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8
9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10 **COMMISSIONERS**

11 LEA MÁRQUEZ PETERSON, Chairwoman
12 SANDRA D. KENNEDY
JUSTIN OLSON
13 ANNA TOVAR
JIM O'CONNOR

14
15 IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
16 COMPANY FOR A HEARING TO
DETERMINE THE FAIR VALUE OF THE
17 UTILITY PROPERTY OF THE COMPANY
FOR RATEMAKING PURPOSES, TO FIX A
18 JUST AND REASONABLE RATE OF
RETURN THEREON, TO APPROVE RATE
19 SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN.

DOCKET NO. E-01345A-22-0144

APPLICATION

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22 In this Application, Arizona Public Service Company (APS or Company) seeks a
23 net increase in base rates of \$460 million, or 13.6%, to become effective on December 1,
24 2023.¹ The requested increase is necessary for APS to continue making the investments
25 required to maintain a reliable, resilient, and clean energy grid for its customers today and
26 into the future.

27
28 ¹ APS submits this Application pursuant to Arizona Revised Statutes (A.R.S.) §§ 40-250
and -251, and Arizona Administrative Code (A.A.C.) R14-2-103.

1 APS's last rate case concluded on November 9, 2021 and was based on a test year
2 that ended on June 30, 2019.² A variety of factors have changed since the conclusion of
3 APS's last rate case, including significant investment in plant and infrastructure, revenue
4 and expenses, the cost of capital, customer growth, compounded inflationary pressures,
5 and disruptions to the global supply chain. Consequently, the Company's Application
6 demonstrates a revenue deficiency of \$772 million based on the 12-month period ending
7 June 30, 2022 (Test Year). As such, the Company's current rates do not recover the
8 necessary costs of providing electric service to customers today, let alone into the future.
9 APS therefore seeks a rate increase to reflect these and other items based on the adjusted
10 sales and expenses for the Company's jurisdictional electric operations that occurred
11 during the Test Year.

12 APS is committed to continue making responsible and necessary investments to
13 meet the needs of its customers by providing reliable, affordable, and clean energy. This
14 rate case request is designed to achieve the following goals, all of which are critical to
15 meet the needs and expectations of customers:

- 16 • Ensure reliability and resilience of the energy grid.
- 17 • Secure a clean, balanced energy supply for Arizona.
- 18 • Continuously improve support for customers.

19 Accordingly, APS requests an increase in net revenue of \$460 million, or 13.6%,
20 and to approve the rates, charges, and schedules set forth in this Application. This increase
21 is necessary to meet the changing needs of our customers, sustain the financial stability
22 of APS, and enable a more sustainable and clean energy future.

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² Decision No. 78317 (November 9, 2021).

1 The Company's complete request is described in and supported by the testimony,
2 exhibits, and schedules submitted with this Application. APS intends to call the following
3 witnesses as part of its direct case, who will address the indicated topics:

4 Theodore N. Geisler	Rate Case Overview; APS Impact to Arizona; Customer-Focused Commitment; Revenue Requirement Preview; Importance of Stable Utility; Rate Increase; Customer Bill Impact; Adjustment Mechanism Proposals
8 Jacob Tetlow	Post-Test Year Plant; Operations and Reliability; Clean Energy Transition System Upgrades; Coal Community Transition (CCT)
11 Monica Whiting	Limited-Income Program Proposal; Payment Fee Removal; New Off-Peak Holidays; Customer Experience Improvements
13 Andrew Cooper	Utility Financial Stability; Relationship between Financial Stability, Return on Equity (ROE), Credit Rating, and Customer Impacts; Financial Implications of the APS Clean Energy Commitment; Importance of Adjustment Mechanisms and Reducing Regulatory Lag; Return on Fair Value Increment (FVI)
19 Justin M. Joiner	Resource Management; Planning and Procuring; Fuel and Purchased Power Expense; AG-X Program
21 Jessica E. Hobbick	Revenue Allocation; Adjustment Mechanism Proposal Details and Plans of Administration; Payment Fee, Limited-Income Discount, and Various Other Pro Forms; Standard Filing Requirements (SFR) H Schedules; Rate Design; Changes to Service Schedules and Programs/Riders; Elimination of Duplicative or Outdated Compliance Filings

