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**REBUTTAL TESTIMONY OF BARBARA D. LOCKWOOD**  
**On Behalf of Arizona Public Service Company**  
**Docket No. E-01345A-19-0236**

November 6, 2020

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## Table of Contents

I. INTRODUCTION.....	1
II. SUMMARY .....	2
III. REVISED APS REVENUE REQUIREMENT REQUEST .....	4
IV. STAFF AND INTERVENOR TESTIMONY REBUTTAL.....	8
A. Limited-Income Programs.....	12
B. Employee Cash Incentive.....	12
C. Four Corners SCR Investment .....	13
V. SECURITIZATION.....	15
VI. COAL COMMUNITY TRANSITION.....	19
VII. FORMULA AND PERFORMANCE-BASED RATEMAKING.....	24
VIII. RECOMMENDED REPORTING REQUIREMENTS .....	25
IX. CONCLUSION .....	27

1                                   **REBUTTAL TESTIMONY OF BARBARA D. LOCKWOOD**  
2                                   **ON BEHALF OF ARIZONA PUBLIC SERVICE COMPANY**  
  **(Docket No. E-01345A-19-0236)**

3    I.    INTRODUCTION

4    **Q.    PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

5    A.    My name is Barbara D. Lockwood. I am Senior Vice President of Public Policy  
6           at Arizona Public Service Company (APS or Company). In that role, I am  
7           responsible for regulatory matters before the Federal Energy Regulatory  
8           Commission (FERC) and the Arizona Corporation Commission (ACC or  
9           Commission), as well as government affairs at both the state and federal level,  
10          community affairs at the local level, corporate giving, and the Company's  
11          environmental, social and governance (ESG) policy. My business address is 400  
12          N. 5th Street, Phoenix, Arizona 85004.

13   **Q.    DID YOU PREVIOUSLY FILE TESTIMONY IN THIS MATTER?**

14   A.    Yes. I provided direct testimony in this case.

15   **Q.    WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

16   A.    My Rebuttal Testimony presents the Company's revised revenue requirement  
17          request that reflects changes to the requested Return on Equity (ROE) and return  
18          on the Fair Value Increment (FVI), corrections to both operating income and rate  
19          base, and updates to post-Test Year plant (PTYP) to incorporate actual expenses.  
20          APS is also adopting several recommendations from Staff witness Ralph Smith's  
21          Direct Testimony, as well as AECC witness Kevin Higgins.

22           I will discuss certain revenue requirement disallowances recommended by Staff  
23           and other intervenors, and comment on the misconceptions that continue to  
24           persist regarding the Company's implementation of the rates and rate migration  
25           approved in the last APS rate case. I will also comment on the formula rate and  
26           performance-based ratemaking discussions included in the testimonies of Staff  
27  
28

1 witness David Dismukes, RUCO witness Frank Radigan, Sierra Club witness  
2 Cheryl Roberto, and SWEEP and WRA witness Brendon Baatz.

3  
4 I will discuss securitization, a remaining book value cost recovery method  
5 highlighted by Chairman Burns in his August 11, 2020 letter to the parties in this  
6 docket that, if properly structured, has the potential to limit the impact of  
7 unrecovered plant costs on both APS and its customers. In that regard, I expand  
8 on the coal community transition discussion included in the Rebuttal Testimony  
9 of APS witness Jeffrey Guldner and discuss the progress APS has made  
10 partnering with these communities in planning for the future once APS exits its  
11 ownership in coal-fired generation facilities.

12 Finally, I will provide an overview of APS's proposed enhanced reporting  
13 requirements on several performance metrics that are discussed by Staff, SWEEP  
14 and WRA and the Sierra Club.

15 **II. SUMMARY**

16 **Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.**

17 **A.** APS has reduced its overall revenue requirement request in this case to \$169  
18 million, a reduction of \$15 million from that requested in its original Application.  
19 This base rate request continues to include both the Four Corners Selective  
20 Catalytic Reduction (SCR) equipment and the Ocotillo Modernization Project  
21 investments and deferrals as discussed in the Company's Direct Testimony. The  
22 revised request also includes an updated PTYP request with used and useful  
23 investments and the actual cost of those investments through June 30, 2020.  
24 Notably, this 12-month period is not contested by any party in this proceeding.

25  
26 The revised request includes a reduction in the Company's requested ROE to  
27 10.0% and a reduction in return on the FVI to 0.8%, mirroring the Company's  
28 currently-approved ROE and return on the FVI. This maintains APS's financial

1 stability, while reducing the impact of an increase to customers. The ROE and  
2 return on the FVI recommendations by Staff and intervenors are unreasonably  
3 low and would jeopardize the Company's financial health to the detriment of its  
4 customers. Specifically, RUCO's arbitrary ROE penalty proposal is not  
5 supported by fact and must be rejected by the Commission.

6 My review of Staff and intervenor testimony shows that misconceptions remain  
7 about the Company's implementation of its most recent rate case decision. APS  
8 has acknowledged that its customer outreach could improve and has been actively  
9 working with stakeholders to revise and refine its customer communications as  
10 discussed by APS witness Monica Whiting in her Rebuttal Testimony. Contrary  
11 to some testimony filed in this case, however, APS is not overearning, nor is it  
12 "overcharging" its customers.

13  
14 Since the Company filed its Direct Testimony in this case, APS announced its  
15 Clean Energy Commitment, described in more detail by APS witness Guldner in  
16 his Rebuttal Testimony. This commitment includes the Company's exit from all  
17 coal-fired generation by 2031. APS recognizes the impact that this transition will  
18 have on the communities surrounding the coal plants operating in and around  
19 Arizona, and is working closely with stakeholders and the affected communities  
20 to develop a responsible transition plan to minimize impacts and provide support  
21 to these communities.

