DIRECT TESTIMONY OF JESSICA E. HOBBICK

On Behalf of Arizona Public Service Company

Docket No. E-01345A-25-0105

June 13, 2025

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DIRECT TESTIMONY OF JESSICA E. HOBBICK
ON BEHALF OF ARIZONA PUBLIC SERVICE COMPANY
(Docket No. E-01345A-25-0105)

I. INTRODUCTION

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

A. My name is Jessica E. Hobbick. I am the Senior Director of Rate Strategy and State Regulatory Affairs for Arizona Public Service Company (APS or Company). I have oversight of the Load Research, Revenue Requirement, Rate Design, Rate Administration, and State Regulatory Strategy and Compliance teams. My business address is 400 North 5th Street, Phoenix, Arizona 85004.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL BACKGROUND.

A. I have been employed by APS for 25 years, 17 of which I worked in Customer Service. During my time in Customer Service, I held a variety of positions, including Credit and Collections Leader and Billing Manager. I joined Regulatory Affairs in December 2016, and in 2024 I became the Senior Director of Rate Strategy and State Regulatory Affairs. I have a Bachelor of Science degree in Business Management from Grand Canyon University.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA CORPORATION COMMISSION (ACC OR COMMISSION)?

A. Yes. I testified in the Company's 2019 and 2022 Rate Cases[1] and have participated in various Commission workshops and Open Meetings.

[1] *In re App. of Ariz. Pub. Serv. Co. for a Hr'g to Determine the Fair Value of the Util. Prop. of the Co. for Ratemaking Purposes*, Docket No. E-01345A-19-0236; *In re App. of Ariz. Pub. Serv. Co. for a Hr'g to Determine the Fair Value of the Util. Prop. of the Co. for Ratemaking Purposes*, Docket No. E-01345A-22-0144 (APS 2022 Rate Case or last rate case).

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. My testimony will explain the mechanics of APS's formula rate proposal to adjust rates (up or down) on an annual basis to ensure that the Company does not earn more (or less) than its authorized return. My testimony also discusses the class level revenue allocation and resulting customer bill impacts, along with a number of rate design related modifications. I discuss several pro forma adjustments related to adjustment mechanisms and customer programs, and I propose changes to various compliance reports and service schedules.

II. SUMMARY OF DIRECT TESTIMONY

Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.

A. In my Direct Testimony, I discuss the allocation of the requested revenue increase to each customer class and provide average bill impacts net of adjustor transfers. I sponsor Standard Filing Requirements (SFR) Schedules H-1 through H-5, as well as the Company's rate schedules, service schedules, proof of revenue, and the residential bill impact analysis attached as JEH-01DR.

I explain the Company's formula rate proposal and discuss how approval of a formula rate will reduce the frequency and burden of general rate cases, while also benefiting customers. The formula rate proposal will promote rate stability and gradualism for APS customers, reduce regulatory lag, and more closely align costs with revenues to ensure just and reasonable rates. The Company's proposed Formula Rate Adjustor Mechanism (FRAM) follows the guidance offered in the Commission's Policy Statement Regarding Formula Rates (Formula Rate Policy

Statement) that was adopted during the Commission's December 3, 2024 Open Meeting and finalized in Decision No. 79647.[2]

I describe APS's plan for improving cost recovery for large high load factor customers, such as data centers, to mitigate impacts to the residential and small general service rate classes when investing to serve significant growth among these customers. This includes changes to the minimum bill requirements and eligibility criteria in the Extra High Load Factor Rate Schedule XHLF (XHLF) rate classes, as well as rate changes to support directly assigning the costs associated with new and incremental generation (production demand and energy). This is also discussed further in APS witness Jamie Moe's Direct Testimony.

I discuss proposed changes to APS's System Reliability Benefit (SRB) and Power Supply Adjustment (PSA) mechanisms and minor revisions to the Company's service schedules, adjustment mechanisms, and rate riders. I will also explain why the Company supports eliminating the Critical Peak Pricing (CPP) rate rider.

I sponsor various pro forma adjustments, including the Company's request to eliminate the AutoPay Credit and recover costs associated with the Crisis Bill Assistance and Energy Support Program (E-3) discount program.

Finally, I request the elimination of several unnecessary and burdensome compliance requirements.

[2] *In the Matter of the Comm's Inquiry into Possible Modifications to the Comm's Test Year Rules,* Docket AU-00000A-23-0012, Decision No. 79647 (Dec. 31, 2024) (Decision No. 79647) at Attachment A.

III. ALLOCATION OF REQUESTED REVENUE REQUIREMENT

Q. WHAT IS THE CUSTOMER BILL IMPACT OF THE COMPANY'S REQUESTED RATE INCREASE?

A. APS is requesting an overall net customer rate increase of $579.52 million which represents a 13.99% net increase to the 12-month period ending December 31, 2024 (Test Year) base revenues as set forth in Figure 1. This includes the base rate increase as well as the removal of Lost Fixed Cost Recovery (LFCR) revenues and a reduction to the Court Resolution Surcharge (CRS) to reflect the portion being transferred into base rates. The details of this calculation are shown below.

Figure 1. Total Net Bill Impact

Net Impact = Net Base Rate Increase + Net Adjustor Changes	**Impact**
Total Base Revenue Deficiency	$662.44M
LFCR Removal/Transfer	($48.55M)
CRS Transfer	($34.37M)
Base Rate Increase Net of Adjustors	**$579.52M**
Percent Increase Net of Adjustors	**13.99%**

Q. HOW DOES APS PROPOSE TO ALLOCATE THE INCREASE TO THE VARIOUS CUSTOMER CLASSES?

A. The Company is proposing to allocate the requested rate increase to bring customer classes closer to the rate class level cost of service, the results of which are reflected in Attachment JRM-02DR and sponsored by Mr. Moe. If the Company were to allocate an increase such that every rate class achieved 100% of the cost of service, some classes would experience a more significant increase than others. For example, residential customers on the small tier of the Fixed Energy Charge (R-1)

rate would need to receive nearly a 40% price increase just to achieve parity between rates and the cost to serve the residential class. To more gradually align residential rates with the cost of service, APS has limited the increase to any one residential class at 1.25 times the overall average increase. Allocating dollars using this approach preserves underlying principles of cost causation and the integrity of price signals, while presenting a fair manner to recover costs from each class of customers. Classes that achieved recovery of a larger percentage of their costs during the Test Year will receive a smaller increase than classes that were achieving a much lower portion of Test Year costs. The results of this allocation are described below in Figure 2, which shows the allocation to each class.

Figure 2. APS Proposed Revenue Allocation

Class	Requested Increase to Base Rates	Transfer from Adjustor Rates to Base Rates	Requested Net Impact
Residential	16.44%	-1.86%	14.58%
General Service			
Extra-Small, Small	9.32%	-2.66%	6.66%
Medium	9.42%	-2.88%	6.54%
Large	15.73%	-1.01%	14.72%
Extra-Large	30.80%	-1.33%	29.47%
Schools	14.34%	-3.84%	10.51%
House of Worship	16.00%	-4.22%	11.78%
Irrigation/Municipal	15.92%	-4.85%	11.07%
Outdoor-Lighting	15.95%	-0.41%	15.54%
Total Retail	**15.99%**	**-2.00%**	**13.99%**

Q. PLEASE FURTHER DISCUSS APS'S PROPOSAL TO BRING CLASSES CLOSER TO THEIR COST OF SERVICE.

A. In Decision No. 76295 (August 18, 2017),[3] the Commission adopted APS's proposal to make progress in aligning rates with class level costs by designing rates and rate components based on specific costs (i.e., the basic service charge was

[3] *In re the App. of Ariz. Pub. Serv. Co. for a Hr'g to Determine the Fair Value of the Util. Prop. of the Co. for Ratemaking Purposes*, Docket No. E-01345A-16-0036, Decision No. 76295 (Aug. 18, 2017) (Decision No. 76295).

