

DIRECT TESTIMONY OF THEODORE N. GEISLER
On Behalf of Arizona Public Service Company
Docket No. E-01345A-25-0105

June 13, 2025

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**DIRECT TESTIMONY OF THEODORE N. GEISLER
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 Theodore N. Geisler. I am the Chairman of the Board, Chief Executive Officer and President of Pinnacle West Capital Corporation (Pinnacle West) and Chairman of the Board, Chief Executive Officer and President of Arizona Public Service Company (APS or Company), a subsidiary of Pinnacle West. My business address is 400 North 5th Street, Phoenix, Arizona 85004.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL BACKGROUND.

A. I received a Bachelor of Science degree from Colorado State University and a Master of Business Administration from Arizona State University. I joined APS in 2001 supporting the development of generation resources and have served in a variety of roles throughout the Company since then. These have included leadership roles in resource operations, transmission and distribution operations, investor relations, corporate strategy, information technology, and finance. I have held positions on the executive team since 2018, including Chief Information Officer and Chief Financial Officer. I was promoted to President of APS in May 2022, and I assumed my current responsibilities on April 1, 2025.

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

A. Yes. I provided testimony in the Company's 2022 Rate Case.

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

A. The purpose of my Direct Testimony is to provide a general overview of APS's request in this proceeding. In my testimony, I emphasize APS's commitment to

powering opportunity for our Arizona customers through safe, reliable, and affordable service to all customers. I share how we are delivering operational excellence for our existing customers, including ensuring grid reliability and resilience, mitigating a growing array of risks, attracting and retaining a skilled workforce, and improving customer experience. I explain the steps the Company is taking to meet historic customer and economic growth in our service territory while maintaining operational excellence. I review how the Company's current rates have not kept pace with operating costs and necessary grid investments due to factors such as inflation, persistently high interest rates, and regulatory lag, and the need to update rates to better align cost recovery. I introduce a proposal to adopt formula rates, which provide a better customer experience by creating rate stability. I also present an updated cost allocation and rate design proposal in which high load factor customers, such as data centers, that create the need for additional infrastructure are directly assigned responsibility for the costs, protecting other customer classes from cost shifts.

II. SUMMARY

Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.

- A. APS is powering opportunity for our customers in an extraordinary period of population and economic growth across our service territory. New residents and businesses continue to locate here from across the country, and our economy is becoming more diversified than ever. As Arizona grows, we remain focused on our mission — to safely deliver reliable, affordable energy to our customers — while providing an excellent customer experience. Nonetheless, the state's growth and persistent factors like high inflation and interest rates, trade policy fluctuations, and volatility in the broader economy have substantially increased costs for providing the quality service our customers expect. These factors, combined with regulatory lag that adversely affects timely cost recovery through our current rates, have

contributed to deteriorating earned returns, which puts the Company's financial stability at risk. Even with a growing customer base and increasing energy use, the Company's revenue deficiency tends to increase each year due to additional plant in service and the rising cost of business. Despite these headwinds, Arizona's growth story creates opportunities for both our customers and our state, but it requires thoughtful and careful planning so that the Company is equipped to meet the significant challenges ahead.

Responding to the rapid growth in our service territory while ensuring reliable service for existing customers is the most significant challenge we face, driving the Company's need to invest in more economically sound generation and grid infrastructure. The need to provide capacity for large high load factor customers, such as data centers, intensifies this challenge. This increasing demand requires APS and other utilities across the country to invest in additional generation and infrastructure to meet the customers' needs while at the same time developing alternative cost recovery solutions to ensure that costs for service are accurately and concurrently reflected in the rates charged to these customers.

The state's growth is also occurring at a time when electric utilities nationally, including APS, face mounting risks from a range of extreme conditions, such as wildfire, extreme heat, and cyber and physical security risks, that further increase the need for grid investments to ensure reliability and resiliency. I discuss this later in more detail. These challenges are occurring at a time when costs are increasing, which makes it even more critical to Arizona's prosperity that APS remain financially stable to access low-cost capital needed to fund these necessary grid investments. The pressure of high inflation and rising interest rates has continued to drive up costs associated with critical business operations since current rates

were set based on costs incurred in 2021 and 2022. National trade policy fluctuations in the form of tariffs similarly are escalating costs across the board. To help mitigate these impacts, the Company continues to emphasize the importance of customer affordability to support growth in a responsible, managed fashion while pursuing the significant investments needed to meet customers' growing energy demands.

This rate case presents an opportunity to improve how our customers experience rate adjustments through a proposed formula rate, which supports more gradual rate changes for customers while allowing flexibility during dynamic economic conditions. A formula rate will also reduce delays in cost recovery, which would contribute favorably to the Company's financial stability. The Company is also proposing rate design changes to ensure the costs associated with growth are recovered in a manner that keeps energy affordable.