22 In conjunction with its Clean Energy Commitment, the Company believes  
23 securitization is a viable tool that can, if implemented properly, reduce the rate  
24 impacts of transitioning to a clean energy future. In light of the potential benefits  
25 to both customers and utilities, APS intends to pursue the necessary legal  
26 structures required for successful securitization in Arizona and is looking forward  
27 to working with stakeholders and the Commission on this issue.  
28

1 **III. REVISED APS REVENUE REQUIREMENT REQUEST**

2 **Q. PLEASE SUMMARIZE THE COMPANY'S REVISED REVENUE**  
3 **REQUIREMENT REQUEST.**

4 A. APS has reduced its revenue requirement request to approximately \$169 million,  
5 a reduction of approximately \$15 million from the Company's original request in  
6 its Application. The Company's revised revenue requirement request, and the  
7 resulting impact to customer bills, is shown in Table 1 at the end of this section.  
8 When including the effects of moving the Tax Expense Adjustment Mechanism  
9 (TEAM) adjustor credit and other adjustors into base rates, the Company's net  
10 revised base rate increase is \$41 million, or 1.2%. However, to accurately depict  
11 the impact of APS's proposals on customer bills, the effects of adjustment  
12 mechanisms must also be considered. The revised request will have an average  
13 bill impact for all customers of 5.1%. The average bill impact for residential  
14 customers is 4.99%.

15  
16 The Company continues to propose the inclusion of 12 months of PTYP in  
17 revenue requirement as discussed in the Rebuttal Testimony of APS witnesses  
18 Elizabeth Blankenship and Jacob Tetlow, and has updated the amount of PTYP  
19 requested to reflect projects in service and investment as of June 30, 2020.

20 **Q. WHAT CHANGES DID THE COMPANY MAKE IN ITS ROE AND**  
21 **RETURN ON FVI REQUEST?**

22 A. In APS's initial Application in this case, the Company proposed a ROE of  
23 10.15% and a return on the FVI of 1.0%. These proposals resulted in a 7.41%  
24 weighted average cost of capital (WACC) and a fair value rate of return  
25 (FVROR) of 5.62%.

26 After considering the Direct Testimony of intervenors, APS proposes to revise  
27 and reduce its request to a ROE of 10%, and a return on the FVI of 0.8%. These  
28

1 revised proposals mirror the Company's currently-approved ROE and return on  
2 FVI. These revisions result in a proposed WACC of 7.33% and a FVROR of  
3 5.51%.

4 **Q. WHY DID APS REDUCE ITS ROE AND RETURN ON FVI REQUEST?**

5 A. APS understands that rate increases can be difficult for its customers, especially  
6 with the uncertainty that the ongoing COVID-19 pandemic continues to inflict on  
7 the state of Arizona. As part of its ongoing commitment to its customers, the  
8 Company continued to look for ways to reduce the impact of the rate increase  
9 request on its customers after its initial Application in this case was filed. After  
10 carefully reviewing the financial impacts, APS determined that a modest  
11 reduction in the ROE and return on the FVI from that originally requested by the  
12 Company would still allow APS to maintain its financial stability, while reducing  
13 the impact of the Company's request on its customers.

14 Additionally, APS witness Ann Bulkley performed an updated analysis of the  
15 appropriate cost of equity for APS that takes into consideration changes in the  
16 financial environment since Direct Testimony in this case was filed over a year  
17 ago. The updated analysis finds that APS's reduced ROE request of 10% is  
18 reasonable based on her updated calculations. Likewise, APS witness Bulkley  
19 performed an updated analysis of the return on the FVI and determines an  
20 appropriate risk-free rate in today's financial environment is 1.28%. Although  
21 APS's revised request for return on the FVI at 0.8% is significantly below the  
22 rate supported by APS witness Bulkley's analysis, APS believes that its revised  
23 request achieves an appropriate financial balance for APS and mitigates rate  
24 increase impacts to APS customers.  
25  
26  
27  
28

1 **Q. DID YOU REVIEW THE ROE AND RETURN ON FVI**  
2 **RECOMMENDATIONS BY STAFF AND INTERVENORS?**

3 A. Yes, I did. Recommendations from Staff and intervenors range from 8.74% to  
4 9.75% for ROE, and from 0% to 1.0% for return on FVI. APS witness Bulkley  
5 will address each of these recommendations in her rebuttal testimony.

6  
7 I will, however, briefly address the ROE recommendation of RUCO witness  
8 Jordy Fuentes. RUCO's recommended baseline ROE is the lowest of all  
9 intervenors at 8.94%, a recommendation that APS witness Bulkley finds is  
10 unreasonable for the reasons outlined in her Rebuttal Testimony. RUCO witness  
11 Fuentes then recommends an additional 20 basis-point reduction to this ROE to  
12 "send a message" to APS regarding a perceived lack of adequate customer  
13 service. However, the information RUCO witness Fuentes relies upon does not  
14 support the imposition of a penalty on the Company and, in fact, many of the  
15 documents and reports RUCO witness Fuentes cited contain erroneous and  
16 misleading information, as I will address later in my testimony.

17 For example, RUCO witness Fuentes fails to recognize that rate increases for all  
18 utilities under the Commission's jurisdiction have been portrayed by all parties  
19 (including the Commission itself) as class average annual increases for at least  
20 the last 50 years in Arizona. This fact is acknowledged by the Commission in  
21 Decision No. 77292 (July 19, 2019), and thus, APS's use of a class average  
22 annual increase percentage can in no fashion be categorized as a "failure."<sup>1</sup>  
23 Likewise, the information portrayed on the APS bill is a direct result of  
24 Commission rule requirements to include unbundled price and type of service  
25 information on customer bills.<sup>2</sup> The Company agrees that this detailed  
26

27 <sup>1</sup> Decision No. 77292 in Docket No. E-01345A-18-0002 (July 19, 2019).

28 <sup>2</sup> A.A.C. R14-2-210.



1 information, while transparent, could be difficult for the customer to understand.  
2 But including this information should not be attributed to an APS “failure.”

3  
4 These are two examples of the misrepresentations RUCO witness Fuentes relied  
5 on to support his arbitrary reduction in RUCO’s recommended ROE for APS.  
6 The Commission must reject this inappropriate and factually-unsupported  
7 recommendation.