1 Jamie R. Moe

Cost of Service Studies; Allocation
of Production Capacity Costs; SFR
Schedule A-1, All SFR G
Schedules, and Portions of Other
SFR Schedules; Fair Value Rate of
Return Calculation; Base Fuel and
Purchased Power Rate

5 Elizabeth A. Blankenship

Historical and Forecasted
Accounting Information; Various
SFRs and Pro Formas (Rate Base
and Income Statement); Change to
the Allocation of the Annual
Nuclear Decommissioning Funding
for Palo Verde Generating Station

9 Dr. Roger Morin,
Outside Expert

Cost of Capital; Return on Equity;
Fair Value Rate of Return

11 For convenience, APS includes as Attachment A an executive summary of each
12 witness's direct testimony.

13 **I. COMPONENTS OF THE RATE REQUEST**

14 The requested rate increase is based on adjusted test year sales for the Company's
15 jurisdictional electric operations during the Test Year. APS requests that the increase
16 become effective on December 1, 2023. This date is consistent with the Commission's
17 rule requiring it to process the Company's rate application within 12 months of the filing
18 of a notice of sufficiency.³

19 **A. Overall Rate Request**

20 The net base rate increase proposed by APS is \$460 million, which would increase
21 the amount of net revenue APS currently collects from customers by 13.6%. Figure 1
22 below illustrates the Company's requested base rate increase and corresponding customer
23 bill impact:

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28 ³ A.A.C. R14-2-103(11)(d)(i).

Figure 1.

Overview of Rate Increase	Dollars	Bill Impact
<i>Base Rate Increase</i>		
Total Revenue Deficiency	\$772M	22.9%
Test Year Adjustor Revenue Transfers	(\$108M)	(3.2%)
Base Rate Increase Net of Adjustors	\$664M	19.7%
<i>Net Rate Increase</i>		
Day-One Power Supply Adjustment (PSA) and Renewable Energy Adjustment Charge (REAC) Changes	(\$204M)	(6.1%)
Day-One Net Rate Impact	\$460M	13.6%

APS proposes its actual capital structure at the end of the Test Year, which was 51.93% equity and 48.07% long-term debt. APS's weighted cost of long-term debt at the end of the Test Year was 3.85%. As discussed by APS witness Dr. Roger Morin, APS proposes a return on equity of 10.25%, which appropriately reflects market risks and would permit APS to effectively compete for the capital APS will need to continue investing in Arizona's energy future. Combined with the embedded 3.85% cost of debt, APS's weighted average cost of capital is 7.17%. The inclusion of a 1.0% return on the fair value increment (FVI) of the Company's fair value rate base produces a requested return of 4.92% on fair value rate base. This increment and the requested 1.0% return on the FVI have been calculated in a conservative manner and are consistent with past findings of the Commission in Decision Nos. 73183 (May 24, 2012) and 71448 (December 30, 2009).

1. Post-Test Year Plant (PTYP)

The base rate increase includes a pro forma adjustment that incorporates 12 months of PTYP, from July 1, 2022 through June 30, 2023. This adjustment is structured in the

1 same manner as similar adjustments made in connection with APS's two preceding rate
2 cases. It includes only plant that is placed in service by the conclusion of the PTYP period,
3 and the calculation will be updated as the case proceeds to reflect actual costs of
4 investments that go into service. APS also rolled forward accumulated depreciation,
5 which further reduced the request, and has removed growth-related plant from its PTYP
6 request consistent with Decision No. 76295 (August 18, 2017). Specifically, the
7 Company's PTYP includes items, such as:

- 8 • Customer-based technology innovations, including electric vehicle (EV)
9 charging infrastructure and a microgrid facility to enhance system resiliency
10 and service reliability.
- 11 • Distribution system upgrades, including pole repair and replacement,
12 substation improvements, and the deployment of grid technology to
13 improve service quality and reliability.
- 14 • Renewable generation capital expenditures, including the AZ Sun Battery
15 Phase I Project, the AZ Sun Battery Phase 2 Project, and the Agave Solar
16 Project.
- 17 • Nuclear generation upgrades, including advanced water treatment
18 infrastructure to enable the plant to utilize recycled municipal wastewater,
19 as well as upgraded plant control equipment.
- 20 • Other generation expenses necessary to support the Company's entire non-
21 nuclear generation portfolio.
- 22 • Information technology and facilities, including upgrades to various
23 systems to maintain operational support and security enhancements for
24 critical infrastructure.

