

NEW APPLICATION



0000168091

1 Thomas A. Loquvam
2 Thomas L. Mumaw
3 Melissa M. Krueger
4 Pinnacle West Capital Corporation
5 400 North 5th Street, MS 8695
6 Phoenix, Arizona 85004
7 Tel: (602) 250-3630
8 Fax: (602) 250-3393
9 E-Mail: Thomas.Loquvam@pinnaclewest.com
10 Thomas.Mumaw@pinnaclewest.com
11 Melissa.Krueger@pinnaclewest.com

RECEIVED

2016 JAN 29 P 4:42

AZ CORP COMMISSION
DOCKET CONTROL

12 Attorneys for Arizona Public Service Company

13 **BEFORE THE ARIZONA CORPORATION COMMISSION**

Arizona Corporation Commission

14 COMMISSIONERS

DOCKETED

15 DOUG LITTLE, Interim Chairman
16 BOB STUMP
17 BOB BURNS
18 TOM FORESE

JAN 29 2016

DOCKETED BY

19 IN THE MATTER OF THE APPLICATION
20 OF ARIZONA PUBLIC SERVICE
21 COMPANY FOR A HEARING TO
22 DETERMINE THE FAIR VALUE OF THE
23 UTILITY PROPERTY OF THE COMPANY
24 FOR RATEMAKING PURPOSES, TO FIX
25 A JUST AND REASONABLE RATE OF
26 RETURN THEREON, TO APPROVE RATE
27 SCHEDULES DESIGNED TO DEVELOP
28 SUCH RETURN.

DOCKET NO. E-01345A-16-0036

**ARIZONA PUBLIC SERVICE
COMPANY'S NOTICE OF INTENT
TO FILE A RATE CASE
APPLICATION AND REQUEST TO
OPEN DOCKET**

I. INTRODUCTION

Consistent with Decision No. 71448 (December 30, 2009), APS provides 120 days' notice of its intent to file an application for the establishment of just and reasonable rates. APS intends to file a rate case application on June 1, 2016, using adjusted Test Year sales and expenses for the Company's jurisdictional electric operations for the twelve months that ended on December 31, 2015 (Test Year). APS will propose that new rates go into effect on July 1, 2017.

1 **II. RATE FILING AND EFFECTIVE DATE**

2 Section III of this Notice gives an overview of the rate application’s likely key
3 issues, including a list of certain significant pro forma adjustments that APS intends to
4 include. The requested amount of rate adjustment is still under development, and will
5 depend on final financial information reported in the Company’s Annual Report on
6 Form 10-K for the year ending December 31, 2015 and in APS’s FERC Form 1. In
7 addition, the determination of the proposed base fuel rate will occur closer to the actual
8 filing. The amount of the base rate adjustment will depend on the treatment of any fuel
9 offset that would occur with the reset of base fuel rates, as well as the treatment of other
10 adjustment mechanisms.

11 A rate effective date of July 1, 2017 would involve processing APS’s rate
12 application within 12 months of sufficiency. APS strongly supports concluding its rate
13 case within that 12 month period. Previously, robust stakeholder communication and
14 engagement facilitated the timely processing of APS’s rate application. APS intends to
15 continue its past practice of strong cooperation with all stakeholders to process the rate
16 case effectively. To help achieve this outcome, APS has conferred with the parties on
17 key issues, and has held multiple stakeholder meetings for greater clarity and
18 transparency. APS has also developed an extensive list of appropriate standard discovery
19 questions and responses that will be filed with the June 1, 2016 rate case filing. These
20 efforts, among others, should assist in resolving the rate case within 12 months.

