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REBUTTAL TESTIMONY OF JEFFREY B. GULDNER
On Behalf of Arizona Public Service Company
Docket No. E-01345A-19-0236

November 6, 2020

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1 **REBUTTAL TESTIMONY OF JEFFREY B. GULDNER**
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 Jeffrey B. Guldner. I am Chairman of the Board and Chief Executive
6 Officer (CEO) of Arizona Public Service Company (APS or Company). My
7 business address is 400 N. 5th Street, Phoenix, Arizona 85004.

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

9 A. Yes. I filed direct testimony on October 31, 2019.

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

11 A. It is important to address several recommendations made in this case that would
12 materially impact APS’s ability to serve its customers and communities, while also
13 meeting our financial obligations to investors. My Rebuttal Testimony explains
14 how adoption of such recommendations could jeopardize our mission of providing
15 clean, reliable, and affordable electric service to 1.3 million customers, and why
16 the Arizona Corporation Commission (Commission) should reject them. In this
17 context, I believe that it is important to call out the steps we are taking to mitigate
18 rate impacts on customers.

19 I also discuss APS’s Clean Energy Commitment and some of the implications of
20 achieving that commitment, specifically, the need to maintain customer
21 affordability and assisting affected local communities through a transition away
22 from coal generation. I describe a new adjustor mechanism to address these
23 implications through transparent and timely recovery of the Company’s investment
24 in supporting a clean energy future for Arizona.

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1 Finally, my Rebuttal Testimony will explain our approach to executive-level
2 compensation, and why it appropriately supports the need to attract and retain a
3 highly qualified management team.

4 II. SUMMARY

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

6 A. Over the past year, my first as Chairman of the Board and CEO of APS, I have
7 appeared before the Commission on numerous occasions to reaffirm our
8 commitment to customers and articulate a vision for APS anchored in purpose: as
9 Arizona stewards, we do what is right for the people and prosperity of our state. As
10 such, I pledged to be transparent, collaborative and inclusive of stakeholder
11 perspectives in our decision-making process. I have taken ownership of issues
12 related to customer service and communication outreach, while driving culture
13 change efforts internally to create a sustained customer experience mindset across
14 our workforce. Our Clean Energy Commitment thoughtfully balanced stakeholder
15 input, operational reality and customer affordability to target 65 percent clean
16 energy, inclusive of a 45 percent renewable goal by 2030 on our way to 100 percent
17 clean by 2050. And, at the same time, APS remained focused on providing reliable
18 service and support to our customers throughout a year unlike any other in recent
19 history. Each one of our 6,200 employees shares this call to serve and operates with
20 a unified sense of purpose.

21 The reality is, however, that providing reliable electric service, achieving a clean
22 energy future and supporting state and local economies are dependent upon the
23 financial health and long-term sustainability of the Company. We must remain
24 attractive to investment of outside capital so that we can secure the significant
25 amount of resources required to simultaneously maintain and modernize the
26 electric system.

1 Some intervenors in this case would significantly reduce or even eliminate the
2 Company's base revenue requirement, slash returns on equity to unreasonably low
3 levels, deny returns on the fair value of utility property, and disallow the recovery
4 of amounts that have been prudently incurred for facilities that are used and useful.
5 If adopted, those recommendations individually and collectively will impair APS's
6 ability to pay for its current operations and future commitments and send strong
7 signals that any equity investment in the Company is at risk of not recovering a
8 stable return.

9 These outcomes are unnecessary, contrary to the best interest of our customers, and
10 unwarranted based upon the information that supports the Company's rate
11 application in this case. I trust the Commission to apply sound regulatory
12 principles in granting the Company's rate request and to reject any outlying and
13 punitive recommendations made by certain intervenors that will ultimately harm
14 Arizona.

15 **III. THE IMPORTANCE OF FINANCIAL STABILITY**

16 **Q. WHY IS IT IMPORTANT THAT APS BE FINANCIALLY STABLE?**

17 **A.** APS's filings in this case demonstrate that it is not earning its currently authorized
18 return on equity. APS depends upon the revenue generated from its rates to operate
19 APS and provide safe and reliable service to our customers. Also, because rates
20 are set on a historical test year in Arizona, APS looks in large part to our investors
21 to fund capital and other projects until such time as the Commission authorizes
22 their recovery through rates and those rates are collected.

23
24 If rates are set that do not meet APS's revenue requirement, the Company's ability
25 to fund its operations and commitments is seriously jeopardized. This in turn forces
26 the Company to make decisions regarding which programs will be funded and at
27 what levels. As always, safety and reliability take precedence in those instances.