25 **2. Changes to Adjustment Mechanisms**

26 Consistent with the Commission's prior rate case decision, APS held collaborative
27 meetings with interested stakeholders and is proposing to modify its current portfolio of
28

1 adjustment mechanisms. APS proposes to reduce its current set of seven Commission-
2 approved rate adjustment mechanisms to four active and one inactive adjustment
3 mechanisms. The proposal will increase collections through base rates and revise certain
4 adjustor reset dates. Specifically, APS proposes the following:

- 5 • Eliminate the Environmental Improvement Surcharge (EIS) adjustment
6 mechanism. In the future, costs currently eligible for recovery through the
7 EIS will be handled through the traditional rate case process.
- 8 • Eliminate the Lost Fixed Cost Recovery (LFCR) adjustment mechanism.
9 The costs eligible for recovery through the LFCR will instead be recovered
10 partially in base rates and between rate cases in a revised Demand Side
11 Management Adjustment Charge (DSMAC). In addition, APS proposes
12 enhancements to the DSMAC performance incentive to better align with
13 peak load reduction goals.
- 14 • Enhance the Renewable Energy Adjustment Charge (REAC) to recover the
15 capital carrying costs of new, APS-owned clean energy resources and
16 energy storage facilities consistent with the Company's three-year resource
17 action plan required under the Commission's Integrated Resource Planning
18 rules. With this enhancement, customers will benefit from rate gradualism
19 by spreading the cost of investment over time rather than all at once at the
20 conclusion of a rate case proceeding. Customers will also benefit through
21 cost savings where clean-energy tax benefits are matched with investment
22 cost recovery.
- 23 • The filing dates for Renewable Energy Standard (RES) and Demand Side
24 Management (DSM) currently due on July 1 and June 1, respectively, will
25 both move to November 1 of each year. Once approved by the Commission,
26 the annual resets for these adjustors will become effective October 1 of the
27 following year.

1 APS is not requesting any structural changes to the Power Supply Adjustor (PSA),
2 Transmission Cost Adjustment (TCA) mechanism, or the Tax Expense Adjustment
3 Mechanism (TEAM) which is currently inactive and set at zero.

4 **B. Limited Income Programs**

5 APS and its community partners have a long history of providing bill discounts
6 and assistance to those customers who need them the most, through APS's Energy
7 Support and Crisis Bill Assistance programs. APS proposes to continue this important
8 tradition by maintaining the current Crisis Bill Assistance program funding of \$2.5
9 million and enhancing the Energy Support program.

10 Consistent with the direction provided by the Commission in its last rate case, APS
11 has worked extensively with stakeholders to develop for the Commission's consideration
12 an enhanced two-tiered Energy Support program. This proposal is intended to address
13 APS's most vulnerable customers' energy burdens and provide more support for those
14 with the greatest financial hardship. Under this two-tiered proposal, customers with
15 verified income levels between 0 to 75% of the federal poverty level (FPL) would receive
16 a discount of 60% off of their monthly bills, capped at a discount of \$165 per month.
17 Customers with income levels between 75% to 200% of the FPL would continue to
18 receive the current 25% discount, capped at \$95 per month.

19 Given the proposed program design changes, regulatory support is necessary to
20 address both the on-going growth in enrollment and the potential uncertainty regarding
21 the future costs of this program. As such, APS requests that the Commission authorize
22 the Company to track customer discounts applied, and defer program costs incurred above
23 or below the level authorized at the end of this case for potential recovery or refund in a
24 future rate case.

25 **C. AG-X Program Proposal**

26 In the Company's last rate case, the Commission directed APS to engage with
27 AG-X stakeholders to analyze and identify possible solutions on the following issues: cost
28

1 shifts, resource adequacy, scheduling imbalance, transmission capacity resource
2 constraints, another buy-through program for smaller and larger customers, the legality
3 of carve outs for specific customer classes, and ensuring equitable opportunities for
4 participation when the program is fully subscribed. To that end, APS has so far held nine
5 collaborative meetings with AG-X stakeholders to discuss the identified issues. As a result
6 of these discussions, APS is proposing the following modifications to its AG-X program:

- 7 • Providing AG-X customers two resource adequacy options and
8 corresponding reserve capacity rates from which to choose, depending on
9 whether they elect to provide their own resource adequacy. This change, if
10 adopted, will facilitate the elimination of the \$15 million being recovered
11 in the PSA mechanism and mitigate the cost shift to non-AG-X customers.
- 12 • Modifying the program's administrative charge to more accurately reflect
13 the cost to manage the AG-X program.
- 14 • Modifying the notification times required to leave the AG-X program to
15 ensure that APS has adequate time to procure replacement resources in a
16 cost-effective manner for customers.
- 17 • Expanding program eligibility to allow E-32 Medium and E-32 Small
18 customers to participate and reduce the aggregate peak load requirement
19 from 10MW to 5MW.

