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12 Attorneys for Arizona Public Service Company

13 **BEFORE THE ARIZONA CORPORATION COMMISSION**

14 COMMISSIONERS

15 KEVIN THOMPSON, CHAIRMAN
16 NICK MYERS, VICE-CHAIRMAN
17 LEA MÁRQUEZ PETERSON
18 RACHEL WALDEN
19 RENE LOPEZ

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

DOCKET NO. E-01345A-25-____

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

1 **I. INTRODUCTION**

2 Arizona Public Service Company (APS or Company) hereby provides notice of its
3 intent to file a rate case application to establish just and reasonable rates to take effect in
4 2026. These new rates are necessary to power opportunity for the more than 1.4 million
5 customers in APS's service territory by providing reliable and affordable electricity and
6 ensuring a more resilient energy future for Arizona. APS anticipates filing its rate case
7 application on or about June 13, 2025, using a test year for the twelve months ending

1 December 31, 2024 (Test Year).¹ The tremendous growth across APS's service territory
2 shows no sign of letting up, with the Company's infrastructure and reliable energy supply
3 providing the backbone of this historic expansion. And yet, with high rates of inflation,
4 persistently high interest rates, and continued supply chain volatility, the costs to serve
5 current APS customers (let alone prepare for growth) are substantially higher than when
6 the test year concluded in the Company's last rate case (*i.e.*, June 30, 2022). Nonetheless,
7 the Company continues to make transformative investments into a more resilient and
8 reliable grid to address significant reliability risks; whether in the form of increasingly
9 frequent wildfires, extreme heat and other weather events, the evolving mix of resources
10 used to serve load, or rising energy demand that risks outpacing supply, Arizona's energy
11 future still faces challenges. If approved, though, APS's rate case application represents
12 an opportunity for the Arizona Corporation Commission (ACC or Commission) to
13 establish a stronger yet more agile energy policy foundation necessary to foster a resilient
14 grid for the future, while at the same time providing APS with the tools needed to create
15 a more secure energy supply that supports continuous improvements in meeting the needs
16 of all customers.

17 APS requests that its application be approved for new rates to become effective no
18 earlier than July 8, 2026. This date is consistent with the administrative rule requiring the
19 Commission to process APS's rate application within 360 days of the filing of a notice of
20 sufficiency.² By this filing, APS provides the Commission and interested stakeholders
21 notice of its intent to file the Company's rate case application. APS requests that the
22 Commission open a new docket for this matter.

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26 ¹ The Company's rate case filing will consist of: (i) a rate case application; (ii) supporting
27 schedules pursuant to Arizona Administrative Code (A.A.C.) R14-2-103, including all
28 Standard Filing Requirements (SFRs); and (iii) direct testimony. APS will also provide
Staff with associated workpapers, and responses to initial data requests in conjunction
with its filing.

² See A.A.C. R14-2-103(B)(7) and R14-2-103(B)(11)(d)(i).

II. OVERVIEW OF KEY RATE CASE MATTERS

APS's current rates were established by the Commission in Decision No. 79293 (March 5, 2024), based on a test year of July 1, 2021 – June 30, 2022, with rates that went into effect in March of 2024. Since June of 2022, however, macroeconomic volatility and other factors have driven up costs for a broad range of goods and services needed to ensure reliability for our customers. As such, the application to be filed on or about June 13, 2025, will first and foremost recover ongoing investments the Company has made on behalf of customers, update rates to more recent levels of expenses necessary for reliable service, and provide the requisite financial stability needed to meet our customers' needs in 2026 and beyond. Of equal importance, the application will also usher in critical ratemaking changes necessary to ensure that APS's industry-leading reliability will be a mainstay of the economic growth flourishing across the state, while at the same time continuing to improve the customer experience and increasing the energy grid's resilience.

Arizona's residents and businesses rely on APS to be prepared to deliver reliable service and to protect the energy grid from the increasing risks associated with extreme weather, more frequent and severe wildfires, and other threats to energy security. APS's energy grid provides some of the most reliable electricity in the country, supporting rapid growth and changing consumption habits across our service area. This case will recover infrastructure investments necessary to ensure the level of service our customers have grown to expect while also continuing to respond to unprecedented growth, both now and in the coming years. With this rapid and continuing growth in our service territory, the structural rate changes that APS will be requesting are necessary to enable the Company to maintain its top-tier level of service to customers today and into the future. This rate case proceeding will focus on more than just recent investment recovery and updating rates to more current expense levels. This case will also reduce regulatory lag in ratemaking, which will enable the Company to make timely and necessary investments to support Arizona's growing economy, resilient infrastructure, service reliability, and a secure energy future for our customers.