increased to better align with fixed costs such as the meter, meter reading, billing, and other services that do not vary with customer consumption). In the two rate cases that followed, Decision No. 78317 (November 9, 2021)[4] and Decision No. 79293 (March 5, 2024),[5] the Commission adopted allocation methods that aimed to achieve more gradual improvements in moving classes closer to their cost of service. This was achieved by allocating revenue more evenly across customer classes and rate components. Because rate design aims to achieve a number of objectives beyond simply setting rates to recover costs, such as gradualism, simplicity, and to support policy goals, the manner in which rate increases are applied can sometimes differ. However, as time between alignment is prolonged, rates can shift farther from costs than intended, which is why it is appropriate periodically to implement more significant rate modifications. In APS's last rate case, The Kroger Co. (Kroger) witness Stephen J. Baron discussed certain components of general service rates that warranted movement closer to their costs.[6] Similarly, Walmart Inc. (Walmart) witness Steve W. Chriss, Federal Executive Agencies (FEA) witness Michael P. Gorman, and Commission Utilities Division (Staff) witness Dr. David E. Dismukes proposed revenue allocation that would

[4] *In re App. of Ariz. Pub. Serv. Co. for a Hr'g to Determine the Fair Value of the Util. Prop. of the Co. for Ratemaking Purposes*, Docket No. E-01345A-19-0236, Decision No. 78317 (Nov. 9, 2021).

[5] APS 2022 Rate Case, Decision No. 79293 (Mar. 5, 2024) (Decision No. 79293).

[6] Direct Testimony and Exhibits of Stephen J. Baron on Behalf of the Kroger Co. June 15, 2023. E-01345A-22-0144. https://docket.images.azcc.gov/E000027769.pdf?i=1749007162770.

address subsidies between residential and non-residential rates.[7,8,9] In this rate case, APS is proposing a rate design to address both issues, to better align rates with the underlying costs they are designed to recover, and to bring customer classes closer to rate parity with their respective cost of service results.

Q. HOW DOES THE REVENUE ALLOCATION IMPACT RESIDENTIAL CUSTOMERS?

A. APS is providing a residential bill analysis to estimate the level of bill increase or decrease customers may experience upon the implementation of new rates, using Test Year usage. To prepare this analysis, each customer's Test Year billing details, including billed days, on- and off-peak kWh, and kW demand are rebilled under proposed rates and adjustors. The results are then compared to the amount customers are billed under present rates and adjustors to determine the impact percentage. This analysis is attached to my testimony as Attachment JEH-01DR. APS focused on directing increases to customers recovering significantly below their cost of service. Those below 70% of their cost of service received a base rate increase of 1.15 times the average increase and those below 50% of their cost of service received a base rate increase of 1.25 times the average increase. As shown in Figure 3, this results in 85% of residential customers experiencing a net impact between 12% and 17%. Those customers who would have experienced higher levels of impact were evaluated and the cause of the higher percentages is typically related to low levels of energy usage and smaller bill amounts where a $3 to $4

[7] Direct Testimony and Exhibits of Steve W. Chriss on Behalf of Walmart Inc. June 15, 2023. E-01345A-22-0144. p 13. https://docket.images.azcc.gov/E000027770.pdf?i=1749007162770.

[8] Direct Testimony and Exhibits of Michael P. Gorman on Behalf of Federal Executive Agencies. June 15, 2023. E-01345A-22-0144. p 3. https://docket.images.azcc.gov/E000027760.pdf?i=1749007162770.

[9] Direct Testimony of Dr. David E. Dismukes on Behalf of the Utilities Division Arizona Corporation Commission. June 15, 2023. E-01345A-22-0144. p 30. https://docket.images.azcc.gov/E000027794.pdf?i=1749007162770.

increase to the daily basic service charge, or the grid access charge represents a larger percentage of the bill.

Figure 3. Bill Impacts Present to Proposed Rates

Bill Impacts – Test Year Ending December 2024		
Present to Proposed Rates		
Net Day 1 Impact with Adjustor Transfers		
Total		
% Impact	customers	% customers
<=0%	-	0.00%
0.01% to 1.0%	-	0.00%
1.01% to 2.0%	-	0.00%
2.01% to 3.0%	736	0.06%
3.01% to 4.0%	378	0.03%
4.01% to 5.0%	350	0.03%
5.01% to 6.0%	380	0.03%
6.01% to 7.0%	431	0.03%
7.01% to 8.0%	564	0.04%
8.01% to 9.0%	738	0.06%
9.01% to 10.0%	1,834	0.15%
10.01% to 11.0%	2,479	0.20%
11.01% to 12.0%	8,582	0.68%
12.01% to 13.0%	108,862	8.67%
13.01% to 14.0%	420,616	33.49%
14.01% to 15.0%	286,542	22.81%
15.01% to 16.0%	163,158	12.99%
16.01% to 17.0%	88,943	7.08%
17.01% to 18.0%	56,342	4.49%
18.01% to 19.0%	33,342	2.65%
19.01% to 20.0%	22,536	1.79%
20.01% to 21.0%	15,724	1.25%
21.01% to 22.0%	9,435	0.75%
22.01% to 23.0%	6,158	0.49%
23.01% to 24.0%	4,817	0.38%
24.01% to 25.0%	7,542	0.60%
25.01% to 26.0%	2,399	0.19%
26.01% to 27.0%	1,650	0.13%
27.01% to 28.0%	1,309	0.10%
28.01% to 29.0%	1,143	0.09%
29.01% to 30.0%	976	0.08%
30.01% to 31.0%	802	0.06%
31.01% to 32.0%	765	0.06%
32.01% to 33.0%	671	0.05%
33.01% to 34.0%	587	0.05%
34.01% to 35.0%	647	0.05%
>35.0%	4,682	0.37%
Total	1,256,120	100.00%

IV. FORMULA RATE PROPOSAL

Q. DESCRIBE THE CONCEPT OF REGULATORY LAG.

A. Regulatory lag represents the significant length of time between changes in expense levels and necessary investments made by the utility company to maintain reliable service and the time in which the company can begin recovering those costs in rates. As an example, APS filed its last rate case in October of 2022 using a test year period of July 1, 2021 through June 30, 2022. After the initial application was filed, two additional rounds of testimony were filed, thousands of discovery requests were submitted, a 23-day hearing took place, and parties had the opportunity to file briefs. After this lengthy process, a final decision was rendered, and new rates became effective in March of 2024 (Decision No. 79293). This meant that, as additional investments were made and as costs and expenses to serve customers increased, base customer rates remained static. APS witness Chris R. Bauer further discusses how this issue will be exacerbated in the future as the Company plans to serve significant load growth in the context of persistent financial market volatility.

Q. WHAT IS A FORMULA RATE?

A. A formula rate is a transparent way to address regulatory lag by implementing more regular rate adjustments so as to achieve closer alignment between prices paid by customers and the costs to provide reliable service. In this respect, a formula rate sets utility rates using a Commission-approved formula, providing oversight of utilities through an annual review of the utilities' costs, reducing the delay between when a utility incurs and recovers costs, and protecting customer interests. A formula rate requires a transparent annual filing of the Company's most recent 12 months of audited financial statements. Based on this data, the formula rate establishes a mechanism to perform an annual evaluation of costs and revenues to make necessary rate adjustments to more closely align rates with the cost to serve

customers. In general, formula rates significantly reduce regulatory lag by replacing multi-year litigated general rate case proceedings with an annual process that adjusts and updates revenues to reflect more recent levels of investments and expenses. The formula rate is conceptually similar to the revenue requirement calculation developed in a full general rate case; however, a formula rate does not require all of the pro forma adjustments that are necessary in a general rate case to adjust a specific test year to represent typical circumstances for multiple years of future cost recovery. This approach is similar to the earnings test attributed within APS's LFCR and SRB adjustment mechanisms. Formula rates typically include an annual reset that assesses and updates costs and rates to ensure that the utility does not earn more than authorized.

