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ARIZONA CORPORATION  
COMMISSION

February 22, 2016

Mark Brnovich  
Arizona Attorney General  
1275 W. Washington St.  
Phoenix, AZ. 85007

Arizona Corporation Commission

DOCKETED

FEB 22 2016

Re Docket: AU-00000A-15-0309

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Dear Attorney General Brnovich,

I am writing in regards to Commissioner Robert Burns' letter of February 9, 2016 requesting a formal legal opinion from you. I believe some background on utility ratemaking processes may benefit you as you consider Commissioner Burns' request.

Utility rates are set in proceedings known as rate cases. A rate case reviews the books and records of the utility for a specified 12 month period (the "test year.") The expenses and level of capital investment from the test year are used to determine how much revenue the utility needs to operate. So, unless a specific adjustor mechanism has been established in a prior rate case, expenses that occur outside of the test year are never included in rates. 2014 was not and will not be a test year in any APS rate case. Therefore, there is no avenue for 2014 expenses (other than those specified to be included in certain adjuster mechanisms) to ever influence APS' rates.

Within a rate case, expenses associated with political contributions, lobbying and charitable contributions are deemed to be unrecoverable in rates. The inability to recover these expenses in rates is a long standing component of utility ratemaking in Arizona. No Arizona utility in recent memory has argued that such expenses should be recoverable. Arizona is not unique in this respect. The inability to recover these types of expenses in rates is standard utility ratemaking as practiced in most (if not all) other states.

During a rate case, the Commission Staff performs an audit to ensure that only expenses that are deemed to be recoverable influence rates. For small utilities the Staff performs the audit themselves. For large utilities, such as APS, Staff typically employs professional and highly experienced consultants to perform the audit. These audits confirm that no expenses associated with political contributions, lobbying, and charitable contributions (or any other expenses deemed unrecoverable) influence the utility's rates.

In addition to the audit conducted by the ACC during a rate case, SEC requirements necessitate that an independent accounting firm review the books of most of our large utilities (including APS.) That review, among other things, ensures that all expenses are properly classified. This provides an extra layer of assurance on top of the rate case audit that expenses deemed unrecoverable are not included in rates.

In conclusion, the existing and long established rate case process at the ACC already ensures that expenses associated with political contributions, lobbying, and charitable contributions are not recovered through and do not influence utility rates. I am not aware of any evidence (or even allegations) that the existing rate case process is deficient in that regard. Any review of the appropriateness of extraordinary measures that are portrayed as related to the ACC's authority to set just and reasonable rates should take the above facts into consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Little", with a horizontal line extending to the right from the end of the signature.

Chairman Doug Little  
Arizona Corporations Commission  
1200 W. Washington St.  
Phoenix, AZ. 85007