

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

TOM FORESE – Chairman  
 BOB BURNS  
 DOUG LITTLE  
 ANDY TOBIN  
 BOYD DUNN

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR A HEARING TO DETERMINE THE FAIR VALUE OF THE UTILITY PROPERTY OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.

DOCKET NO. E-01345A-16-0036

IN THE MATTER OF FUEL AND PURCHASED POWER PROCUREMENT AUDITS FOR ARIZONA PUBLIC SERVICE COMPANY.

DOCKET NO. E-01345A-16-0123

**ARIZONA INVESTMENT  
 COUNCIL’S EXCEPTIONS TO  
 RECOMMENDED OPINION AND  
 ORDER**

Arizona Investment Council (“AIC”), through undersigned counsel, hereby files its Exceptions to the Recommended Opinion and Order (“ROO”) docketed on July 26, 2017 in the above-captioned matter. AIC appreciates Judge Jibilian’s thorough and thoughtful analysis of the complex issues presented in this proceeding. AIC fully supports the ROO’s adoption of the Settlement Agreement (“Agreement”), but respectfully submits that two modifications should be made to ensure that the intent of the Agreement is maintained: (1) including language in the body of the ROO that approves a deferral mechanism for costs incurred to install Selective Catalytic Reduction (“SCR”) equipment at Four Corners Power Plant (“Four Corners”); and (2) clarifying

**OSBORN  
 MALEDON**

A PROFESSIONAL ASSOCIATION  
 ATTORNEYS AT LAW

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1 that the \$1.25 million annual amount approved for crisis bill assistance will draw from  
2 the revenue requirement increase and will not be funded by APS shareholders.

3 **(1) Deferral Order for SCR Costs at Four Corners**

4 In order for APS to defer costs related to the installation of SCRs at Four Corners,  
5 the Commission order authorizing the deferral needs to include specific language that  
6 will pass muster with APS's financial auditors. Section 9.2 of the Settlement Agreement  
7 sets forth the required language, stating:

8 APS shall be authorized by the Commission to defer for possible  
9 later recovery through rates, all non-fuel costs (as defined herein  
10 to include all O&M, property taxes, depreciation, and a return at  
11 APS's embedded cost of debt in this proceeding) of owning,  
12 operating and maintaining the Selective Catalytic Reduction  
13 environmental controls at Four Corners Power Plant from the date  
14 such controls go into service until the inclusion of such costs into  
15 rates.<sup>1</sup>

14 While the ROO adopts the settlement agreement and specifically addresses the  
15 step-increase relative to the SCR costs,<sup>2</sup> it omits a discussion of the SCR cost deferral  
16 and neglects to include the requisite verbiage in the ordering paragraphs. To avoid any  
17 possibility that the Company's auditors will not allow the cost deferral for a perceived  
18 lack of express Commission authorization, AIC recommends that the following ordering  
19 paragraph be inserted on page 101, line 15:

20  
21 IT IS FURTHER ORDERED that APS is authorized to defer for  
22 possible later recovery through rates, all non-fuel costs (as defined  
23 in the Settlement Agreement to include all O&M, property taxes,

24 <sup>1</sup> APS Settlement Agreement (March 27, 2017).

25 <sup>2</sup> "The Settlement Agreement provides that this docket will remain open to allow APS to file a  
26 request that its rates be adjusted no later than January 1, 2019 to reflect its proposed addition of  
27 [SCR] equipment at Four Corners [ . . . ], and sets forth filing requirements and parameters  
28 regarding such filing." APS Recommended Order and Opinion (July 26, 2017) at 22:20-23; "IT  
IS FURTHER ORDERED that this rate case shall be held open to allow [APS] to file a request  
that its rates be adjusted no later than January 1, 2019 to reflect its proposed addition of [SCR]  
equipment at the Four Corners Generating Station." ROO at 101:12-14.

1 depreciations, and a return at APS's embedded cost of debt in this  
2 proceeding), of owning, operating and maintaining the Selective  
3 Catalytic Reduction environmental controls at Four Corners  
4 Power Plant from the date such controls go into service until the  
inclusion of such costs into rates.

5 Please see Attachment A for a corresponding proposed amendment.

6  
7 **(2) Funding for Crisis Bill Assistance**

8 Section 29.3 of the Settlement Agreement states that APS will fund a crisis bill  
9 assistance program in the amount of \$1.25 million annually. As AIC understands the  
10 Agreement, that amount was to be funded out of the Company's revenue requirement. It  
11 was never to have been absorbed by shareholders (indeed, AIC would likely have  
12 objected to such a provision had that been the intent).