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1 When rates are based upon artificially low returns on equity or cost of debt,
2 investment capital in the utility either dries up or becomes very expensive. This is
3 equally true when unconventional steps such as the disallowance of prudently
4 invested funds or the costs of used and useful facilities are excluded from rates.

5
6 APS competes for investment capital in international and national markets, where
7 there are countless options. Investors in any utility rely upon the basic regulatory
8 principle that prudent investments and costs will be recoverable when they go into
9 service. Without reasonable and competitive returns on those investments and
10 timely recovery of prudently incurred costs, APS becomes a less attractive choice
11 for investors and lenders. The Company's financial health greatly impacts the
12 amount and cost of the borrowed funds. The lower the cost of borrowing funds, the
13 lesser the impact on our customers' bills. Through working collaboratively with
14 the Commission and stakeholders towards stable, beneficial regulatory outcomes,
15 APS's improvement in credit ratings since 2011 has created pre-tax interest savings
16 on APS long-term debt issuances of nearly \$2 billion over the lifetime of the debt.
17 I cannot overstate the importance to our customers and communities, as well as our
18 future initiatives, that the Commission support the financial viability of the
19 Company through the approval of this rate request.

20 **IV. MITIGATING RATE IMPACTS**

21 **Q. WHAT IS APS DOING TO MITIGATE THE RATE IMPACTS FOR ITS**
22 **CUSTOMERS?**

23 **A.** The impact of rate increases on our customers is a matter of concern for all of us.
24 We are addressing this issue at many levels in the Company and with our
25 stakeholders. As discussed in the testimonies of APS witnesses Monica Whiting
26 and Jessica Hobbick, APS is committed to expanding eligibility for its limited-
27 income discount program (Rate Riders E-3 and E-4, Energy Support Programs)
28 and working with Wildfire and government agencies to ensure that the discount as

1 well as Crisis Bill funding is available to those in greatest need. I will also mention
2 two additional Company-wide initiatives that are aimed at reducing rate increase
3 impacts. Last year the Company committed to the Commission that we would
4 reduce APS operating and maintenance costs by \$20 million, and proactively
5 included a pro forma in the application reflecting those targeted savings. I am
6 pleased to report that we are on track to achieve that reduction and that this level
7 of savings is included in this rate case.

8
9 APS has also undertaken a thorough initiative to streamline processes and empower
10 employees to implement more efficient and economical ways to work on an
11 ongoing basis. I am confident that these and other efforts will not only continue to
12 reduce costs going forward, but also provide for an improved and innovative
13 workplace and experience for our customers.

14 V. APS'S CLEAN ENERGY COMMITMENT

15 Q. **APS ANNOUNCED A COMMITMENT TO CLEAN ENERGY IN**
16 **JANUARY OF 2020. WHAT DOES THAT CONTAIN?**

17 A. We already provide 50 percent of our energy from clean, carbon-free generation
18 resources and have been on a trajectory of increasingly clean energy through solar
19 power innovation, wind power, major investments in energy storage technology,
20 carbon-free nuclear operations, and advances in energy efficiency and demand
21 response solutions.

22 In January of this year, we made a commitment to Arizona. By 2050, APS will
23 deliver 100 percent clean, carbon-free, and affordable electricity to our customers.
24 This goal includes a nearer-term 2030 target of 65 percent clean energy, with 45
25 percent of our generation portfolio coming from renewable energy.

26 We also will cease all coal-fired generation by 2031, and will make this transition
27 in a responsible manner, working closely with the affected communities to
28

1 minimize impacts and help identify new opportunities. Our commitment to them is
2 for the long-term.

3
4 Our Clean Energy Commitment represents the boldest clean-energy goal of all
5 Arizona electric utilities and one of the most ambitious in the country. And while
6 there is no doubt in my mind this is the right move for our Company, customers
7 and communities, the road to 100 percent carbon-free comes with unique
8 challenges. These include keeping rates affordable for customers, assisting
9 communities that are severely impacted by the closure of coal facilities and
10 maintaining a financially healthy Company. Only by meeting all of these
11 challenges can we enable the pursuit of a shared, clean energy vision for Arizona.