Q. DO OTHER UTILITIES AND OTHER JURISDICTIONS UTILIZE FORMULA RATES?

A. Yes. Formula rates have been used effectively by the Federal Energy Regulatory Commission (FERC) in 48 states to oversee cost recovery associated with transmission-related expenses and investments. In addition, more than 50 utilities in 12 other states have used formula rates for retail utility cost recovery. These annual formulaic adjustments serve as an alternative to the lengthy multi-year process to seek rate relief after the utility has already incurred the costs of new facilities already in place and serving customers.

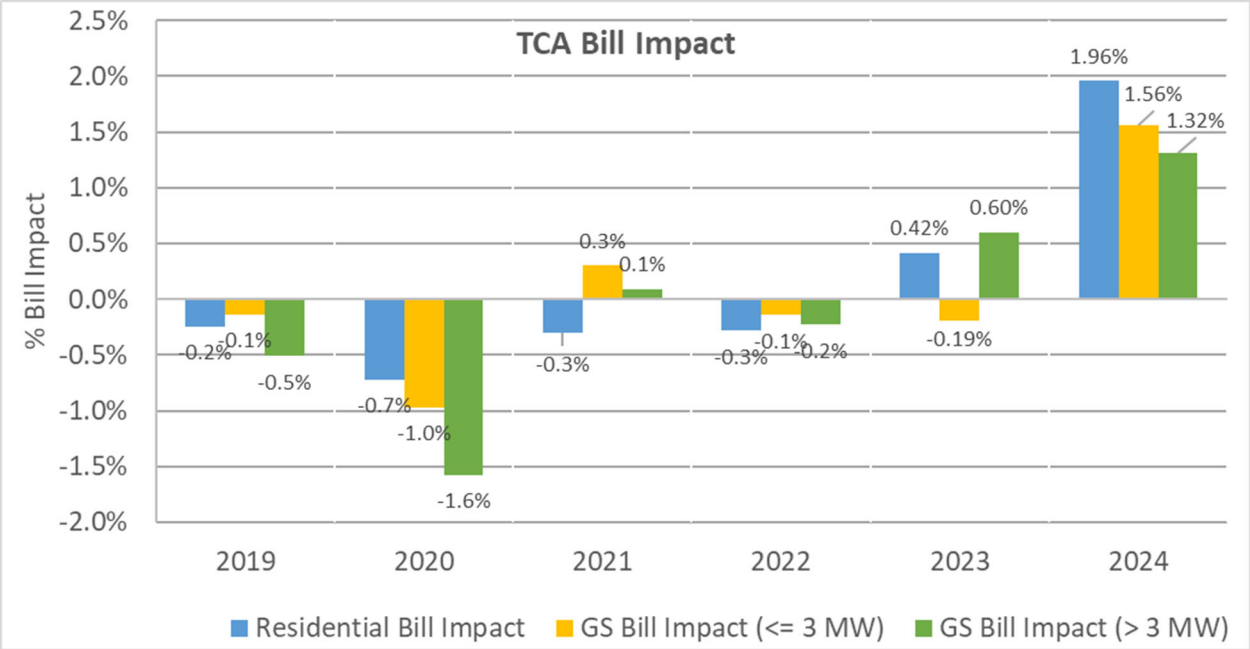
Q. HOW WOULD A FORMULA RATE BENEFIT CUSTOMERS?

A. Formula rates provide important benefits to customers. A primary benefit is rate gradualism, where prices can change annually when costs or revenues fall outside the authorized return. This approach helps to avoid more significant rate adjustments that result from traditional ratemaking, which entails accumulating multiple years of investment and cost fluctuations to serve customers. From a customer budgeting perspective, it is easier to accommodate smaller, more frequent

changes in price than the impact of larger, more significant price increases every three to five years. Additionally, rates that reflect a more current level of costs allow customers to make energy use decisions based on the current costs to serve those customers, as opposed to rates based on what it cost to serve customers several years prior.

Another customer benefit is that formula rates are often designed symmetrically, so they can increase or decrease annually in response to real world conditions. This means that formulas can adjust downward, reducing customer rates, when a utility has increased revenues based on factors like weather or sales growth or when expenses are lower due to a variety of reasons, such as interest rate reductions or tax-related changes. Formula rates allow the utility to pass those benefits on to the customer faster than through a typical multi-year rate case. Ultimately, formula rates offer customers the assurance that a utility cannot exceed the level of authorized return through the annual reset process. Figure 4 below highlights how APS's FERC formula has maintained a residential Transmission Cost Adjustor (TCA) bill impact of no more than 1.96% year-over-year.

Figure 4. TCA Bill Impacts



Q. IS APS REQUESTING A FORMULA RATE IN THIS RATE CASE?

A. Yes, APS proposes a plan of administration (POA) and compliance schedules for an annual formula rate adjustment, the FRAM, that would commence with the rate effective date adopted in this proceeding. The pro forma adjustments and rate design elements reflected in the testimony and schedules sponsored by Company witnesses are developed to support a formula rate with future annual adjustments as well as a five-year timeline between general rate cases.

Q. PLEASE DESCRIBE APS'S FORMULA RATE PROPOSAL.

A. APS's proposed FRAM aligns with the guidance offered by the Commission's Formula Rate Policy Statement in Decision No. 79647. A comprehensive structure for implementing the FRAM and the Formula Rate Adjustor (FRA) are detailed in the POA and proposed compliance schedules, attached to my testimony as Attachment JEH-02DR and Attachment JEH-03DR. Elements of APS's formula rate proposal are similar to the Company's FERC formula rate, which has been

used effectively since 2008 for recovery of transmission-related expenses, and include the following components/attributes:

- The compliance schedules will use historic test year financial statements, and the Commission approved return on equity (ROE), capital structure, and fair value increment in the most recent rate case;
- The annual compliance filing will include 12-months of projected plant, calculated using the same FERC formula rate approach that uses the accumulated depreciation amount from the 12-month calendar year period to represent concurrent recovery of investments placed into service by the time the annual rate becomes effective. In the event there are generation costs being recovered in the SRB, those costs will be transferred into the FRAM during the annual rate reset;
- Certain adjustments to the annual financial results defined within the POA attached to my testimony as Attachment JEH-02DR will be made to remove surcharge revenues, update disallowances, and align with the requirements of the most recent rate case decision;
- The annual rate will not be adjusted if the actual ROE falls within 20 basis points above or below the approved ROE from the prior rate case unless there is an outstanding true-up from a prior challenge period;
- The Company will post the annual compliance filing on aps.com, host an interested parties meeting to discuss the filing, and provide access to workpapers for interested parties using reasonable and appropriate protocols for information exchange; and
- Interested parties will have a challenge period of just over two months after the annual compliance filing during which they may submit discovery requests and file comments.

Q. PLEASE DESCRIBE THE TIMELINE OF APS'S PROPOSED ANNUAL FORMULA FILING.

A. The Company proposes filing the FRAM annually on or before July 31 with a rate effective date of September 1. Any adjustments deemed appropriate during the challenge period will be accumulated in the true-up and applied as part of the next rate reset consistent with the Company's FERC formula rate. Figure 5 details the milestones and dates that would apply each year.