8 **Q. WHAT OTHER CHANGES ARE INCLUDED IN APS’S REVISED**  
9 **REQUEST?**

10 A. Additional changes to the Company’s request include such items as:

- 11 • Changes to various rate base and income statement pro formas for  
12 corrections and adjustments identified in the discovery process and  
13 reasonable revisions due to updated information that was not available at  
14 the time the Company filed its original request, as discussed in detail in  
15 APS witnesses Blankenship’s and -Leland Snook’s Rebuttal Testimonies;
- 16 • Certain Staff and intervenor recommendations APS accepted, including  
17 Staff’s recommended updated base fuel rate, as discussed in APS witness  
18 Snook’s Rebuttal Testimony; and
- 19 • Changes to reflect updated PTYP investment, as noted earlier in my  
20 Rebuttal Testimony.  
21

22 **Q. PLEASE EXPLAIN THE COMPANY’S ADVANCED ENERGY**  
23 **MECHANISM (AEM) PROPOSAL.**

24 A. APS is proposing a new adjustment mechanism that would recover capital  
25 carrying costs and expense associated with the clean energy investments  
26 necessary for a clean energy future. In addition, this adjustor could replace and  
27 combine the Company’s current Demand-Side Management Adjustment Clause  
28

(DSMAC), Renewable Energy Adjustor Charge (REAC) and Lost Fixed Cost Recovery (LFCR) adjustment mechanisms into one comprehensive mechanism, if desired by the Commission. This adjustment mechanism is introduced in APS witness Guldner’s Rebuttal Testimony and discussed in more detail in APS witness Snook’s Rebuttal Testimony. As shown in the table below, APS proposes to collect coal community transition funds, which are discussed in detail later in my testimony, through this adjustor.

**Q. PLEASE SUMMARIZE THE COMPANY’S REBUTTAL REQUEST.**

A. The result of the changes to the Company’s revenue requirement request is captured below (numbers have been rounded for ease of presentation).

*Table 1. APS Revised Revenue Requirement Request*

<b>Customer Bill Impact = Net Base Rate Increase + Net Adjustor Changes</b>	<b>Dollars</b>	<b>Bill Impact</b>
Total Revenue Deficiency in APS’s Application	184M	5.6%
<i>Base Rate Changes</i>		
Net adjustments	(28M)	-0.9%
TEAM	(119M)	-3.6%
All other adjustors	4M	0.1%
<b>Rebuttal Net Base Rate Request</b>	<b>41M</b>	<b>1.2%</b>
<i>Adjustor Changes</i>		
Removal of TEAM credit	119M	3.6%
Transfer to base rates of all other adjustors	(4M)	-0.1%
AEM	13M	0.4%
<b>Net Adjustor Changes</b>	<b>128M</b>	<b>3.9%</b>
<b>Total Rebuttal Customer Bill Impact</b>	<b>169M</b>	<b>5.1%</b>

**IV. STAFF AND INTERVENOR TESTIMONY REBUTTAL**

**Q. DID YOU REVIEW STAFF AND INTERVENOR TESTIMONY?**

A. Yes. The majority of rebuttal to Staff and intervenor testimony is addressed by other APS witnesses; however, I would like to discuss my impression of the

1 overall testimony filed by Staff and intervenors in this case. I will also address  
2 three specific items: APS’s limited-income programs, employee cash incentives,  
3 and the Four Corners SCRs. In addition, simply because I do not address a  
4 specific statement or recommendation by Staff or intervenors should not be  
5 construed as my acceptance of that statement or recommendation.

6 **Q. WHAT ARE YOUR OVERALL OBSERVATIONS REGARDING STAFF**  
7 **AND INTERVENOR TESTIMONY IN THIS CASE?**

8 A. I remain concerned about the number of misconceptions that continue to exist  
9 regarding the actions taken by APS to implement its suite of rate schedules  
10 approved by this Commission in Decision No. 76295 (August 18, 2017), the  
11 Company’s 2016 Rate Case. Throughout the parties’ testimonies, statements are  
12 made that are simply incorrect, and witnesses are drawing conclusions and  
13 making recommendations based on these false and misleading statements and  
14 data. This is particularly concerning since APS has repeatedly stated the factual  
15 steps taken by the Company to communicate with its customers and to complete  
16 the rate migration process required by Decision No. 76295 in Commission  
17 proceedings, responsive letters to Commissioners, and discussions at various  
18 open meetings over the last two years.

19 Specific rebuttal to the reports, “An Evaluation of Arizona Public Service  
20 Company’s Customer Education Plan and Its Implementation” written by Barbara  
21 Alexander and “Rate Review and Customer Outreach Program Evaluation of  
22 Arizona Public Service Company” written by Overland Consulting, initiated by  
23 the Commission to review the Company’s rate implementation and customer  
24 communications, are included in the Rebuttal Testimonies of APS witnesses  
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1 Snook and Whiting.<sup>3</sup> To ensure the record is clear, I address a few of the most  
2 egregious of the false statements below.

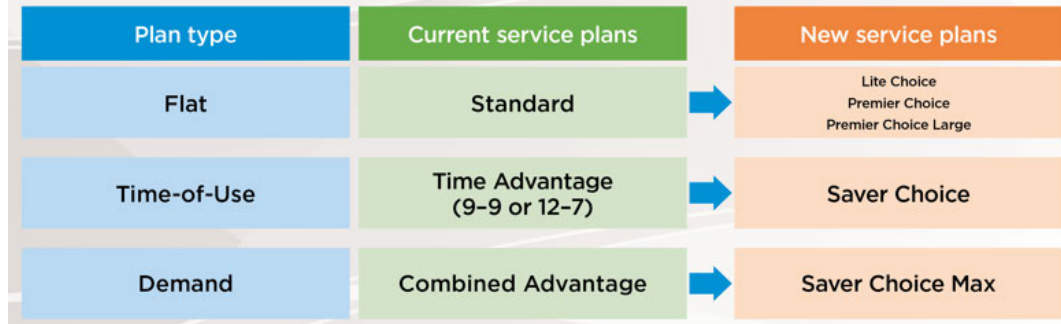
- 3  
4 • **APS is not overearning.** The Company’s current authorized return on  
5 equity is 10.0%. This is stated, without ambiguity, in Decision No. 76295.  
6 That return on equity, calculated on an annual basis, was approved by the  
7 Commission. APS has proven through multiple filings at this  
8 Commission, including the financial data submitted in this docket, that the  
9 Company’s actual ACC-jurisdictional return on equity has not exceeded  
10 10% since that Decision.
  