21 **III. OVERVIEW OF KEY RATE CASE MATTERS**

22 The central issues that APS intends to include in its rate case filing are:

- 23 • **Residential Rate Redesign.** APS’s current residential rate design
24 predominantly collects fixed and demand-related costs through a
25 volumetric energy charge. As a result, APS’s rates only incentivize
26 technologies that merely reduce the volume of energy consumed,
27 regardless of when that volume is consumed and without regard for overall
28

1 intensity of use. In addition, when a customer only reduces energy use,
2 APS must still incur nearly 100% of its fixed and demand-related costs to
3 serve that customer. Any of these costs that remain uncollected through
4 that customer's volumetric charge will be reallocated to other customers.
5 In its rate application, APS will propose better aligning its costs with
6 prices to (i) provide price information that incents cost-reducing
7 distributed technologies; and (ii) begin addressing the cost shift between
8 customers that occurs when costs and prices are not aligned. APS will also
9 propose modifications to its time-of-use rates, reducing the number of
10 blocks and their price differential in its inclining block residential rate, and
11 restating its service schedules in "plain-English" to enhance clarity and
12 transparency for customers.

- 13 • **Commercial and Industrial Rate Design Proposals.** As Arizona's
14 economy continues to expand its recovery, APS sees an opportunity for all
15 of its customers through the rates offered to its commercial and industrial
16 customers. In its rate application, APS will propose that the Commission
17 authorize an extra-high load factor rate that rewards commercial and
18 industrial customers who reduce costs for all customers by using the grid
19 more efficiently. APS is also considering allowing larger customers to
20 aggregate their loads for purposes of meeting the minimum load
21 requirements of certain C&I rate schedules. APS's application will also
22 contain an economic development service schedule which, if approved,
23 could help promote cost-effective business expansion and new jobs in
24 Arizona. Finally, APS will make a proposal regarding its experimental
25 AG-1 rate. APS continues to assess the impacts of AG-1 on other
26 customers and to determine whether a successor to AG-1 can be
27 successfully designed. APS may propose terminating AG-1 entirely.
28

1 Alternatively, a second-generation AG-1 offering would need to strike a
2 better balance between providing the right incentives to commercial and
3 industrial customers, and recovering costs that might otherwise be
4 reallocated to customers not in the AG-1 program.

- 5 • **Revenue per Customer Decoupling Mechanism.** APS will propose a
6 revenue per customer decoupling mechanism that will be adjusted
7 annually. APS will propose that this decoupling mechanism be
8 implemented on a trial basis until the Company's next general rate
9 proceeding and replace APS's current Lost Fixed Cost Recovery (LFCR)
10 Mechanism. As an alternative, APS will propose significant changes to its
11 LFCR to address deficiencies in the Mechanism's recovery of lost fixed
12 costs.
- 13 • **Deferral of Costs Related to the Ocotillo Modernization Project.** In
14 anticipation of future resource needs, APS began taking steps to
15 modernize its Ocotillo Power Plant, located in Tempe, Arizona. With this
16 project, APS will install fast-ramping combustion turbine natural gas
17 generation inside APS's load pocket. This generation will afford APS
18 flexible generation capacity that can rapidly respond to fluctuations in the
19 generation needs of its customers. And with this kind of flexibility, APS
20 will be able to more easily integrate intermittent renewable energy into its
21 resource mix. APS estimates that the Ocotillo Modernization Project will
22 cost approximately \$500 million in direct construction costs, excluding
23 other allocated expenditures and Allowance for Funds Used During
24 Construction, and that the new facility will be fully in service by early
25 2019. In its rate application, APS will seek permission to defer for
26 potential future recovery in the Company's next general rate case the costs
27 it incurs with the Ocotillo Modernization Project.

1 • **Rate Treatment of Costs Related to Environmental Protections.** To
2 meet federal environmental standards, APS must install selective catalytic
3 reduction equipment (SCR) at its Four Corners generation plant. This
4 equipment will significantly reduce fossil emissions, while permitting APS
5 to continue supplying its customers with inexpensive fossil base load
6 generation. APS will begin installing these SCRs in time to meet
7 upcoming compliance deadlines, with the first SCRs being installed in late
8 2017 and the remaining SCR installed by spring 2018. To construct the
9 SCRs, APS estimates that it will incur between \$400 and \$450 million in
10 direct construction costs, excluding allocated expenditures and Allowance
11 for Funds Used During Construction. APS will seek permission to defer
12 for potential future recovery the costs associated with the SCRs. In
13 addition, when APS completes or is closer to completing a capital project
14 of the magnitude approaching the SCR installations, APS would normally
15 have to file another rate application. The timing of the SCR installation,
16 however, will be very close to the end of this rate case. Accordingly, APS
17 will propose that the rates established in this rate case be increased through
18 a step mechanism to reflect the deferred SCR costs, similar to the
19 treatment of the Four Corners acquisition in APS's last general rate case,
20 rather than filing an additional full rate case.