Figure 5. Milestones and Timeline

Action	Deadline
ACC filing/publication of Annual Update; Informal Information Exchange Period and Informal Challenges begin	On or before July 31
Annual interested parties meeting	August 5
Last Day to 1) Serve Data Requests as Part of the Informal Information Exchange, and 2) Submit Informal Challenges	August 12
Last Day for Company to Respond to 1) Data Requests Served as Part of the Informal Information Exchange, and 2) Informal Challenges	August 26
Informal Challenge Resolution Deadline	August 31
Rate effective date	First billing cycle of September
Adjusted annual Update posted	September 1
ACC Filing/Publication of Adjusted Annual Update	September 8
Last Day to 1) Serve Data Requests as part of the Formal Information Exchange, and 2) File Formal Challenges	September 22
Last Day for Company to Respond 1) Data Requests Served as Part of the Formal Information Exchange, and 2) Formal Challenges	October 6
Staff Report (if hearing not required)	October 31
Commission Decision	December 1
If any date should fall on a weekend or holiday the deadline shall move to the next business day	

Q. HOW WOULD THE ANNUAL RESET BE ALLOCATED TO CUSTOMER CLASSES?

A. The revenue surplus or deficiency will be allocated across customer classes based on the annual ACC jurisdictional cost of service results; the reset will be

apportioned consistent with the rate class(es) that are more significantly above or below their cost to serve. This method ensures that, between general rate cases, specific rate classes make continued gradual progress in moving closer to the cost to serve each respective class. Residential customers, and most general service customers will experience adjustments limited to 0.85 to 1.15 times the annual average adjustment, while customers on Extra Large General Service Rate Schedule E-34, E-35, and XHLF will receive the rate adjustment needed to ensure they do not achieve less than the cost to serve the class. This will ensure that the costs incurred to serve significant growth in these larger classes are not shifted to other customers during the annual formula rate adjustments.

Annual formula rate adjustments will be applied as a percentage of the base rate portion of customer bills, which will maintain rate and cost alignment between rate cases and minimize bill impact disparities within each rate class. The annual adjustment will be listed as a separate line item on the bill, which would be shown as the "Formula Rate Adjustor". This is the same way the Transmission Cost Adjustor TCA updates annually to reflect changes between base transmission rates and the FERC formula rate.

Q. DOES APS PROPOSE TO ELIMINATE ANY OF ITS ADJUSTORS WITH THE APPROVAL OF A FORMULA RATE?

A. Yes. If the FRAM and FRA are approved, the LFCR mechanism would not be necessary after the first FRAM filing. In the Company's 2025 Rate Case Application, the pro forma adjustment to remove the level of Test Year LFCR revenues only represents the amount being recovered in 2024. As a result, there would be a smaller LFCR balance associated with the July of 2025 and July of 2026 LFCR filings that would continue to be recovered in the adjustor until the

first FRA rate change, at which time the LFCR will be fully recovered, set to zero, and eliminated.

Q. IS APS PROPOSING TO RETAIN ANY OF ITS ADJUSTORS WITH THE APPROVAL OF A FORMULA RATE?

A. Yes. APS proposes to retain the following adjustors:

- The Tax Expense Adjustor Mechanism (TEAM) would remain to provide flexibility should future legislative tax changes occur.
- The TCA would remain to support updates to the FERC formula each year.
- The PSA would remain to provide transparency of fuel and purchased power related expenses and preserve flexibility in the timeline under which costs captured in the historical and transition components must be recovered. Because fuel costs represent approximately one third of the Company's costs, preserving this adjustor is appropriate and consistent with other jurisdictions with formula rate plans, such as Alabama Power Company, Entergy Corporation (Louisiana, Arkansas, and Mississippi), Cleco Power, and Southwestern Electric Power Company (SWEPCO).
- The SRB adjustor, approved in Decision No. 79293, includes a fulsome and robust stakeholder process. By keeping this as a separate adjustor, that process can be preserved without compromising the improvement to regulatory lag achieved through a formula that could occur if the SRB was consolidated into the formula rate. Retaining the SRB also allows customers to receive the benefits of offsetting tax credits concurrent with the costs associated with generation investments recovered in the SRB which minimizes customer impacts. A few examples of utilities that have both formula rates and separate adjustors for distinct costs include Alabama Power's Environmental and Capacity Adjustor, and Entergy Mississippi's System Restoration Adjustor.

- Lastly, the Commission ordered in Decision No. 79293 that the portion of Demand Side Management program costs recovered in base rates be moved back to the adjustor to ensure transparency in the level of funding needed to support these programs. As such, the Demand Side Management Adjustment Charge (DSMAC) and Renewable Energy Adjustment Charge (REAC) should be retained. This approach is similar in nature to other utilities who have formula rates and separate adjustors for other program costs to ensure transparency. Some examples include Entergy Louisiana's Environmental Adjustor, SWEPCO's Environmental Compliance Adjustor, and Public Service Company of Oklahoma's Environmental Adjustor.

Q. DOES APS BELIEVE A FORMULA RATE WOULD ELIMINATE THE NEED FOR RATE CASES?

A. No. Consistent with the ACC's formula rate policy statement, the Company proposes a requirement to file a general rate case application after five annual formula rate updates that begin with the effective date of new rates adopted in a full rate case. An important and critical element of establishing rates includes an evaluation of certain items that would not be modified in the annual formula reset. This includes but is not limited to the evaluation of the Company's ROE and capital structure against a proxy group of its peers, performing a refreshed depreciation study, and consideration of more significant rate design changes, among others — each of which would benefit from a general rate case proceeding.

Q. ARE THERE OTHER BENEFITS TO IMPLEMENTING A FORMULA RATE?

A. Yes. As APS witnesses Theodore N. Geisler and Mr. Bauer discuss in their Direct Testimonies, formula rate plans reduce the level of uncertainty around timely cost recovery that exists in traditional ratemaking, which improves a utility's financial stability. A financially stable utility can obtain lower interest rates and have greater

access to low-cost capital, the corresponding savings of which are passed on to customers. Annual rate updates benefit customers by more frequently aligning cost recovery with the customers who are benefiting from the service, thereby limiting generational cost shifting between current and future customers. Updating sales levels each year will match customer growth with the costs necessary to pay for the facilities needed to serve that growth.

Q. HOW DOES A FORMULA RATE ADDRESS REGULATORY LAG?

A. When compared to the current rate case process, an annual process to update rates through a formula can produce time, resource, and cost savings, all of which provide significant improvements to regulatory lag. Under formula rates, the annual updates still enable ample transparency and public review of the updated cost and expense items that form the basis of an annual rate reset. At the same time, the formula rate preserves and maintains many of the items fully litigated by all stakeholders in a full rate case, including the ROE, capital structure, disallowances, depreciation rates, rate design, and other core elements. Since these items are among the most costly and time-consuming to litigate in a general rate case, the formula rate's streamlined process has the ability to eliminate years of regulatory lag when compared to the current ratemaking process, while still ensuring robust evaluation and stakeholder involvement as to core elements of the utility's rate structure, including a review of new plant. In this respect, the formula rate proposal ensures that all rate case items will be revisited again in a full rate case after the fifth annual formula update (unless the Company elects for, or the Commission requires, a general rate case to be filed sooner).

V. RESIDENTIAL RATE DESIGN

Q. PLEASE DESCRIBE THE RESIDENTIAL RATE DESIGN CHANGES APS IS PROPOSING IN THIS APPLICATION.

A. As discussed earlier, the Company has proposed more modest changes to rate design components since new residential rates were adopted in August of 2017 (i.e., Decision No. 76295), which was intended to minimize disparity in bill impacts among customers and customer classes. While this approach offers benefits of rate stability and gradualism, it is necessary to periodically conduct more meaningful alignment between rate components and the specific costs they are intended to recover to preserve underlying principles of cost causation. To make progress toward achieving this alignment, the basic service charges were evaluated and compared to the cost of service results discussed in Mr. Moe's Direct Testimony. Based on the results of that analysis, and considering other impacts to customers such as rate gradualism, rate stability, and fairness in apportioning costs, the following changes are proposed.