13 In its discussion of the crisis bill assistance program the ROO quotes from Staff's  
14 Post-Hearing Brief, which AIC believes incorrectly characterizes the \$1.25 million as  
15 "APS Shareholder provider funds."<sup>3</sup> Such a characterization is at odds with both the  
16 Agreement (which says nothing about shareholders absorbing the costs) and the more  
17 specific Settlement Term Sheet, which plainly defines the revenue requirement to  
18 include \$1.25 million dedicated to crisis bill assistance. The term sheet states as  
19 follows:

- 20  
21 1) Revenue Requirement: \$87.25 million non-fuel, non-depreciation  
22 revenue requirement increase. This net increase includes (i) 12  
23 months of post-test year plant; and (ii) **\$1.25 million dedicated to**  
24 **crisis bill assistance**. APS will use \$15 million in over-collected  
25 DSM funds to reduce the year 1 bill impact to customers through  
a onetime adjustment to the DSMAC. In future rate cases, APS

26 <sup>3</sup> "Staff states that through the addition of the \$1.25 million annually in shareholder provided  
27 funds for the crisis bill program. . ." ROO at 24:11-12; "Through the addition of the \$1.25  
28 million annually in shareholder provided funds for the crisis bill program. . ." Staff's Initial  
Closing Brief (March 17, 2017) at 13:8-9.

1 will agree to impute net revenue growth for any revenue  
2 producing plant included in post-test year plant.<sup>4</sup>

3 Nothing in the Settlement Agreement indicates that this description of the revenue  
4 requirement is incorrect.

5 Therefore, to avoid any confusion regarding the funding source of the crisis bill  
6 assistance program, AIC recommends inserting the following Ordering paragraph:

7 IT IS FURTHER ORDERED that the \$1.25 million annually for  
8 bill crisis assistance shall be funded by APS through the revenue  
9 requirement increase approved in this case.

10 Please see Attachment A for a corresponding proposed amendment.

11 **Conclusion**

12 AIC respectfully requests that the Commission amend the ROO to honor the  
13 intent of the Agreement as discussed above.

14 RESPECTFULLY SUBMITTED this 4th day of August, 2017.

15 OSBORN MALEDON, P.A.

16  
17 By:   
18 Meghan H. Gabel  
19 Kimberly A. Ruht  
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Phoenix, AZ 85012

Attorneys for Arizona Investment Council

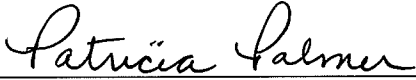
21 **Original and 13 copies** filed this  
22 4th day of August, 2017, with:

23 Docket Control  
24 Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

27 <sup>4</sup> Arizona Public Service Company Rate Case, Final Term Sheet (March 1, 2017) at 1 (*emphasis*  
28 *added*).

1 **Copies** of the foregoing mailed or emailed  
2 this 4th day of August, 2017, to:

3 All Parties of Record

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# **Attachment A**

**PROPOSED AMENDMENT NO. \_**

**DATE PREPARED: \_\_\_\_\_**

COMPANY: Arizona Public Service Company  
DOCKET NO(S). E-01345A-16-0036; E-01345A-16-0123  
OPEN MEETING DATE: August 15, 2017 AGENDA ITEM NO:

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**INSERT** New Paragraph, page 101 line 15:

IT IS FURTHER ORDERED that APS is authorized to defer for possible later recovery through rates, all non-fuel costs (as defined in the Settlement Agreement to include all O&M, property taxes, depreciation, and a return at APS's embedded cost of debt in this proceeding), of owning, operating and maintaining the Selective Catalytic Reduction environmental controls at Four Corners Power Plant from the date such controls go into service until the inclusion of such costs into rates.

**\*\* Make all conforming changes.**

**PROPOSED AMENDMENT NO. \_**

**DATE PREPARED: \_\_\_\_\_**

COMPANY: Arizona Public Service Company  
DOCKET NO(S). E-01345A-16-0036; E-01345A-16-0123  
OPEN MEETING DATE: August 15, 2017 AGENDA ITEM NO:

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**INSERT** New Ordering Paragraph:

IT IS FURTHER ORDERED that the \$1.25 million annually for bill crisis assistance shall be funded by APS through the revenue requirement increase approved in this case.

**\*\* Make all conforming changes**