20 APS intends to continue its collaboration and engagement with the AG-X
21 stakeholders on remaining issues after the filing of this Application.

22 **D. Coal Community Transition (CCT)**

23 To address the economic ramifications of the early retirement of the Company's
24 coal-fired plants, APS is seeking Commission approval of those portions of the
25 Company's CCT proposal that were not approved in the 2019 Rate Case. APS is
26 requesting to recover \$106.5 million over nine years, with approximately \$16 million in
27 the first year, through its REAC mechanism. This \$106.5 million funding request
28

1 represents the level of CCT funding that APS requested in its last rate case (less the CCT
2 funds approved in Decision No. 78317), and would be allocated as follows:

- 3 • \$3.75 million for the Navajo Nation to support home and business
4 electrification efforts.
- 5 • \$10.4 million for the Navajo County communities in CCT financial support.
- 6 • \$2.35 million for the Hopi Tribe in CCT financial support.
- 7 • \$90 million for the Navajo Nation in CCT financial support.

8 **E. Changes to Service Schedules**

9 APS proposes the following changes to its Service Schedules:

- 10 • Revise Service Schedule 1 to simplify and update existing language,
11 including revisions to Section 12 (Limitations on Liability of Company) to
12 make the language consistent with peer electric utilities (as previously
13 approved by the Commission) and to eliminate inapplicable terminology;
- 14 • Revise Schedule 3 to simplify the construction process for customers and
15 clarify terms; and
- 16 • Revise Schedule 9 to increase the availability of the economic incentive for
17 rural applicants.

18 **F. Residential Rate Design**

19 APS proposes to keep residential rate structure changes to a minimum, continue
20 the Commission-directed efforts to provide customer education focused on rate selection,
21 and work to increase affordability and narrow the range of bill impacts. In addition, APS
22 proposes to eliminate in-network payment fees for all customers, including credit card
23 fees and in-person kiosk fees. APS further proposes to offer two additional off-peak
24 holidays for time-of-use (TOU) rate plans, specifically Juneteenth (which is observed on
25 June 19 of each year) and Indigenous Peoples'/Columbus Day (which is observed on the
26 second Monday in October of each year), both of which are recognized as state and federal
27 holidays.

1 **G. General Service Rate Design**

2 APS proposes the following changes to its general service rate offerings:

- 3 • Increase the rates to reflect the requested increase in revenue requirements
- 4 for the class.
- 5 • Revise streetlighting Rate Schedules E-45 and E-68 to conform with current
- 6 conditions.

7 **II. STATEMENTS IN SUPPORT OF APPLICATION AND RELIEF**

8 **REQUESTED**

9 In support of this Application, APS states as follows:

- 10 1. APS is a corporation duly organized, existing, and in good standing under the
- 11 laws of the State of Arizona. Its principal place of business is 400 N. 5th Street,
- 12 Phoenix, Arizona, 85004.
- 13 2. APS is a public service corporation, engaged in the generation, transmission,
- 14 and distribution of electricity for sale in Arizona. In conducting such business,
- 15 the Company operates an interconnected and integrated electric system.
- 16 3. All communications and correspondence concerning this Application, as well
- 17 as discovery and pleadings with respect thereto, should be served upon:

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19 Jeffrey S. Allmon (Jeffrey.Allmon@pinnaclewest.com)

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27 And also:

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 Arizona Public Service Company