12 A. *Balancing Clean Energy and Costs to Customers*

13 **Q. IS APS CONSIDERING ANY WAYS TO MITIGATE THE COST TO**
14 **CUSTOMERS FROM THE COMPANY'S CLEAN ENERGY**
15 **COMMITMENT?**

16 A. Yes. To be clear, the first five to seven years on this path involve significant costs
17 associated with the transition away from traditional, carbon-emitting fuels to clean
18 energy infrastructure. And although the latter eventually brings significant societal
19 benefits and lower fuel costs, APS is exploring several strategies to mitigate the
20 upfront transition costs and ensure rate gradualism during the shift to a new energy
21 economy. As discussed more fully in the testimonies of APS witnesses Barbara
22 Lockwood and Leland Snook, APS is proposing an Advanced Energy Mechanism
23 (AEM) that would be used to recover the costs associated with the significant clean
24 energy investments the Company will be making to meet its Clean Energy
25 Commitment. APS is also committed to pursuing securitization for retiring assets,
26 which could be used to help lessen customer rate pressures.

1 **Q. PLEASE EXPLAIN WHY APS IS SEEKING AN AEM.**

2 A. In connection with our Clean Energy Commitment, we are proposing a mechanism
3 to track and provide timely recovery for, among other things, the capital carrying
4 cost and expense of clean energy investments. It could include energy efficiency
5 (EE) expenses, and lost fixed costs associated with EE and distributed generation
6 (DG) revenue requirements that are not already recovered in base rates or through
7 another Commission approved adjustor. APS witness Snook, Director of Rates and
8 Rate Strategy, will address the proposal in more detail. The AEM is designed to be
9 a simplified, transparent and timely way to monitor and collect the costs and
10 expenses of clean energy related investments going forward.

11 **Q. CAN APS MEET THE CLEAN ENERGY COMMITMENT WITHOUT**
12 **SUCH AN ADJUSTMENT MECHANISM?**

13 A. It would be very difficult. While we are committed to our pursuit of a clean energy
14 future, without this mechanism or something equivalent, progress in this transition
15 will be slowed, creating a significant burden on the Commission, the Company and
16 intervenors due to the frequency of rate cases required to recover investments.
17 Further, meeting our clean energy commitments without contemporaneous
18 recovery will pressure the credit quality of the Company and, consequently, our
19 credit ratings. The Company's credit quality is critical to raising capital at low cost
20 for the benefit of our customers. As APS witness Todd Shipman will further
21 explain, the credit rating agencies have identified timely cost recovery as central to
22 their ratings methodologies and view adjustment mechanisms as important risk
23 mitigants, particularly during periods of elevated investment levels such as our
24 clean energy commitments will require.

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1 **Q. PLEASE BRIEFLY EXPLAIN THE CONCEPT AND POTENTIAL**
2 **BENEFITS OF SECURITIZATION.**

3 A. Generally, securitization of retiring assets, combined with an adjustor mechanism,
4 are tools that can reduce the rate impacts of transitioning to a clean energy future.
5 Securitization provides a balance by reducing the amount paid for these assets and
6 providing a method for the utility to invest in clean resources – a balance that has
7 been successfully adopted in several jurisdictions across the country.

8 **Q. HAS SECURITIZATION OF UTILITY ASSETS BEEN UTILIZED IN**
9 **ARIZONA?**

10 A. No, not yet. As discussed more by APS witness Lockwood, we believe that there
11 is new legislation needed to enable securitization to move forward. Securitization
12 is a complex topic, and it needs to be done appropriately to provide the intended
13 benefits to all parties. APS is committed to pursuing securitization and looks
14 forward to working with the necessary parties to make it happen in the interest of
15 our customers.

16 B. *Coal Community Transition (CCT)*

17 **Q. PLEASE EXPLAIN APS'S COMMITMENT TO ASSISTANCE IN**
18 **CONNECTION WITH THE CLOSURE OF COAL-FIRED UNITS.**

19 A. As part of the Clean Energy Commitment, we pledged to end coal-fired generation
20 by 2031, seven years earlier than we had previously announced. This is an
21 important step toward our goal of 100 percent clean energy resources by 2050.
22 However, the closure of coal-fired power plants and the reduction in coal
23 consumption will have a negative economic impact on those communities whose
24 economies are dependent upon those plants and mines. Through discussions with
25 these communities, APS has come to a thoughtful, meaningful agreement to assist
26 this transition.