Our employees put customers first and are continually working toward our goal to deliver an industry-leading customer experience. The Company has worked closely with customers, stakeholders, and the Commission to create and implement programs that help customers manage their energy use and cost.

Q. HOW DOES THIS RATE CASE BENEFIT APS CUSTOMERS?

A. We are proud to be a single-state utility with a unique responsibility to our customers and the state of Arizona. At the heart of that responsibility is ensuring our customers have access to safe, reliable, and affordable electricity service. APS will power opportunity for our customers, their households, and businesses by:

- Ensuring reliability while reinforcing and expanding the capacity of the energy grid;

- Continuing to secure a balanced, cost-effective, and reliable energy portfolio using a market-driven approach focused on the “best-fit, least-cost” resources;
- Improving the customer experience and making it easier for customers to do business with us;
- Preparing responsibly for unprecedented growth in customers and customers’ energy demand, notably among high load factor customers including data centers; and
- Developing rate structures that are more responsive to changing economic conditions, providing smaller annual rate changes for customers, and promoting equitable rates among customer classes to ensure each class is paying for their cost to serve.

Approval of this application will help us to continue delivering on that responsibility for Arizona in this era of unprecedented growth.

III. RELIABLY SERVING CUSTOMERS AND COMMUNITIES

Q. PLEASE PROVIDE AN OVERVIEW OF APS.

- A. Arizonans depend on APS to deliver safe, reliable, and affordable electric service that powers many opportunities for our customers and our state. APS powers our homes, our businesses, our schools, and our hospitals, and is the cornerstone of what makes our state an incredible place to live, work, and raise a family. APS proudly provides service to more than 1.4 million homes and businesses in 11 of Arizona’s 15 counties. APS serves nearly 35,000 square miles of territory in one of the most geographically diverse regions, with a variety of elevations, climates, and terrains. We maintain more than 38,000 miles of transmission and distribution lines. We operate Palo Verde Generating Station (Palo Verde), the second-largest nuclear generation facility in the country and one of the nation’s largest producers of carbon-free electricity. Through our services, capital investments, and

community support, our operations result in an estimated annual \$11.3 billion economic benefit to the state. We design, build, operate and maintain a grid reliable enough to withstand extreme heat and ensure our customers can count on the comfort and convenience they depend on to survive in an extremely hot, arid climate.

Beyond the numbers, APS's success is powered by its people. Today, over 6,000 high-performing, technically skilled men and women work to meet the needs of our customers across the state 24 hours a day, 365 days a year. Among other things, APS employees:

- efficiently operate power plants;
- monitor and maintain the grid;
- plan for and acquire the resources needed to keep power flowing reliably today, tomorrow, and well into the future;
- provide customers knowledgeable advice on energy decisions that fit their lifestyle and business;
- prepare for intense summer heat in the desert and bitter winter cold in the high country, responding quickly and safely to restore service for customers when the need arises; and
- most importantly, APS employees help make up the fabric of our communities.

APS employees maintain superior reliability for our customers in the face of extreme weather and rising customer demand. APS consistently ranks in the top quartile of Edison Electric Institute (EEI) reliability metrics, compared to peer utilities nationally. APS employees also perform their work with safety top of mind. In 2024, APS achieved a milestone of zero employee Serious Injury and

Fatality incidents, a testament to our rigorous attention to safety and our employees' collective effort.

Providing an essential service that sustains our customers' daily lives takes careful planning and sound investment strategies. With our customer base growing at a rate even faster than Arizona's overall population and customers' energy demands showing no sign of slowing, we must continually anticipate customers' evolving needs and be prepared to serve them. This application is necessary to maintain the reliable and affordable electricity service our customers expect and ensure a more resilient energy future for Arizona.

Q. ARE ARIZONANS USING ELECTRICITY DIFFERENTLY THAN THEY DID IN THE PAST?

A. Yes. Reliance on electricity is greater than it has ever been due to extreme weather conditions, economic growth, technological advancements, and greater electrification of our everyday lives. APS customers are using more power to keep their air conditioners running due in part to rising summer temperatures and the dramatic impact of the urban heat island effect on Arizona cities. Phoenix experienced its hottest summer on record in 2024, including 39 nights where the temperature never dropped below 90 degrees. By comparison, Phoenix had only nine days total where the overnight lows were 90 degrees or above from 1895 through the 1970s.¹ In addition to changing weather patterns and increased development, computing power—needed to operate everything from our smartphones to traffic lights, medical records, and our national defense—is increasing at a dramatic pace. As APS customers increasingly rely on artificial

¹ Erin Stone, *Phoenix is tying records for highest low temperatures*, Arizona Republic (Jul. 21, 2020), <https://www.azcentral.com/story/news/local/arizona-environment/2020/07/21/phoenix-night-temps-get-hotter-because-heat-island-climate-change/5472797002/>.

intelligence as part of their everyday lives and critical business operations, the energy demanded by data centers is rapidly increasing to levels previously unheard of in the industry. For these reasons and perhaps more so than at any other time in our history, a reliable and resilient grid is vital for Arizona.