- 11 • **APS is not “overcharging” customers.** The rate levels determined to be  
12 just and reasonable in Decision No. 76295 have been accurately and  
13 appropriately implemented by APS. The Commission determined in  
14 Decision No. 77292 that there is no evidence that APS improperly  
15 implemented the suite of rate plans and charges approved by the  
16 Commission.<sup>4</sup>
  
- 17 • **APS did not inappropriately transition residential customers to**  
18 **demand rates.** The APS rate plan auto-migration process outlined in  
19 Decision No. 76295 required the Company to move customers to the rate  
20 structure that was “most like” that which the customer was already being  
21 served under. APS followed that process. If a customer had chosen a  
22 demand rate prior to Decision No. 76295, that customer was moved to a  
23 demand rate. Table 2 below shows this rate transition concept.  
24

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25 <sup>3</sup> Barbara R. Alexander, An Evaluation of Arizona Public Service Company’s Customer Education Plan  
26 and its Implementation, Docket Nos. E-01345A-19-0236 and E-01345A-19-0003 (May 19, 2020);  
27 Overland Consulting, Rate Review and Customer Outreach Program Evaluation of Arizona Public  
28 Service Company, Docket No. E-01345A-19-0003 (June 4, 2019).

<sup>4</sup> See Decision No. 77292 in Docket No. E-01345A-18-0002 (July 19, 2019), p. 88, Finding of Fact 108.

Table 2. APS Rate Plan Migration Process



Customers who self-selected a new rate may have made a conscious choice during the transition period to move from a non-demand rate to a demand rate; however, at no time did APS automatically transition a customer from a flat energy-only rate or time-of-use energy-only rate to any demand rate. APS witness Jessica Hobbick addresses this misrepresentation and the Company’s rate migration in more detail.

- **While improvements may be called for, APS’s Customer Education and Outreach Plan (CEOP) did not fail.** The CEOP developed by APS, as required by Decision No. 76295, was an extension of ongoing education and outreach efforts the Company has engaged in for many years. The goal of the CEOP was to provide customers with information to prepare for the transition to new rate plans, highlighting customer options, and ways to maximize savings. APS met this goal by diligently executing its CEOP, providing customers with multiple forms of outreach over multiple channels as the plan outlined.

These misrepresentations have clouded the important issues that are addressed in the Company’s rate case Application and created unnecessary roadblocks for APS, the Commission and all stakeholders in the process of making improvements and creating sound energy policies for the future.

1           A.     *Limited-Income Programs*

2     **Q.   DOES APS AGREE WITH THE LIMITED-INCOME PROGRAM**  
3     **CHANGES PROPOSED BY INTERVENOR WILDFIRE?**

4     A.   APS agrees with Wildfire that it is the right time to expand the Company’s  
5     Energy Support programs (E-3 and E-4) to allow customers with incomes up to  
6     200% of the federal income poverty guidelines to participate.  APS witnesses  
7     Whiting and Hobbick discuss this program expansion in more detail in their  
8     rebuttal testimonies.  It is important to note that the purpose of this expansion is  
9     to encourage more customers to enroll in the programs, which will require more  
10    funding than previously estimated.  Therefore, approval of the deferral  
11    accounting mechanism for Energy Support program funding as described by APS  
12    witness Hobbick in her direct and rebuttal testimonies is critical to allow APS to  
13    expand the programs to more customers in need.

14           I believe the adoption of Wildfire’s expanded eligibility requirements and the  
15    Company’s commitment in this case to double its annual Crisis Bill funding from  
16    \$1.25 million to \$2.5 million annually provides critical relief to those in its  
17    community with the greatest need and enhances the Company’s already  
18    significant commitment to its limited-income customers and community  
19    assistance partners.

20           B.     *Employee Cash Incentive*

21     **Q.   DO YOU AGREE WITH THE POSITIONS TAKEN BY STAFF, RUCO**  
22     **AND AECC THAT PORTIONS OF CASH INCENTIVE SHOULD BE**  
23     **DISALLOWED?**

24     A.   No.  These parties claim that because a portion of the incentive is tied to the  
25    Company’s earnings that those costs should not be included in rates.  However,  
26    as discussed by APS witness Blankenship, the only way for nearly all APS  
27    employees to successfully contribute to this metric is to continue to find  
28

1 efficiencies and reduce costs. Those savings are then given back to customers  
2 through rates.

3  
4 Moreover, I would challenge what appears to be a conclusion by these parties that  
5 a financially-healthy utility, able to provide earnings to investors, is in some way  
6 contrary to the interests of its customers. Customers benefit when APS can earn  
7 a reasonable return on its investment, as that is how the utility can continue to  
8 attract the capital investment necessary to provide electricity to its customers on  
9 reasonable terms. The suggestion that the interests of investors and customers are  
10 in conflict in this regard is false. Therefore, the basis for these positions on  
11 incentive compensation is flawed, and these recommendations should be rejected.

12 C. *Four Corners SCR Investment*

13 **Q. DID PARTIES DISCUSS THE RECOVERY OF THE SCR INVESTMENT**  
14 **AT FOUR CORNERS?**

15 A. Yes. Staff and AECC both supported the inclusion of the SCRs and the SCR  
16 deferral in rates.<sup>5</sup> RUCO's position is to not allow recovery "at this time."<sup>6</sup>

17 **Q. PLEASE DESCRIBE RUCO'S CONCERN WITH INCLUDING THE SCR**  
18 **INVESTMENT IN RATES.**

19 A. RUCO witness Radigan recognizes that the Company's investment in the SCRs  
20 was mandated by federal environment requirements, but questions how Four  
21 Corners fits with APS's new Clean Energy Commitment of being 100% carbon  
22 free by 2050, and more specifically, how the topics of securitization and  
23 remaining book value of the Plant will be addressed by the Company.