Figure 6. Residential Current and Proposed Basic Service Charge

Rate	COS	Present Rate	Current Recovery	Proposed Rate	Proposed Recovery
R-1 Tier 1	$ 23.54	$ 10.86	46%	$ 15.00	64%
R-1 Tier 2	$ 23.23	$ 13.74	59%	$ 15.00	65%
R-1 Tier 3	$ 23.03	$ 13.74	60%	$ 15.00	65%
TOU-E	$ 23.53	$ 13.74	58%	$ 15.00	64%
R-3	$ 24.12	$ 13.74	57%	$ 15.00	62%
E-12	$ 23.51	$ 12.00	51%	$ 15.00	64%
ET-1	$ 23.51	$ 21.36	91%	$ 21.99	94%
ET-2	$ 23.51	$ 21.36	91%	$ 21.99	94%
ECT-1R	$ 23.27	$ 21.36	92%	$ 21.99	94%
ECT-2	$ 23.27	$ 21.36	92%	$ 21.99	94%

* Rates shown multiply the daily charge by 30 days in a month

Q. ARE THE PROPOSED RESIDENTIAL BASIC SERVICE CHARGES CONSISTENT WITH OTHER ARIZONA UTILITIES?

A. Yes. The Company's proposed residential basic service charges are either consistent with or lower than other Arizona utilities, as shown in Figure 7 below. The underlying fixed costs that these charges are intended to recover include the cost of the meter and the infrastructure needed to read the meter, customer service-related expenses, and costs associated with billing. These costs are incurred regardless of a customer's energy consumption; therefore, it is important that these fixed costs be recovered through fixed daily charges. The current residential customer charges are recovering less than the corresponding cost to provide these basic services to residential customers and with the proposed increase still don't achieve full recovery. For this reason, the Company believes the proposed basic service charge increase is appropriate and necessary.

Figure 7. Arizona Non-TOU Basic Service[10]

[10] The APS current and proposed basic service charge also applies to non-legacy TOU residential customers. The current APS basic service charge does not include R-1S and E-12, which are lower.

Q. IS APS PROPOSING CHANGES TO RESIDENTIAL SOLAR RATES?

A. Yes. APS proposes changes to residential distributed generation (DG) rates through the Grid Access Charge (GAC) to comply with the Commission's directive in the Company's last rate case rehearing. As provided in Decision No. 79648 (December 31, 2024):[11]

> [B]ased on the Commission's concerns that meaningful disparities between costs and rates for residential solar rate classes persist, we order the Company to propose, in its next rate case, a revenue allocation that utilizes the results of the Company's site load cost of service study to apportion revenues in a manner that further moves toward parity in revenue collection between residential solar and non-solar rate classes.

Importantly, increasing the Grid Access Charge ensures that residential DG customers move towards paying their fair share of the costs necessary to provide them with reliable service. Even with the addition of the Grid Access Charge and a higher allocation of revenue to the legacy solar rate classes approved in Decision Nos. 79293 and 79648, all residential solar classes are achieving cost recovery at levels beneath the residential non-solar class average during the Test Year. As such, in this proceeding, the legacy solar classes (i.e., E-12, ET-1, ET-2, ECT-1R, and ECT-2) are receiving increases designed to make progress toward addressing this deficiency. Similarly, residential solar customers taking service under residential rates R-TOU-E, R-EV, R-2, and R-3 include a Grid Access Charge that was also increased to conform with Decision Nos. 79293 and 79648.

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED CHANGES TO RESIDENTIAL SOLAR CUSTOMER RATES.

A. The Company is proposing a base rate increase of 1.15 times the system average increase for residential solar customers taking service on current rates (i.e., R-TOU-E, R-2, and R-3) and for residential solar customers taking service on legacy

[11] APS 2022 Rate Case, Decision No. 79648 (Dec. 31, 2024) (Decision No. 79648).

demand rates. However, for residential solar customers on legacy energy rates, a base rate increase of 1.25 times the system average was applied. This proposal results in an increase to the grid access charge for residential solar customers on current rates, and an increase to the base rate components for residential solar customers on legacy rates. Additionally, the Company is proposing to include a grid access charge for residential solar customers on rate schedule R-EV equal to that of solar customers on rate schedule R-TOU-E as these customers are combined in the same residential subclass in the cost of service study. Because there were no customers taking service on rate schedule R-EV during the test year of APS's last rate case, no grid access charge was applied to the R-EV rate.

Figure 8. Grid Access Charge Proposed Rates and Impact

GAC Rate	Present $/kW-DC	Proposed $/kW-DC	Difference $/kW-DC
R-TOU-E	0.242	0.587	0.345
R-2	0.250	0.657	0.407
R-3	0.215	0.574	0.359
R-EV	0.000	0.587	0.587

GAC Average Impact	Average kW-DC	Present $/month	Proposed $/month	Difference $/month
R-TOU-E	10	2.42	5.87	3.45
R-2	10	2.50	6.57	4.07
R-3	11	2.37	6.31	3.94
R-EV	11	0.00	6.46	6.46

Q. DO THESE PROPOSED CHANGES COMPLY WITH THE COMMISSION'S DIRECTIVE TO MOVE RESIDENTIAL SOLAR CUSTOMERS CLOSER TO PARITY WITH THEIR COST OF SERVICE?

A. Yes. As discussed in Mr. Moe's Testimony, residential solar customers are still underachieving their respective cost of service as seen below in Figure 9. The

Company's proposed changes are intended to continue the Commission's gradual approach to move residential solar customers toward rate parity.

Figure 9. Test Year Solar Cost of Service Results

% COS	Present	Proposed
R-Solar (TOU)	52%	60%
R-Solar (Demand)	60%	69%
Legacy Solar (Energy)	35%	41%
Legacy Solar (Demand)	69%	80%

VI. GENERAL SERVICE RATE DESIGN AND COST RECOVERY FOR HIGH LOAD FACTOR CUSTOMERS

Q. WHAT MODIFICATIONS IS THE COMPANY PROPOSING TO GENERAL SERVICE RATES?

A. APS proposes that smaller and mid-sized general service rates receive less than the average increase because these rates are achieving an amount above their cost of service. To reduce cross-class subsidization, APS is proposing to gradually reduce this imbalance to better align rates with actual service costs. In support of that same effort, APS is proposing modifications to help ensure that large high load factor customers are recovering their full cost of service. This effort is focused more specifically on data center customers because they are the largest and fastest growing subset of large high load factor customers within APS's service territory. This is consistent with comments made in Chairman Thompson's letter in Docket No. E-00000A-25-0069: "…it's important to balance the economic opportunities presented by data centers with the need to financially protect other ratepayers to ensure they are not bearing the rising energy generation and transmission costs associated with this burgeoning industry."[12] To that end, APS is also proposing

[12] *In the Matter of the Comm's Inquiry and Review of the Existing Rate Classifications and other Potential Issues relating to Data Centers,* Docket No. E-00000A-25-0069, Chair Kevin Thompson Letter to Open Docket (April 3, 2025), https://docket.images.azcc.gov/E000042869.pdf.

modifications to the availability language for rate schedule XHLF, which is intended to drive significant new customer growth among data centers to a single rate class and shield other customers from subsidizing the costs arising from large high load factor customer growth.

Q. PLEASE EXPLAIN WHY APS IS PROPOSING IMPROVEMENTS IN COST RECOVERY FOR LARGE GENERAL SERVICE HIGH LOAD FACTOR CUSTOMERS IN THIS RATE CASE.

A. As an industry, load growth from large general service high load factor customers, such as data centers, is putting tremendous pressure on the level of increased demand that utilities are planning to serve. These are customers whose peak demand is greater than 5 MW with facilities that operate at consistently high levels around the clock. To frame the magnitude of this impact in Arizona, in 2024, APS maintained top-tier reliability during record breaking temperatures with 113 consecutive days above 100 degrees resulting in APS hitting a system peak demand of approximately 8,200 MW. APS projects that by 2031 its total load requirement will grow to 12,811 MW and by 2038, APS's total load requirement will increase to more than 14,800 MW of electricity. In the Company's entire history, it has never experienced growth of this magnitude, which is being almost entirely driven by large high load factor customers. The magnitude and class-level concentration of growth in APS's service territory presents unique challenges that require new solutions to ensure equitable cost allocation and recovery outcomes.