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- 1 4. This Commission has jurisdiction to conduct public hearings to determine the
2 fair value of the property of the public service corporation, to fix a just and
3 reasonable rate of return thereon, and thereafter, to approve rate schedules
4 designed to develop such return. Further, the Commission has jurisdiction to
5 establish the practices and procedures to govern the conduct of such hearings,
6 including, but not limited to, such matters as notice, intervention, filing,
7 service, exhibits, discovery, and other prehearing and post-hearing matters.
- 8 5. Accompanying this Application are all the relevant SFRs and rate design
9 schedules required by A.A.C. R14-2-103⁴ as well as the supporting direct
10 testimony and attachments of the witnesses identified above. In Decision
11 No. 78317, the Commission requested that the Company identify a way to
12 present separate “jurisdictional only” schedules. The Company intends to
13 submit a separate set of jurisdictional schedules for informational purposes
14 within 30 days.
- 15 6. The Company respectfully requests that this Commission set a date for the
16 hearing on this Application such that new rates for the Company will become
17 effective by December 1, 2023. At the hearing conducted pursuant to this rate
18 request, APS alleges and will establish, among other items, that:
- 19 a. APS’s current rates and charges do not permit the Company to earn a
20 fair return on the fair value of its assets devoted to public service and are
21 therefore no longer just and reasonable;
- 22 b. The requested increase produces the minimum amount necessary to
23 allow the Company an opportunity to earn a fair return on the fair value
24 of its assets devoted to public service, preserve the Company’s financial
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26
27 ⁴ This Application does not include SFR Schedule E-6 because that schedule applies only
28 to a “combination utility” within the meaning of A.A.C. R14-2-103(A)(3)(q), and APS is
not a “combination utility.”

1 integrity and stability, and permit the Company to attract new capital
2 investment on reasonable terms;

- 3 c. The Company requires additional permanent revenue of at least \$460
4 million, based on annualized test period sales, calculated as described in
5 this Application, in order to continue to provide, both now and in the
6 future, safe, adequate, and reliable electric service to its customers as
7 required by law;
- 8 d. APS's new rates and service offerings for residential and general service
9 customers are in the public interest and should be approved;
- 10 e. The Company's proposed modifications to existing rates and service
11 schedules are in the public interest and should be approved;
- 12 f. The Company's proposed CCT funding is in the public interest and
13 should be approved;
- 14 g. Regarding its limited-income Energy Support program, that the
15 Company be allowed to track discounts applied to customers' bills and
16 defer program costs incurred above or below the levels authorized in this
17 case for future recovery or refund. Accordingly, APS requests that any
18 final order in this case contain the following language as part of its
19 ordering language:

20 IT IS FURTHER ORDERED that APS is authorized to track
21 discounts paid to customers and to defer program costs
22 incurred above or below the level authorized in this case on
23 the limited-income programs (E-3 and E-4) for possible later
24 recovery or refund through rates. Nothing in this Decision
25 shall be construed in any way to limit this Commission's
26 authority to review the entirety of the program and to make
27 any disallowances thereof due to imprudence, errors, or
28 inappropriate application of the requirements of this
Decision;

1 h. The Company's proposed modifications and enhancements to current
2 adjustment mechanisms are in the public interest and should be
3 approved;

4 i. The Company's depreciation rates and its modifications to the Palo
5 Verde Generating Station decommissioning funding contribution
6 allocation (as proposed and discussed in the Direct Testimony of APS
7 witness Elizabeth Blankenship and set forth in Attachment EAB-02DR)
8 are in the public interest and should be approved. In order to effectuate
9 the necessary change in the allocation of decommissioning funding,
10 APS requests that any final order in this case contain the following
11 language as part of its ordering language:

12 IT IS FURTHER ORDERED that the decommissioning costs
13 recommended by APS are adopted as set forth in the
14 decommissioning contribution schedule attached as
Appendix [X] to this Decision;

15 and

16 j. All other proposals supported by the testimony and the accompanying
17 exhibits are in the public interest and should be approved.

18 7. In addition to setting a hearing date, APS asks that the Commission issue a
19 procedural order setting forth the prescribed notice for the Application, establishing
20 procedures for intervention, and providing for appropriate discovery.

1 RESPECTFULLY SUBMITTED this 28th day of October 2022.

2
3 By: _____

Melissa M. Krueger

4 Jeffrey S. Allmon

Theresa Dwyer

5 Attorneys for Arizona Public Service Company

6
7
8 ORIGINAL electronically filed
9 this 28th day of October 2022, with:

10 Docket Control
11 Arizona Corporation Commission
12 1200 West Washington Street
Phoenix, Arizona 85007

13 COPY of the foregoing emailed/delivered
14 this 28th day of October 2022 to:

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