24  
25  
26 \_\_\_\_\_  
27 <sup>5</sup> Both parties also propose possible alternative calculation recommendations for the deferral, which the  
28 Company does not support.

<sup>6</sup> RUCO Direct Testimony of Frank W. Radigan at 16 (Oct. 2, 2020).

1 **Q. WILL YOU PLEASE RESPOND TO RUCO'S CONCERNS?**

2 A. As discussed by APS witness Brad Albert in his Rebuttal Testimony, Four  
3 Corners is, and will continue to be, an essential part of APS's generation fleet for  
4 the needed capacity and reliability benefits it provides to its customers. The  
5 events of this past summer, the hottest summer on record in Arizona, show how  
6 valuable Four Corners is to APS customers and the overall APS system. The  
7 SCR investment also allowed the plant to remain open to serve APS's customers  
8 and provide meaningful economic benefits to the Navajo Nation and surrounding  
9 communities. This asset is used and undoubtedly useful and should be recovered  
10 through rates.

11 I discuss APS's position on securitization below in more depth, but the Company  
12 is committed to pursuing the idea. However, there are some very real hurdles to  
13 overcome, and securitization is not a viable option to implement today.  
14 However, providing those hurdles can be adequately addressed, securitization  
15 could prove to be a very useful tool to recover the remaining book value of fossil  
16 generating units as the Company, customers and the Commission move to  
17 collectively pursue a cleaner energy future for Arizona. Regarding RUCO's  
18 question about the remaining book value of the Four Corners Power Plant, APS  
19 recommends that for purposes of this case, APS continue to depreciate the asset  
20 to 2038, despite its planned closing by 2031. This prevents upward pressure on  
21 rates that would occur from the accelerated depreciation necessary to depreciate  
22 the asset only through 2031.

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1 V. SECURITIZATION

2 **Q. CHAIRMAN BURNS REQUESTED PARTIES IN THIS PROCEEDING**  
3 **DISCUSS POSSIBLE METHODS OF RECOVERY OF REMAINING**  
4 **BOOK VALUE UPON CLOSURE OF THE FOUR CORNERS POWER**  
5 **PLANT. HAS APS RESPONDED TO THIS REQUEST?**

6 A. Yes. APS responded to Chairman Burns by letter filed in this docket on  
7 November 6, 2020. The Company's response addresses each of the scenarios  
8 requested and discusses the benefits and costs of each cost recovery method  
9 suggested in the Chairman's request. APS witness Albert will discuss portions of  
10 the APS analysis in his Rebuttal Testimony.

11 I will not repeat the results of the Company's analysis here. However, I will  
12 discuss the securitization method of recovering remaining asset book value for  
13 retiring plants, as highlighted by Chairman Burns and discussed by Sierra Club  
14 witness Roberto that has the potential—if structured properly—to limit the  
15 impact of these costs on both APS and customers.

16 **Q. WHAT IS APS'S UNDERSTANDING OF SECURITIZATION AS A**  
17 **PUBLIC SERVICE COMPANY FINANCING TOOL?**

18 A. Securitization is a utility financing tool that relies upon low-cost, asset-backed  
19 securities—in this case securities backed by a present-day property right in a  
20 defined pool of revenues to be paid by customers—to reduce the cost of a utility's  
21 financial obligations and ultimately benefit customers through lower rates.

22  
23 Securitization can be used to recover, at a lower total cost to customers, the  
24 remaining book value associated with certain assets that are retiring. Any  
25 remaining book value associated with such an asset is removed from the utility's  
26 rate base, such that the utility is no longer receiving a return on the investment.

27  
28

1 The utility is then compensated through the proceeds of low-cost securitized  
2 bonds, which are then paid separately from jurisdictional rates.

3 **Q. WHAT ARE THE BENEFITS TO UTILITY CUSTOMERS OF**  
4 **SECURITIZATION?**

5 A. By reducing the cost of financing past investments and unlocking present access  
6 to capital, the resulting transaction can produce significant customer savings,  
7 while also enabling near-term utility reinvestment of capital into clean technology  
8 generation resources.

9 **Q. WHAT IS THE STRUCTURE OF A TYPICAL SECURITIZATION**  
10 **TRANSACTION?**

11 A. Under a typical securitization transaction, a utility would permanently exclude  
12 from its rate base the unrecovered value of assets that are no longer in service. In  
13 exchange, the utility would receive the proceeds of one or more tranches of  
14 securitized debt issued by a legally separate and bankruptcy-remote special  
15 purpose entity (SPE) with those proceeds corresponding with the book value  
16 removed from rate base and any other authorized transition costs. The utility  
17 would transfer to the SPE a present property right in a defined stream of revenues  
18 sufficient to service that debt—typically called “Transition Charges”—that the  
19 utility would otherwise have been itself entitled to receive. The utility would also  
20 remove the securitized assets from rate base.

21 Although the SPE would be expected to enter into a servicing agreement with the  
22 utility to collect the Transition Charges, those revenues, and the right to them are  
23 no longer the property of the utility. The SPE would then pledge its property  
24 interest in those revenues as collateral for the bonds it issues and use the  
25 Transition Charges it recovers over time to pay the debt service. For this to  
26 occur, the state must authorize the creation and alienation of that property right  
27 and its recovery by the SPE—and, most importantly, pledge that the property  
28

1 right and the recovery of the Transition Charges will not be impaired. APS does  
2 not believe that the Commission has the authority to create this right, or to make a  
3 legally-enforceable pledge of non-impairment. These features of securitization  
4 must be established by the Arizona Legislature.