21 • **Property Tax Deferral.** Similar to how property taxes were treated under
22 the 2012 Settlement and Decision No. 73183, APS will be seeking to defer
23 the increase or decrease in its Arizona property taxes attributable to tax
24 rate changes after the date this rate application is adjudicated.

25 • **Post-Test Year Plant Additions Pro Forma Adjustment.** Consistent
26 with prior proposals and Commission orders, APS intends to include a
27 post-Test Year plant additions pro forma in its rate application. APS will
28

1 propose that this pro forma adjustment include post-Test Year plant
2 installed through the rate effective date so that the recovery of net capital
3 investments will be concurrent with the proposed rate effective date. APS
4 will provide a detailed breakout of these investments by functional
5 operating unit. These investments will be discussed in the direct testimony
6 of the individuals responsible for managing the business units for which
7 the construction activities will take place.

8 • **Resetting Rate Adjustment Mechanisms.** In its rate application, APS
9 will propose moving to base rates some of the expenses currently collected
10 in its rate adjustor mechanisms. APS's rate adjustor mechanisms have
11 afforded customers tremendous bill stability and rate gradualism since
12 APS's last rate case. The mechanisms have also made it possible for APS
13 to postpone filing a rate application for five years. Moving the collection
14 of these expenses from the rate adjustor mechanisms to base rates will
15 afford customers a clear view into their function and strengthen the
16 mechanisms' intended purpose. Shifting collection from existing adjustors
17 to base rates will only change the line item on the bill that collects the
18 charge in question. Doing so will not increase the overall amount collected
19 from customers.

20 • **Proposed Capital Structure.** In Decision No. 73183, APS was granted a
21 reasonable return on equity that successfully balanced the interests of APS
22 and its customers. Along with other efforts implemented by the
23 Commission, the previously-authorized return permitted APS to postpone
24 filing a new rate application for five years. The return also permitted APS
25 to attract new capital for investment in Arizona and facilitated financial
26 stability that ultimately benefits customers. In the five years since APS's
27 last rate case, certain factors, such as increased interest rates, have affected
28

1 what might constitute a reasonable rate of return. APS's ROE witness will
2 provide testimony addressing these factors and support for the ROE that
3 APS proposes in the actual rate application. The cost of debt at the end of
4 the Test Year was approximately 5.1%. The capital structure will consist
5 of approximately 44% debt and 56% common equity.

6 • **Fair Value Rate of Return.** A return on fair value rate base will be
7 included in the filing using the "fair value increment" methodology, as has
8 been done in the Company's last two rate proceedings. The actual
9 mechanics of the calculation are still being developed and will be
10 presented in the Company's Direct Testimony.

11 • **Automated Metering Infrastructure.** As required by Decision No.
12 75047, APS will provide information regarding customers' use of non-
13 AMI meters and a cost and benefit analysis of that use. To address costs
14 and impacts to customers with AMI, APS will also propose an AMI opt-
15 out rate schedule for those customers who desire to continue using non-
16 AMI meters.

17 • **Modifications to Rate Adjustor Mechanisms.**

18 ○ *Power Supply Adjustor (PSA).* APS will propose including
19 chemical and water costs, both of which directly correlate to the use
20 of fuel, in the PSA. Chemicals, such as lime, are used to scrub the
21 emissions from a coal plant and are dependent upon the amount of
22 fuel burned. Any annual change in the chemical cost expense will
23 be included in the calculation of the PSA. Similarly, water costs
24 directly incurred as part of the generation of electricity will be
25 included in the PSA.