1 APS's rate application will reflect the following key assumptions and proposals:

- 2 • **Formula Rate Mechanism.** APS will also propose a Formula Rate
3 mechanism to adjust rates on an annual basis (up or down) to provide a more
4 realistic opportunity for the Company to earn its authorized rate of return
5 and no more. The Formula Rate mechanism will promote rate stability and
6 gradualism, reduce regulatory lag, and more closely align costs with
7 revenues to ensure just and reasonable rates. In addition, the annual rate
8 adjustment will more timely capture and pass the savings to customers
9 associated with tax credit savings, income tax reductions, interest rate
10 reductions, favorable weather revenues, and annual sales growth. The
11 Company's proposed Formula Rate mechanism will follow and expand
12 upon the guidance offered in the Commission's Formula Rate Policy
13 Statement that was adopted during the Commission's December 3, 2024
14 Open Meeting and finalized in Decision No. 79647 (December 31, 2024).
- 15 • **Extra High Load Factor (XHLF) Rate.** APS will propose modifications
16 to its cost allocation and XHLF Rate Schedule to ensure that the costs of
17 serving large high load factor customers, including data centers, are
18 apportioned fairly and in a manner that does not place undue financial
19 burden on residential and small business customers. The Company's
20 proposal will equitably align cost recovery such that new large customer
21 growth pays for that growth.
- 22 • **Return on Equity, Fair Value Rate of Return, and Other Financial**
23 **Items.** The Company will seek a reasonable return on equity (ROE) that
24 balances the interests of APS and its customers by facilitating the
25 Company's financial stability. There is a direct link between customer
26 service and APS's financial stability – financial stability is crucial for APS
27 to attract new, low-cost capital for investment in Arizona that supports the
28 maintenance, operation, and development of resilient infrastructure that

1 enables reliable and affordable electric service. In addition, APS will
2 propose a fair value rate base and a return on the fair value increment in
3 accordance with the Arizona Constitution.

- 4 • **Post-Test Year Plant Additions.** Consistent with prior Commission orders,
5 APS intends to propose post-Test Year plant (PTYP) additions as pro forma
6 adjustments in its rate application, which will be supported by a detailed
7 breakout of these investments. The Company's PTYP additions comprise
8 critical infrastructure investments that leverage advanced technology to
9 enhance Arizona's energy security, improve customer service, and develop
10 more resilient infrastructure. APS will propose that these pro forma
11 adjustments include PTYP installed within the 12-month period following
12 the Test Year, to minimize regulatory lag and ensure that the recovery of
13 net capital investments will better align with the proposed rate effective
14 date.
- 15 • **Residential Rate Design.** APS will propose modifications to residential
16 rates consistent with the results of its cost-of-service study, while continuing
17 the Commission-directed efforts to provide customer education focused on
18 rate selection and affordability.
- 19 • **Residential Distributed Generation (DG) Customer Rate Design.** As
20 directed by the Commission in Decision No. 79648 (December 31, 2024),
21 APS will propose a revenue allocation that utilizes the results of the
22 Company's site-load Cost of Service Study to fairly apportion revenues in
23 a manner that further moves toward parity in revenue collection between
24 residential DG and non-DG customer rate classes.
- 25 • **Limited-Income Energy Support Programs.** APS and its customers have
26 a long history of providing bill discounts and assistance to limited-income
27 customers through its Energy Support and Crisis Bill programs. APS
28

proposes to continue this tradition by keeping these important limited-income programs in place.

- **Other Adjustors and Ratemaking Mechanisms.** APS will further propose to eliminate its lost fixed cost recovery (LFCR) mechanism if the Formula Rate mechanism is adopted. Since the Formula Rate mechanism will necessarily adjust and account for annual changes in customer energy usage and sales, the LFCR will no longer be necessary. The Company will also propose modifications to its System Reliability Benefit (SRB) mechanism and Power Supply Adjustment (PSA) mechanism to support or align with other elements of the application.

III. PRELIMINARY WITNESS LIST

To support the Company's request, the following is a preliminary witness list for APS and the general anticipated topics each will address in their testimony.

Ted Geisler	Rate Case Overview; APS Impact to Arizona; the APS Promise; Customer-Focused Commitment; Revenue Requirement Preview and Importance of Healthy Utility; Base Rate Increase vs. Total Request; Customer Bill Impact; Formula Rate Overview
Chris Bauer	Financial Stability of APS; Relationship between Financial Stability, ROE and Credit Rating and Customer Impacts; Formula Rate Mechanism and Benefits of Minimizing Regulatory Lag to Financial Stability; Capital Structure
Jacob Tetlow	Post-Test Year Plant; Operations Safety and Reliability; XHLF Customer Growth; Wildfire Mitigation; Purchase Power Agreements and Fuel Contracts
Jessica E. Hobbick	Revenue Allocation; Formula Rate Mechanism – Customer and Efficiency Benefits; Elimination of the LFCR if Formula Rate Proposal is Adopted; Adjustor Modifications to the SRB and PSA; Adjustor and Rate Schedule Pro Formas; XHLF Cost Recovery to Ensure Growth Pays For Growth; Revenue Pro Forma's; H Schedules; Rate Design; Service Schedules and Programs/Riders

Jamie Moe	Cost of Service, including Cost to Serve Residential DG Customers; Alternative Methods to Allocate Production Plant; Jurisdictional Allocation Factors; SFR A-1; all G Schedules and portions of others; Fair Value Increment Calculation
Elizabeth A. Blankenship	Pro Formas (i.e., Test Year Plant, Rate Base, Income Statement); Various SFRs
Ronald E. White Outside Expert	Depreciation
James M. Coyne Outside Expert	Cost of Capital; Return on Equity; Fair Value Rate of Return; Fair Value Increment

IV. CONCLUSION

APS will file its rate case application on or about June 13, 2025, with a proposed effective date for new rates no earlier than July 8, 2026. APS requests that a new docket be opened for this matter and that the same docket be used when APS files its rate case application.

RESPECTFULLY SUBMITTED this 15th day of May 2025.

By: /s/ Jeffrey S. Allmon
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Electronically filed this 15th day
 of May 2025, with:

Docket Control
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JB