5 **Q. CAN YOU PLEASE EXPLAIN AT A HIGH LEVEL ANY NECESSARY**  
6 **PREREQUISITES TO SECURITIZATION?**

7 A. APS continues to assess how securitization could be accomplished in Arizona,  
8 given the complex array of legal, regulatory, and financing issues involved. As  
9 seen in other states that have pursued securitization, it is necessary to have not  
10 only Commission involvement and support, but also authorizing legislation.  
11 While certain intervenors have suggested that legislation might not be needed in  
12 Arizona, APS disagrees. Legislation is needed to make the securitized bonds  
13 marketable and allows obtainment of the low interest rates needed to reduce costs  
14 to the utility's customers. In addition, legislation is needed to create a property  
15 right in the stream of revenues that create the collateral for the bond (the  
16 securitized asset). State legislation is also needed to establish an irrevocable  
17 pledge that the state will not impair the securitization property or the SPE's right  
18 to collect those revenues through customer charges. Put simply, there is a lot of  
19 work to be done to create the necessary structures to enable securitization in  
20 Arizona.

21 **Q. PLEASE EXPLAIN HOW A SECURITIZATION TRANSACTION LIKE**  
22 **THIS CAN PRODUCE BENEFITS FOR APS CUSTOMERS AS**  
23 **COMPARED TO TRADITIONAL COST-RECOVERY.**

24 A. With respect to the unrecovered book value of assets no longer in service,  
25 securitization offers several potential advantages as compared to conventional  
26 utility cost recovery. In this respect, securitization can lower customer costs.  
27 The Transition Charges are based on the cost of SPE-issued debt, which would  
28

1 likely be less than a utility’s regulated cost of capital—rather than the cost of  
2 equity and debt capital required to prudently operate a utility, the Transition  
3 Charges are based on the typically lower cost of debt insulated from cost  
4 recovery and business risk. Indeed, because the Transition Charges are defined in  
5 advance and subject to a strong non-impairment pledge, and because the debt is  
6 structured with multiple credit features to support repayment, securitized debt is  
7 typically very highly-rated and low-cost debt.

8 **Q. WHAT BENEFITS CAN SECURITIZATION PROVIDE FOR PUBLIC**  
9 **SERVICE CORPORATIONS LIKE APS?**

10 A. Securitization can provide a utility, like APS, with an upfront infusion of capital,  
11 which it can reinvest in clean electricity generation infrastructure. Thus, APS can  
12 simultaneously look to replace rate-base value lost as part of the securitization,  
13 while at the same time building clean generation in support of APS’s Clean  
14 Energy Commitment and Commission carbon reduction standards. When  
15 combined with automatic mechanisms for contemporaneous regulatory recovery  
16 associated with the construction of replacement clean generation, APS can have  
17 the necessary regulatory certainty to efficiently and quickly convert securitization  
18 proceeds into clean energy resources for Arizona electricity customers.

19 **Q. IN LIGHT OF THESE POTENTIAL ADVANTAGES, DOES APS**  
20 **SUPPORT SECURITIZATION AS A WAY TO SAVE CUSTOMERS**  
21 **MONEY?**

22 A. Yes, within reason. The potential for securitization to produce meaningful  
23 customer savings, along with providing a mechanism for APS to increase its  
24 investments into clean generation technologies—and producing even greater  
25 environmental benefits for customers—APS believes securitization, when  
26 established and structured appropriately, can provide concrete public policy  
27 benefits for the state of Arizona. APS also believes that any consideration of a  
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1 securitization platform for Arizona must be coupled with contemporaneous cost-  
2 recovery mechanisms—such as the Company’s proposed AEM, for instance—  
3 that directly focuses utility securitization proceeds into clean energy generation  
4 investments. APS therefore intends to pursue the necessary legal structures  
5 required to facilitate successful securitization transactions in Arizona.

6 VI. COAL COMMUNITY TRANSITION

7 **Q. DO YOU AGREE WITH INTERVENORS NAVAJO NATION AND**  
8 **CITIZEN GROUPS THAT ASSISTANCE TO COMMUNITIES**  
9 **IMPACTED BY APS’S PLANNED EXIT FROM COAL PLANT**  
10 **OPERATION IS NECESSARY?**

11 A. Yes. The Company’s Clean Energy Commitment announced earlier this year,  
12 and discussed in APS witness Guldner’s Rebuttal Testimony, includes a complete  
13 APS exit from coal plant operations by 2031. APS recognizes that this plan will  
14 have an economic impact on local communities that have relied on the operation  
15 of the plants for employment, economic activity and tax revenues, and the  
16 Company is committed to assisting these communities in a transition away from  
17 reliance on coal plants. While Four Corners is still an important part of APS’s  
18 generation fleet, APS has heard from the affected communities and values its  
19 long-standing relationship with them. Therefore, the Company agrees that now is  
20 the right time to begin the process of planning for the transition away from coal.

21 **Q. WHAT COMPONENTS ARE INCLUDED IN THIS PLAN FOR FOUR**  
22 **CORNERS?**

23 A. The Company has been a partner with the Navajo Nation and the surrounding  
24 communities since the beginning of coal plant operation and meets regularly with  
25 leaders on a wide variety of topics. Discussions have recently explored potential  
26 opportunities for assistance from APS and have resulted in an agreement on  
27 several of the transitional components suggested by the Navajo Nation and  
28

1 Citizen Groups and the development of an overall plan for coal community  
2 transition. The foundation of the APS Coal Community Transition Plan is the  
3 cash payment of \$100 million, at approximately \$10 million per year over the  
4 next ten years, to the Navajo Nation as discussed by APS witness Guldner. As  
5 these funds are part of a transition to a clean energy future, APS is proposing to  
6 collect these funds from customers through the AEM described by APS witness  
7 Snook.

8 APS has also committed to fund the economic development efforts of an  
9 existing or future Navajo Nation economic development organization for a period  
10 of five years at \$250,000 per year from shareholder funds, to begin two years  
11 prior to the Company's ceasing operations at Four Corners and continue for three  
12 years after.