26 ○ *Environmental Improvement Surcharge (EIS).* With upcoming
27 deadlines to install environmental safeguards, and APS's firm
28

1 commitment to reducing the impact of its fossil generation, the
2 operation and flexibility of APS's EIS is more important than ever.
3 To facilitate APS's ability to respond to these environmental
4 challenges, APS will propose modifications to its EIS, including a
5 request to increase the overall cap, to enhance the EIS's
6 functionality and permit APS to collect the costs it incurs to comply
7 with environmental regulations.

- 8 • **Depreciation Study.** APS will file a new depreciation study under the
9 responsibility of an external depreciation expert. In addition, APS will
10 propose shortening the life of certain fossil plants to align the depreciation
11 schedules with the applicable plant lives and facilitate a thoughtful coal
12 fleet strategy.

13 In addition to the issues described above, APS will propose a number of pro
14 forma adjustments to the Test Year. The full list of adjustments will be fully described
15 and documented in the Company's final submittal to the Commission. The following is a
16 list of certain expected adjustments:

- 17 • Remove Test Year Adjustor Revenues in Resetting Various Adjustor
18 Mechanisms
- 19 • Adjust Four Corners Deferral Amount True-Up
- 20 • Remove Cholla Unit 2 Costs
- 21 • Adjust Cholla Unit 2 Amortization
- 22 • Normalize Fossil Maintenance
- 23 • Adjust for Low Income Discount Program
- 24 • Adjust Depreciation Expense – 2015 Study
- 25 • Adjust Decommissioning and Spent Fuel Costs
- 26 • Annualize Payroll Expenses
- 27 • Normalize Nuclear Maintenance
- 28 • Include Property Tax Deferral Adjustment
- Annualize Four Corners Coal Reclamation Costs
- Adjust Palo Verde Unit 2 Lease Expense
- Adjust for Post-Test Year Plant Additions

1 **IV. TENTATIVE WITNESS LIST**

2 To support the Company's request and the issues identified, the following is a
3 preliminary witness list for APS and the topic each will address in their testimony:

4 Daniel Froetscher Overview of Company, Arizona,
5 Industry Challenges, APS Vision

6 Barbara Lockwood Overview of the Rate Case

7 John Lucas Fossil Generation

8 John Cadogan Nuclear Generation

9 Jacob Tetlow Distribution and Grid Facilities

10 Stacy Derstine Customer Service, Customer
11 Outreach on Rate Design Changes
12 and CIS

13 James Wilde Resource Planning

14 Scott Bordenkircher Technology, Renewables,
15 Advanced Power Grid

16 Pete Ewen Financial Projections, Fuel Pro
17 Formas, PSA changes

18 External ROE witness Cost of Capital, Return on Equity,
19 Fair Value Rate of Return

20 Leland Snook Cost of Service, Fair Value,
21 Decoupling, EIS, Extra High Load
Factor Rate, AG-1

22 Charles Miessner Residential and C&I Rate Design,
23 Service Schedules

24 External Rate Design witness Overview of National Residential
Rate Design

25 Elizabeth Blankenship Accounting/SFRs

26 External Depreciation witness Depreciation
27

28

1 As with prior rate cases, APS is including subject matter witnesses from the four
2 major ACC-jurisdictional operational business units—fossil, nuclear, customer service
3 and transmission and distribution—to discuss the business operations and the support
4 necessary to help the Company safely and reliably operate its system. These subject
5 matter witnesses should provide all stakeholders with important context that will
6 facilitate an assessment of the Company's operations and the associated capital
7 expenditure needs.

8 **V. CONCLUSION**

9 APS will file its rate case on June 1, 2016 with a proposed effective date for new
10 rates of July 1, 2017. APS requests that a docket be opened in this matter and that the
11 same docket be used when APS files its rate case application.

12
13 RESPECTFULLY SUBMITTED this 29th day of January 2016.

14
15 By: _____

16 Thomas A. Loquvam

17 Thomas L. Mumaw

18 Melissa M. Krueger

Attorneys for Arizona Public Service Company

19 ORIGINAL and thirteen (13) copies
20 of the foregoing filed this 29th day of
21 January 2016, with:

22 Docket Control
23 ARIZONA CORPORATION COMMISSION
24 1200 West Washington Street
25 Phoenix, Arizona 85007
26
27
28