Historically, because levels of growth among customer classes have been similar, traditional cost allocation and recovery methods — which look at class level contributions to the peak — equitably apportioned system costs caused by growth. If that method were utilized for all generation in this current environment, all new resources procured would be spread across all customer classes with costs for

existing resources already embedded in rates. This methodology is based primarily on their coincident peak contributions during the four highest peak hours of the year, which cannot account for the relatively higher costs of incremental resources made necessary by unprecedented growth. Because the traditional cost allocation and recovery method does not isolate the more costly incremental resources from those currently embedded in rates, some of those costs would be spread to residential and small business customers. This means that the system costs of growth on APS's system, which are being predominantly caused by large high load factor customers, would be borne by residential and small business customers.

To ensure that large customer growth pays for that growth, Mr. Moe discusses a new cost allocation method of directly assigning new generation costs to serve growth based on the level of increased load each class experiences. This new cost allocation method results in the increased generation costs the company incurs to serve growing customer classes — in particular large high load factor customers such as data centers — being recovered specifically from the rates that serve those customers. As such, this helps prevent other customer classes, like small general service or residential customers, from bearing the costs of increased generation necessary to serve large high load factor customers.

Q. WHY IS APS PROPOSING TARIFF CHANGES FOR HIGH LOAD FACTOR CUSTOMERS?

A. In addition to changes in cost allocation, which Mr. Moe describes in more detail, APS is also proposing specific tariff changes aimed at ensuring large high load factor customers pay for the growth-related costs they are imposing on APS's system. A significant number of high load factor customers that intend to locate within APS's service territory exist in a queue of prospective customers requiring thousands of MWs of generation. These new high load factor customers will

require significant investment in new resources and infrastructure to serve their loads, that go far above and beyond the load growth that APS is planning to serve within its Integrated Resource Planning (IRP) horizon. The overwhelming majority of customers within this queue of prospective customers are data centers. APS is therefore proposing changes to its XHLF tariff to ensure that it has reasonable cost recovery terms and conditions in place that recognize and address the different needs and unique risks that these specific high load factor customers present.

Q. ARE DATA CENTER FACILITIES DIFFERENT THAN OTHER CUSTOMER CLASSES?

A. Yes. There are a number of distinguishing characteristics of these customers that make them unique from other large high load factor customers. Among these, certain unique characteristics bear specifically on the need to procure new generation resources to serve these customers.

First and foremost, data center customers are distinct from other large customers due to the sheer scale, concentration, and rapid growth of their electric demand. Unlike traditional large high load factor customers — whose load requirements are typically stable, predictable, and incrementally scaled — data centers require vast amounts of power, often at single sites. Their demand can dwarf that of other large customers, potentially exceeding total non-data center load growth by an order of magnitude. APS is already contractually committed to serving approximately 3,296 MW of data center load — comprising 1,215 MW from existing facilities and an additional 2,081 MW from new centers expected to come online by the end of 2028. Moreover, APS is actively engaged with additional data center prospects representing another 16,908 MW of potential load. This figure surpasses Arizona's current system peak demand of roughly 8,200 MW and represents a transformative shift in grid planning and operations. The scale and pace of this demand poses

unique challenges that differentiate data centers from any other customer class on the system. As such, changes are needed to ensure that this group of customers bears the costs of the new generation procurements necessary to provide them with reliable service.

Second, data centers are characterized by uncertain and speculative ramp-up load forecasts. If data center customers fail to meet their forecasted usage levels for extended periods, APS may be left with an excessive energy supply surplus. This leads to increased system costs, and therefore, increased risk of cross-subsidization from other APS customers. The uncertainty during development and potential overstatement of load creates systemic planning risk for APS. This risk differs markedly from other large customers whose forecasted loads are typically more accurate and tied to production schedules or established market demand.

Q. WHY ARE TARIFF CHANGES NEEDED TO ADDRESS THESE ISSUES?

A. Given the massive scale of the growth projected from this class of customers, coupled with speculation as to the future generation needs associated with individual customer developments, tariff changes are necessary. These changes must be implemented so that other customer classes, such as small general service and residential customers, do not subsidize the new generation procurements needed to provide data centers with reliable service.

Q. HOW ARE THESE CONCERNS ADDRESSED IN THE PROPOSED REVISIONS TO THE XHLF TARIFF?

A. As discussed in Mr. Moe's testimony, APS is proposing to adjust how the costs associated with new generation resources to serve customer growth are allocated. In order to ensure that data center customers are appropriately incurring the system costs they cause, changes to the XHLF rate schedule are necessary (*see* Attachments JEH-18DR and JEH-19DR):

- First, the eligibility criteria for XHLF needs to be updated to require that eligible data center customers take service on the XHLF rate. This protects other customer classes from bearing the costs caused by data center growth and the need to procure new generation to ensure reliable service for these customers.
- Next, the XHLF retail rates within the rate schedule need to be updated to reflect the allocation of costs.
- Finally, APS is proposing to eliminate the feature within the XHLF schedule that allows the generation fuel and PSA charges to be replaced with a market proxy index. This is because the market price is likely no longer adequate to ensure that generation costs to serve the XHLF class are recovered from that class.

Q. PLEASE DESCRIBE THE ELIGIBILITY CHANGES TO THE XHLF RATE SCHEDULE.

A. Currently, the XHLF rate is optional for customers with a monthly maximum demand of 5,000 kW or more, and a load factor of 92% or more, for a minimum of nine months of the prior 12-month period. To ensure the allocation to this class is recovered in rates, data center customers, who are taking service under XHLF as of January 2024 or who otherwise commence taking service after January 2024 must take service on the XHLF tariff. In addition, other large use customers that are similarly situated as compared to data center customers that require the procurement of new generation resources that are not part of APS's resource plan as of June 2025, and which commence taking service after January 2024, must also take service on the XHLF tariff. This proposed change will keep customers with significant growth characteristics isolated to a single rate class, which ensures that they pay for the growth-related costs these customers are causing without impacting other existing customer groups.

Q. WHAT IMPACT DOES THE NEW ALLOCATION METHOD HAVE ON THE XHLF CHARGES?

A. Under the modified allocation, which directly assigns the portion of new generation procured to serve load growth to customer classes, the production demand allocation increases by an additional $5 million, equivalent to $1.57/kW. Mr. Moe's testimony further discusses related impacts associated with base fuel. This method supports mitigating cost shifts to other classes associated with significant generation investments and procurement while there is disparity between the cost for generation being procured to serve one particular class. It is envisioned that this methodology will be a glide path to a future point in time when there is more parity between the cost of generation capacity across all classes as resources come offline and power purchase agreements expire.

Q. WHAT FEATURE IS REPLACING THE MARKET PROXY INDEX PRICE?

A. Since the implementation of the XHLF rate schedule in 2017, an option has existed for customers to elect to replace the generation fuel and PSA charges with a market proxy index price plus a non-bypassable fuel cost and administrative fee. To date, no customer has elected to take service under this option. To further support the desire to protect residential and small business customers from potential cost shifts associated with serving significant load growth caused by high load factor customers, this feature is being modified instead to support the costs associated with procuring new generation resources to meet higher speed to market expectations. As such, the feature will be modified to allow for a generation price to be determined based on the cost of the new resources required to accommodate unique circumstances and mitigate cost shift to other customers, which will be defined for the customer in the Electric Supply Agreement.

Q. ARE THERE CHANGES TO THE PSA OR SRB NECESSARY TO ENSURE GENERATION COSTS ARE ALLOCATED FAIRLY?

A. Yes. As described in Mr. Moe's testimony, APS is proposing changes to ensure generation costs related to growth are allocated fairly among customer groups. Based on those changes, APS is proposing to modify the PSA and SRB to ensure that growth-related costs are fairly allocated to the appropriate classes. Additional details of the changes to the PSA and SRB are outlined in the next section of my testimony.