13  
14 To facilitate electrification of the Navajo Nation, a critical concern for the safety  
15 and well-being of the Nation's residents, APS is requesting approval from the  
16 Commission for a modification to APS's Service Schedule 3 that will allow  
17 distribution lines to be extended up to 2,000 feet within the Nation at no cost  
18 to Navajo Nation applicants within the Company's service territory. In addition,  
19 APS will conduct or pay for a census of unelectrified homes and businesses in the  
20 APS service territory within the Nation to be completed by the end of 2021. APS  
21 will also prepare an assessment of the effectiveness of the 2,000-foot proposed  
22 extension and submit that assessment to the Commission and the Nation. APS is  
23 proposing that additional electrification projects within the Nation will  
24 be pursued at a funding level of \$10 million, with \$5 million of that amount  
25 recovered through APS's proposed AEM and \$5 million funded by shareholders.

26 To support transmission line development within the Navajo Nation, APS  
27 will also provide \$2.5 million per year to the Navajo Nation from shareholder  
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1 funds beginning from the time the Four Corners Power Plant closes (or 2032,  
2 whichever is earlier) through 2038.

3  
4 In summary, APS is proposing a net total of \$128.75 million of support be  
5 provided to the Navajo Nation from 2021 through 2038. Of that total,  
6 \$23.75 million will be provided by shareholders.

7 APS also agrees with the Navajo Nation and Citizen Groups that a key  
8 component of this transition plan should be the encouragement of renewable  
9 energy resource development within the Navajo Nation.

10 **Q. HOW WILL APS SUPPORT RENEWABLE ENERGY DEVELOPMENT**  
11 **WITHIN THE NAVAJO NATION?**

12 A. APS has agreed to solicit a total of 600 MW of clean energy resources within the  
13 Navajo Nation or in communities surrounding the Navajo Nation through one or  
14 more Requests for Proposals (RFPs) as part of the Company's Clean Energy  
15 Commitment, subject to the approval of the Commission. It is anticipated that  
16 the initial RFP or set of RFPs will seek a minimum of 250 MW of renewable  
17 energy located on Navajo Nation land and will be issued within the  
18 next 24 months. Subsequent RFPs would seek an additional 350 MW of clean  
19 energy projects to be issued no later than 12 months after the closure of the Four  
20 Corners Power Plant, subject to the approval of the Commission.

21 **Q. WOULD APS BE ABLE TO DIRECTLY ALLOCATE ANY OF ITS FERC**  
22 **JURISDICTIONAL TRANSMISSION LINE CAPACITY TO SUPPORT**  
23 **TRIBAL RENEWABLE ENERGY DEVELOPMENTS AS SUGGESTED**  
24 **BY CITIZEN GROUPS WITNESS HORSEHERDER?**

25 A. No. A public service corporation that owns and operates FERC-regulated  
26 interstate transmission facilities, such as APS's 345 kV and 500 kV transmission  
27 facilities in the Four Corners area, is subject to strict non-discriminatory, open-  
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1 access regulations. To provide transmission service to any entity, including the  
2 Navajo Nation, tribal-owned enterprises, or renewable energy projects located  
3 within the Nation, APS must provide such service pursuant to APS's FERC-  
4 regulated open access tariff. APS itself must also comply with the requirements  
5 of its FERC-regulated open access tariff in order to use any transmission service  
6 on its system. APS has a transmission service reservation for service on its  
7 system that allows it to deliver Four Corners power to its retail customers and  
8 has committed to the Navajo Nation to preserve that transmission service  
9 reservation to support the renewable commitments outlined above that serve APS  
10 retail customers.

11 **Q. WILL APS BE ABLE TO TRANSFER WATER RIGHTS ASSOCIATED**  
12 **WITH THE FOUR CORNERS POWER PLANT TO THE NAVAJO**  
13 **NATION?**

14 A. No. BHP, the original owner of the Navajo Mine, is the owner of the water  
15 rights associated with the Four Corners Power Plant and the Navajo Mine. APS  
16 is willing to help and assist the Navajo Nation in pursuing these rights by making  
17 appropriate introductions, providing background information and encouraging  
18 BHP to engage with the Navajo Nation on this issue.

19 **Q. WILL APS SUPPORT THE NATION IN SEEKING ADDITIONAL**  
20 **FUNDS FOR COMMUNITY TRANSITION FUNDING?**

21 A. Yes. APS will support the Nation and other coalitions in seeking other funding  
22 for assistance with community transition. APS also commits that it will  
23 support and encourage other Four Corners participants to make similar  
24 commitments of support. It should be clear that the commitments made in this  
25 testimony are on behalf of APS only.



1 **Q. WOULD YOU LIKE TO COMMENT ON JOB RE-DEPLOYMENT**  
2 **RELATED TO THE CLOSURE OF THE PLANT?**

3 A. Yes. APS commits to preparing job re-deployment offers with the APS  
4 organization to all APS employees at least six months prior to closure of the  
5 plant.

6 **Q. WOULD YOU LIKE TO COMMENT ON PROPOSED TRANSITION**  
7 **COMMITMENTS WITH THE NAVAJO COUNTY COMMUNITIES AND**  
8 **THE HOPI TRIBE?**

9 A. Yes. APS assessed these areas, based on the Company's agreement with Navajo  
10 Nation, and is proposing transition funding as well as other collaborative efforts.  
11 While the size of APS's impact at Four Corners is significantly larger, a  
12 thoughtful, purposeful transition out of coal includes the affected communities  
13 from the Cholla Power Plant and Navajo Generating Station.

14 **Q. IS APS PROPOSING SIMILAR COST RECOVERY FOR THESE**  
15 **TRANSITION PLANS?**

16 A. Yes. In regard to the Cholla Power Plant, APS is proposing \$12 million to the  
17 Navajo County Communities, to be paid over five years to assist in a  
18 transition, with \$10.9 million of that amount recovered through APS's proposed  
19 AEM and \$1.1 million funded by shareholders. APS will also provide job re-  
20 deployment offers within the APS organization to all APS employees at least six  
21 months prior to closure of Cholla. Navajo County Communities primarily  
22 include the Navajo County General Fund, Northland Pioneer College and Joseph  
23 City Unified School District.