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1 **Q. PLEASE DESCRIBE THE TRANSITION COMMITMENT TO THE**
2 **NAVAJO NATION REGARDING THE EVENTUAL CLOSING OF THE**
3 **FOUR CORNERS POWER PLANT.**

4 A. One of the communities that will be hardest hit economically by the plant closures
5 is the Navajo Nation. We have engaged in discussions with representatives of the
6 Navajo Nation to better understand the impacts of the closures and the needs of
7 those communities, as well as potential opportunities for assistance from APS
8 going forward. APS proposes a total of \$128.75 million in funding for this
9 transition, which includes \$23.75 million from shareholders. This commitment is
10 discussed in more detail by APS witness Lockwood, and includes \$110 million
11 over ten years for a transition, as well as funding for electrification efforts,
12 transmission development and regional economic development efforts.

13 **Q. HAVE THERE BEEN DISCUSSIONS TO BUILD A CLEAN ENERGY**
14 **PROJECT ON NAVAJO NATION LAND?**

15 A. Yes. As part of this agreement, which is also discussed in more detail by APS
16 witness Lockwood, APS commits to seek out proposals for at least 600 MW of
17 clean energy projects on or near the Navajo Nation.

18 **Q. IS APS PLANNING TO ALSO ASSIST OTHER COAL COMMUNITIES AS**
19 **PART OF THIS OVERALL COMMITMENT?**

20 A. Yes. In regard to the Cholla Power Plant, APS is proposing \$12 million to
21 neighboring Navajo County communities to assist in a transition, including \$1.1
22 million dollars in shareholder funding.

23 Also, APS is proposing \$3.7 million, including \$0.35 million in shareholder
24 funding, for a transition plan for the Hopi Tribe in conjunction with the closure of
25 the Navajo Generating Station in 2019.
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1 **Q. DO YOU HAVE ANY FINAL COMMENTS ON CCT?**

2 A. We are committed to making a transition to a clean energy future in a responsible
3 manner, working closely with the affected communities to minimize impacts and
4 help identify new opportunities. The proposals laid out above, and discussed in
5 more depth by APS witness Lockwood, show this commitment.

6 VI. THE APPROPRIATENESS OF APS EXECUTIVE COMPENSATION

7 **Q. PLEASE EXPLAIN WHY APS'S EXECUTIVE COMPENSATION**
8 **LEVELS ARE APPROPRIATE.**

9 A. APS's executive team is composed of highly qualified and experienced individuals.
10 Their leadership guides the delivery of clean, reliable and affordable electric
11 service to our customers and reflects responsible stewardship of both shareholder
12 and customer dollars. APS serves 1.3 million customers in a complex operating
13 and regulatory environment, which includes Palo Verde, the nation's largest
14 nuclear power plant. Members of the APS executive team are not only important
15 contributors to the success of the Company, they also offer valuable leadership and
16 services to the communities where they live.

17
18 In order to attract and retain highly qualified executives, the Company must offer
19 compensation and benefits that are competitive with other regulated and non-
20 regulated companies. To ensure that its compensation is market-based and
21 appropriate, APS relies upon an independent compensation consulting firm to
22 annually review and evaluate executive compensation.

23 It is also important to understand that not all executive compensation is included
24 in APS's rates. For example, stock-based compensation and supplemental
25 executive retirement benefits (SERP) have historically been excluded from
26 customer rates, and APS has removed them from Test Year expenses. Additionally,
27 portions of APS's executive compensation are allocated to and paid by the various
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1 owners of the participant generating stations the Company operates. In short, I am
2 confident that APS's compensation philosophy is prudent and that our executive
3 team compensation is reasonable and appropriate.

4 VII. CONCLUSION

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

6 A. APS has a strong history of innovation and leadership in the utility industry and in
7 Arizona. Our record of providing safe, reliable, affordable, increasingly clean
8 electricity, and supporting our communities goes back 130 years. This is made
9 possible by the hard work of our employees, diligently meeting the needs of our
10 customers, each and every day. It is also made possible through partnerships with
11 interested stakeholders and requires continued responsible regulatory oversight and
12 support. Our commitment to fulfilling our mission and achieving our vision of a
13 clean energy future for Arizona has never been stronger.

14 Our Clean Energy Commitment and assistance for the Navajo Nation, Navajo
15 County Communities, and the Hopi Tribe is consistent with our legacy of
16 innovation and leadership. But this commitment will require collaboration from
17 our employees, customers, stakeholders, and the Commission.

18
19 Integral to the success of these commitments is the financial stability of APS.
20 Accordingly, I ask the Commission to carefully review the evidence in the record
21 of this case and follow the established policies, rules, and legal requirements to
22 allow the Company to recover its costs of service and earn a reasonable return on
23 its investment.

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

25 A. Yes.

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