

A. That's correct.
Q. All right. Then Mr. Snook, staying on that same page of your rejoinder testimony, that's Page 4, but now referring to Line 19, you set forth another number, 8,393,060. Do you see that?
A. Yes, I do.
Q. Am I correct to say that number is APS's fair value rate base again stated in thousands with the addition of the Four Corners acquisition?
A. Yes.
Q. All right. So the amount of the Four Corners acquisition that you added to the fair value rate base number established in Decision 73183 to arrive at the number in Line 19 in Figure 2 is 225,934,000; is that correct?
A. That's correct.
Q. On your figure, it's 225,934, it's stated in thousands; is that correct?
A. Yes.
Q. All right. So that specific addition is part of your update to the fair value rate of return to recognize what you describe as the rate base effects of the Four Corners acquisition; is that correct?
A. Yes, that --
Q. But there's more, isn't there? That number --

you also set forth adjustments in Line 17 and a half and Line 18; isn't that correct?

A. Those adjustments -- you're talking about the change in the long-term debt and equity structure?

Q. Yes, I am. So specifically on Line 17 and a half, you've increased long-term debt by 104,000,000; is that right?

A. Subject to check, I would accept your number.

Q. From, let's see, 2,608,377 on Line 6 and a half to 2,712,442 on Line 17 and a half. Are those the right --

A. Yes.

Q. Okay. And then on Line 18, you've increased equity by 121,869,000; is that correct?

A. Yes. The equity goes up to 317,649,000 in thousands.

Q. Okay.

A. So just over -- just under 3.2 billion dollars in this instance.

Q. So from 3,054,621 on Line 7 to 3,176,490 on Line 18?

A. That's correct.

Q. All right. And these two numbers, which you've added to debt and equity, respectively, sum to the $225,869,000 value for the Four Corners asset; is that