24 With respect to the Hopi Tribe, APS is proposing \$3.7 million to be paid over  
25 five years with \$3.35 million recovered through APS's proposed AEM and  
26 \$0.35 million funded by shareholders.

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1 VII. FORMULA AND PERFORMANCE-BASED RATEMAKING

2 **Q. DID APS RECOMMEND THE ADOPTION OF A FORMULA RATE IN**  
3 **THIS PROCEEDING?**

4 A. No. In Direct Testimony, APS suggested that a formula rate plan could be an  
5 alternative to multiple adjustment mechanisms and could provide the same  
6 benefits. As discussed in APS witness Snook’s Rebuttal Testimony, APS  
7 continues to believe that adjustment mechanisms offer important benefits to  
8 customers, the utility and the Commission, and is not recommending that they be  
9 replaced with a formula rate.

10 **Q. DID STAFF OR INTERVENORS RECOMMEND FORMULA RATES?**

11 A. No. There seems to be universal agreement that formula rates are not currently  
12 appropriate for APS. Several intervenors did, however, suggest that the  
13 Commission consider future development of performance-based ratemaking  
14 (PBR) as a method of reducing costs and maintaining appropriate service levels.

15 **Q. PLEASE DESCRIBE PERFORMANCE-BASED RATEMAKING.**

16 A. PBR, sometimes referred to as performance-based regulation, is a method of  
17 utility regulation that—at its extreme—would replace the traditional method of  
18 determining utility revenue based on the value of capital investment used to serve  
19 customers (the cost of service method) with one based on the performance of the  
20 utility in comparison to a set of key metrics.

21 When considering the implementation of a broad PBR plan, however, it is  
22 important to carefully consider the perverse incentives an improperly-designed  
23 PBR plan can place on the utility.

24 **Q. WHAT DO YOU MEAN BY “PERVERSE INCENTIVE?”**

25 A. A perverse incentive is one that could directly or indirectly encourage or pressure  
26 a utility or its employees to work towards the avoidance of short-term automatic  
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1 economic penalties incorporated into a PBR plan at the expense of safe system  
2 operation or excellent customer service.

3 This result can be avoided by designing PBR plans that include, for example,  
4 incentives that provide opportunity for both penalties and rewards and  
5 recognition of the possibility of extraordinary events that would make  
6 achievement of an arbitrary target unlikely.

7 **Q. DOES APS SUPPORT FURTHER DISCUSSIONS ON PBR?**

8 A. Certainly. APS supports a dialogue with the Commission, stakeholders and other  
9 interested parties on the effectiveness and appropriateness of PBR for  
10 jurisdictional utilities in Arizona. I note that the Commission currently has a  
11 generic docket open on the role of performance incentive mechanisms in  
12 regulated investor-owned electric utility rate cases, and APS will fully participate  
13 in that docket and in any other Commission forum on PBR.<sup>7</sup>

14 **VIII. RECOMMENDED REPORTING REQUIREMENTS**

15 **Q. DID YOU REVIEW THE VARIOUS REPORTING REQUIREMENTS**  
16 **RECOMMENDED BY INTERVENORS IN THIS CASE?**

17 A. Yes, I did. Despite not pursuing a direct connection between specific Company  
18 performance metrics and financial implications, a wide range of reporting  
19 requirements were recommended by several intervenors, including outage and  
20 reliability data, customer service and satisfaction metrics, and rate plan adoption.  
21 The goal of this diverse and detailed reporting, as stated by most intervenors, was  
22 to provide the Commission and stakeholders with information that could be used  
23 to measure the Company's performance in key areas of safety, reliability and  
24 customer service.

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<sup>7</sup> Docket No. E-00000A-20-0019.

1 **Q. IS APS WILLING TO PROVIDE THIS INFORMATION TO THE**  
2 **COMMISSION?**

3 A. APS understands that the Commission and stakeholders are interested in  
4 reviewing the Company's performance in certain areas and is open to providing  
5 regular reports to the Commission on a wide variety of statistics and metrics,  
6 including some of the information suggested by Staff and intervenors. Some of  
7 the recommended reporting information is already provided to the Commission in  
8 its otherwise required compliance reporting and some of the requested data APS  
9 simply does not have at this time.

10  
11 However, APS has carefully reviewed and considered the recommendations of  
12 Staff and intervenors and is proposing reporting on a set of metrics that APS  
13 believes will provide an appropriate overview of the Company's performance in  
14 the areas of greatest interest: customer service and reliability.

15 Recommended customer service metrics, which are proposed to be delivered  
16 quarterly, include customer rate selection statistics, Customer Care Center  
17 performance, and customer satisfaction criteria as measured by J.D. Power's  
18 nationally-recognized customer satisfaction survey. These metrics are discussed  
19 in more detail by APS witness Whiting.

20 Likewise, recommended reliability reporting statistics include overall distribution  
21 system performance, as well as performance by geographical region, reliability  
22 maintenance program discussions, and fire mitigation impacts on reliability  
23 statistics. These metrics would be reported on an annual basis and are described  
24 in detail in APS witness Tetlow's Rebuttal Testimony.

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1 IX. CONCLUSION

2 **Q. DO YOU HAVE ANY CLOSING REMARKS?**

3 A. Yes. The revised revenue requirement request discussed in my Rebuttal  
4 Testimony demonstrates that APS has made significant movement to reduce the  
5 impact of its rate request to customers while still maintaining the Company's  
6 financial integrity and providing benefits over a wide range of stakeholder  
7 interests. This overall request is necessary to fulfill APS's commitment to its  
8 customers to provide reliable, clean and affordable energy today and into the  
9 future. Implementing the APS Clean Energy Commitment will require APS, its  
10 customers, the Commission, and stakeholders to all work together to achieve a  
11 sustainable energy future for its communities and the state of Arizona. My  
12 colleagues and I are looking forward to fulfilling this commitment.

13 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

14 A. Yes.

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