Q. PLEASE DESCRIBE ANY CHANGES TO THE AG-X RATE RIDER.

A. APS is proposing only one minor change to the Alternative Generation Rate Rider AG-X (AG-X) to clarify the purpose of the reserve capacity charge that was updated in the last rate case to allow customers to self-supply their resource adequacy or to elect for APS to provide their resource adequacy. In order to better reflect the costs this charge is intended to recover, the reserve capacity charge has been renamed to the resource adequacy charge, which NRG Energy Inc. (NRG) witness Lance D. Kaufman suggested in APS's last rate case.[13] Since all participants enrolled in the AG-X program have elected to have APS provided resource adequacy, the billing determinants in the proof of revenue reflect the assumption that all participants will be assessed the E-34 generation demand charge and that none will self-supply their resource adequacy. As such, the transition reserve capacity charge adopted in the last case, which customers paid while they were making their election, has been removed from the rider leaving only the APS or Generation Service Provider resource adequacy options going forward. Redline and clean versions of the AG-X Rate Rider reflecting the

[13] APS 2022 Rate Case, NRG Exhibit NRG-1, Direct Testimony of Lance D. Kaufman (Jun. 15, 2023) at 17, line 19, https://docket.images.azcc.gov/E000027790.pdf.

requested change are attached to my testimony as Attachment JEH-04DR and Attachment JEH-05DR.

VII. ADJUSTMENT MECHANISM CHANGES

Q. IS APS PROPOSING ANY CHANGES TO ITS ADJUSTMENT MECHANISMS?

A. Yes. APS proposes changes to the PSA and SRB.

Q. PLEASE DESCRIBE ADDITIONAL CHANGES TO THE PSA.

A. In addition to the changes described in the General Service Rate Design and Cost Recovery for High Load Factor Customers section of my testimony, the PSA POA is also being modified to account for the direct assignment charges described in Mr. Moe's testimony. APS is proposing to include a direct assignment cost allocation for base fuel and purchase power as part of the PSA calculation. These calculations would follow the methodology outlined in Mr. Moe's testimony. As part of this change, APS proposes an additional calculation schedule which will detail the allocation to the groups Residential, E-34/E-35, XHLF, and Other General Service. All General Service-classified customers not specifically identified among these groups are included in the "Other General Service" group (i.e., general service customers that are not taking service on E-34, E-35, or XHLF). Redline and clean versions of the PSA POA reflecting the requested changes are attached to my testimony as Attachment JEH-06DR and Attachment JEH-07DR.

Q. PLEASE DESCRIBE ADDITIONAL CHANGES TO THE SRB.

A. The SRB mechanism was approved in Decision No. 79293 to allow for recovery of capital carrying costs for qualifying generation resources not already recovered in base rates or through a separate Commission-approved recovery mechanism. It includes several customer protections, including a robust stakeholder process, an

annual increase limit, an earnings test, and it requires a minimum investment of $50 million for a resource to be eligible for cost recovery through the mechanism.

In this proceeding, APS seeks modifications to the SRB POA to specify that investments recovered within the SRB would be transferred into base rates in the annual formula rate reset following an approved SRB application and rate implementation. This approach preserves the more than five-month stakeholder engagement process embedded within the SRB, without negating the improvements to regulatory lag that the annual formula reset is designed to achieve.

Next, the earnings test described in Section 6 of the POA has been removed as it would be replaced with the annual earnings test within the proposed formula rate plan. Essentially, base rates under a formula rate plan can only recover the authorized level of revenue permitted within the ROE band. Similarly, the SRB mechanism will recover a revenue requirement specifically associated with the mechanism. As such, if the Company exceeded its authorized rate of return in base rates, that money would be passed back to customers in the annual rate reset; therefore, investments recovered through the SRB can be evaluated without a separate earnings test.

In addition, to accommodate the changes APS is making to allocate the costs of new generation associated with load growth, the SRB is also being modified to reflect the difference between generation procured to replace retiring resources and generation procured to serve growth. Costs related to replacement generation will be allocated by the existing kWh methodology as currently defined within the SRB. Costs related to generation for growth will be allocated using the growth-related

Average and Peak Demand (A&P) methodology discussed in Mr. Moe's testimony.

Finally, APS is proposing a minor clerical correction to the SRB Adjustment Schedule to note that AG-X customers who supply their own resource adequacy do not pay the SRB. This brings the SRB Adjustment Schedule into alignment with the AG-X Rate Rider and the SRB POA as well as aligns the debt calculation between the SRB and FRAM. Redline and clean versions of the SRB POA reflecting the requested changes are attached to my testimony as Attachment JEH-08DR and Attachment JEH-09DR.

VIII. OTHER RATE AND SERVICE SCHEDULE CHANGES

Q. IS THE COMPANY PROPOSING ANY OTHER CHANGES TO ITS RATE OR SERVICE SCHEDULES?

A. Yes. The changes to Service Schedules 1 and 3 are described below.

- Service Schedule 1 – The Company is requesting to eliminate the AutoPay Credit, which I discuss further below. As such, the reference to the credit in Section 5.3, titled Incentive for Electronic Payments, which states "[a] monthly incentive of $0.48 per Customer will be given to Customers who elect to pay their bills using the Company's electronically transmitted payment options AutoPay, SurePay or similar programs," has been removed from this schedule. In addition, APS is proposing a minor revision to clarify requirements for applicants requesting new service or a disconnection of service. The requested changes to Service Schedule 1 are shown in Attachment JEH-10DR and Attachment JEH-11DR.
- Service Schedule 3 – APS proposes a change to ensure Electrical and/or Irrigation Districts do not encroach on APS's Certificate of Convenience and Necessity (CC&N). To achieve this objective, language was added to

this schedule to state that "[i]f an individual or entity within the Company's certificated service territory is already being served by a district or municipality, the Company may, in its discretion, but is under no obligation to, provide service to that individual or entity." In addition, the Schedule of Charges on Schedule 3 has been updated to reflect current levels of cost. The requested changes to Service Schedule 3 are shown in Attachment JEH-12DR and Attachment JEH-13DR.

Q. IS THE COMPANY REQUESTING TO ELIMINATE ANY OF ITS RATE SCHEDULES?

A. Yes. APS is requesting to eliminate the Critical Peak Pricing program supported by the Critical Peak Pricing – General Service (CPP-GS) and Critical Peak Pricing – Residential (CPP-RES) rate riders. This program has existed since 2010 and currently maintains very low levels of adoption. Approximately 119 residential customers and no general service customers were enrolled in the program as of March 2025. Because there are now more innovative programs available, such as Cool Rewards, that provide additional capacity and energy benefits, APS proposes to cancel these riders and offer personalized customer outreach providing an opportunity for participants to enroll instead in the Cool Rewards program. Cool Rewards creates more economies of scale when managing a program of approximately 100,000 devices for a greater impact when compared to managing a program of a couple hundred customers for a small, aggregated impact. Cool Rewards utilizes automated signals to communicate with thermostats and does not require manual action from customers on event days to participate. Overall, Cool Rewards provides more predictable costs and benefits for both customers and APS than CPP. Redline and clean versions of CPP-GS and CPP-RES rate riders reflecting the requested cancelation are attached as Attachments JEH-14DR through JEH-17DR.

IX. PRO FORMA ADJUSTMENTS TO TEST YEAR REVENUES

Q. WHICH ADJUSTMENTS TO TEST YEAR REVENUE ARE YOU SPONSORING?

A. I sponsor the following adjustments to Test Year revenue:

1. Remove/Transfer Test Year LFCR pro forma (SFR Schedule C-2, column 14);
2. Transfer CRS pro forma (SFR Schedule C-2, column 19);
3. Base Revenue Annualization pro forma (SFR Schedule C-2, column 20);
4. Annualize Customer Levels pro forma (SFR Schedule C-2, column 10)
5. Normalize Weather Conditions pro forma (SFR Schedule C-2, column 9);
6. Crisis Bill Assistance Commitment Request pro forma (SFR Schedule C-2, column 53);
7. Amortize Limited-Income Discount Accumulation pro forma (SFR Schedule C-2, column 24); and
8. Remove AutoPay Credit (SFR Schedule C-2, column 36);

Q. PLEASE EXPLAIN THE ADJUSTMENT TO TRANSFER THE LFCR TEST YEAR REVENUES.

A. This adjustment removes the Test Year level of LFCR revenues which is necessary to mechanically allow the costs recovered in this mechanism to be recovered in base rates with a corresponding reduction to the adjustor, resulting in a reduction of $48.6 million of pre-tax operating income (see SFR Schedule C-2, page 5, column 14).

Q. PLEASE EXPLAIN THE CRS PRO FORMA ADJUSTMENT.

A. This adjustment transfers the portion of the CRS recovering the prospective Four Corners Power Plant selective catalytic reduction (SCR) equipment into base rates, leaving just the amortization of the historical ROE and SCR amounts remaining in the adjustor until fully recovered. This adjustment transfers a portion of the costs recovered in this mechanism to base rates with a corresponding reduction to the adjustor, resulting in a reduction of $34.4 million of pre-tax operating income (see SFR Schedule C-2, page 7, column 19).

Q. PLEASE DESCRIBE THE BASE REVENUE ANNUALIZATION PRO FORMA THAT APS IS PROPOSING.

A. This pro forma adjustment annualizes the effects of the revenue requirement approved in Decision No. 79293 across all 12 months of the Test Year, resulting in a decrease to pre-tax operating income of $98.96 million (see SFR Schedule C-2, page 7, column 20).

Q. PLEASE DESCRIBE THE PRO FORMA TO ANNUALIZE CUSTOMER LEVELS.

A. The pro forma to annualize customer levels adjusts Test Year revenue to reflect customer growth or decline during the same timeframe. The adjustment is derived by first determining the change in customer levels during the Test Year for each major rate class; specifically, APS subtracts the customer level in December 2024 from January 2024. The customer level for each month is then adjusted to reflect this annual change. The monthly adjustments are multiplied first by the average kWh per customer, and then the appropriate revenue per kWh to calculate the required revenue adjustment. This process is performed specifically for each rate class, the results of which are then combined to derive an overall revenue adjustment. The change in customer levels during the Test Year was mixed for the various rate classes; some increased and others declined. Overall, the changes

resulted in an increase to pre-tax operating income of $19.8 million (see SFR Schedule C-2, page 4, column 10).

Q. WHAT IS THE ADJUSTMENT TO NORMALIZE WEATHER CONDITIONS?

A. Test Year revenue is adjusted for normal weather (over a ten-year historical period) to demonstrate that the final level of revenue approved reflects retail energy consumption associated with average or typical temperature and humidity patterns. This adjustment is derived by estimating the impact of temperature and humidity on customer monthly energy usage and then comparing the Test Year level of these weather variables to long-run average levels. The resulting impact on energy usage is multiplied by the appropriate revenue per kWh to derive an overall revenue adjustment. The estimate of weather impact on kWh usage and the resulting revenue adjustment is performed specifically for each rate class. The results for each class are then combined to provide the overall revenue pro forma adjustment. The Test Year reflected record-breaking heat, with 113 consecutive days above 100 degrees, resulting in higher levels of energy consumption than typically seen. The overall net impact is that, had the Test Year weather been "normal," the kWh consumption and revenue would have been lower. As a result, the Test Year pre-tax operating income was decreased by $84.9 million for the weather normalization pro forma (see SFR Schedule C-2, page 3, column 9).

Q. WHAT ADJUSTMENT IS BEING MADE IN THE CRISIS BILL ASSISTANCE COMMITMENT REQUEST PRO FORMA ADJUSTMENT?

A. APS provided over $2.4 million in Test Year funding for Crisis Bill Assistance, a program administered by Chicanos Por La Causa, Wildfire, and Maricopa County Human Services that provides emergency relief to customers experiencing financial hardship. The accounting treatment that these dollars receive treats them as a below the line expense, so this pro forma adjustment has the impact of

decreasing the Test Year pre-tax operating income by $2.5 million to treat them as an above the line expense and recover costs associated with funding this program in rates. As a result, the Test Year pre-tax operating income was decreased by $2.5 million for the Crisis Bill Assistance Commitment Request pro forma (see SFR Schedule C-2, page 18, column 53).

Q. PLEASE EXPLAIN THE AMORTIZE LIMITED INCOME DISCOUNT ACCUMULATION PRO FORMA.

A. The Company is proposing an adjustment to Test Year revenue for the limited-income discount deferral amortization, which represents a reduction of $10.8 million in pre-tax operating income. This adjustment recovers the difference between the amount approved in rates with Decision No. 79293 to support the limited income discount program known as the Energy Support Program (E-3) and the amount of Test Year discounts customers received. To calculate the amount of this adjustment, this difference between these two amounts is calculated starting with the end date of the pro forma adjustment approved in the last rate case, which accumulated dollars through May 30, 2023, with the accumulation forecasted through September 30, 2026. Because the amount of the discounts awarded was greater than the $40,252,490.94 amount approved for recovery in rates with Decision No. 79293, an additional $32,272,006.44 has accumulated over this time frame. This adjustment amortizes that balance over three years resulting in $10,757,335.48 annually. As a result, the Test Year pre-tax operating income was decreased by $10.8 million for the Amortize Limited-Income Discount Accumulation pro forma (see SFR Schedule C-2, page 8, column 24).

Q. PLEASE DESCRIBE THE AUTOPAY CREDIT REMOVAL PRO FORMA ADJUSTMENT.

A. Consistent with the discussion of Service Schedule 1 in Part VIII of my testimony, the Company proposes to discontinue offering monthly bill credits to customers

who enroll in AutoPay. This pro forma adjustment removes the Test Year dollars awarded in customer bill credits, $2.437 million, by increasing operating income to no longer reflect recovery of that amount in rates. As a result, the Test Year pre-tax operating income was decreased by $2.4 million for the Remove AutoPay Credit pro forma (see SFR Schedule C-2, page 12, column 36).

Q. DO YOU HAVE REMARKS RELATED TO ANY OTHER PRO FORMA ADJUSTMENTS?

A. Yes. The DSMAC includes a performance incentive that warrants different treatment than other surcharge removal pro forma adjustments. Within this adjustment, values shown demonstrate that the revenues are greater than the expenses, which is appropriate to reflect the difference in revenues and costs, which is the performance incentive. As such, this reflects an income statement impact where traditionally adjustor removals do not.

X. ELIMINATION OF DUPLICATIVE AND OUTDATED COMPLIANCE FILINGS

Q. WHAT EXISTING COMPLIANCE FILING OBLIGATIONS IS APS PROPOSING THAT THE COMMISSION WAIVE OR ELIMINATE?

A. APS requests that the Commission waive or eliminate certain compliance filings and requirements. The Company does not seek to avoid any substantive requirement of a prior Commission order or regulation but simply seeks to eliminate certain reporting requirements that have become obsolete, duplicative, or otherwise no longer appear to be necessary or useful to Staff or the Commission. Attached as Attachment JEH-20DR is a Proposed Compliance Elimination List with a detailed description and justification on the requested waivers and eliminations that the Company has carefully reviewed and determined are duplicative or unnecessary. Absent relief, APS must continue to comply with these various compliance requirements and Commission Staff must continue to verify

such compliance unless these requirements are formally waived or otherwise eliminated by the Commission.

XI. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.