Q. HOW IS APS RESPONDING TO THIS INCREASED NEED FOR RELIABLE AND RESILIENT SERVICE?

A. Because APS customers are more dependent than ever on reliable electric service under all conditions, we are increasing our investments into all aspects of the grid. For instance, since the Company's last rate case, APS has invested more than \$4 billion in its infrastructure on behalf of our customers. These investments are aimed at strengthening the grid against storms and other extreme conditions, reducing outage times, increasing the efficiency and cost-effectiveness of our generation resources, and achieving the highest level of reliable service possible. As described by APS witness Jacob Tetlow, APS consistently ranks in the top-quartile System Average Interruption Duration Index (SAIDI) performance in eight of the past ten years and top-quartile System Average Interruption Frequency Index (SAIFI) performance in nine of the past ten years.

In order to achieve top quartile performance, our planning and operations activities are centered on securing a reliable, resilient grid for customers. These activities range from conducting preventative and regular maintenance on the transmission and distribution systems to strengthening vegetation management and fire mitigation efforts; developing and training for emergency operations plans; enhancing our system with smart grid technologies so power can be restored sooner; investing in the long-term viability of our existing generation resources, most notably Palo Verde; and ensuring that APS will have sufficient energy available for customers years in advance through the integrated resource planning

process. To support resiliency, APS has taken a number of steps, such as developing a robust emergency preparedness regimen, expanding its fire mitigation programs, installing equipment to increase energy-carrying capacity on lines, and updating grid technology, particularly in rural areas of our service territory. The Company has also invested in chiller upgrades on natural gas-fired generation units at the Redhawk and Sundance Power Plants, adding cooling capacity to improve the units' efficiency and reliability during extreme summer heat. These activities collectively contribute to a reliable and resilient grid for our customers. Mr. Tetlow discusses how the Company prepares to address some of the operational challenges faced by APS.

Q. HOW DOES APS'S WORKFORCE CONTRIBUTE TO RELIABLE SERVICE?

A. APS relies on a workforce with a wide variety of skills and experiences to build, operate, and maintain our evolving grid and its support systems. With changes in the industry, including new facilities and emerging technologies in electricity generation and energy grid management, it is crucial that we employ a highly skilled workforce. APS must offer competitive compensation, benefits, and development opportunities to attract and retain high quality employees who are needed to ensure cost-effective and reliable service. Similar to the competition for capital resources needed to fund infrastructure, APS must compete with other companies across a range of highly technical and specialized industries for top-tier talent that stays with the Company over the long term. Offering competitive compensation and benefits packages to our employees is a critical part of how APS ensures reliable service for its customers.

Q. WHAT DOES APS NEED TO DO TO ATTRACT AND RETAIN THIS TALENTED WORKFORCE?

A. APS has developed a comprehensive compensation and benefits program to attract and retain highly skilled employees in a tightening labor market with competition from other employers, such as utilities, energy developers, data centers, chip manufacturers, and other advanced manufacturing companies. The program components include market-based pay, which is based on benchmarking salaries and annual incentive opportunities against industry standards to ensure competitive compensation. The development of a competitive benefits program also includes benchmarking healthcare, retirement plans, and paid time off to ensure they remain relevant and competitive. In addition, career development programs, which offer training programs, mentorship, and growth opportunities, have also been developed. For benchmarking purposes, the Company relies upon reputable general industry and energy services market surveys published by major human resources consulting companies (e.g., Willis Towers Watson, Mercer, and others).

Q. BEYOND THE COMPETITION FOR LABOR, WHY IS IT IMPORTANT FOR APS TO OFFER BENEFITS, SUCH AS PENSION AND OTHER POST-EMPLOYMENT BENEFITS, TO THE COMPANY'S WORKFORCE?

A. To answer this question, it is important to remember who our employees are and what they do to ensure around-the-clock reliable service for APS's customers. Our employees will miss birthdays, anniversaries, holidays, or weekends if duty calls, and their services are needed to maintain reliable power for our customers. They will work in climates ranging from scorching heat to freezing cold regardless of location within APS's vast service territory. In other words, APS employees are required to go above and beyond the typical nine-to-five job. For these reasons — separate and apart from APS's need to compete for highly skilled and talented labor

— the Company offers a total compensation package that includes pension and other post-retirement employee benefits (OPEB) plans to reward employee longevity and their commitments to the communities APS serves. As noted above, APS benchmarks the total compensation package and its individual components to ensure we are competitive with our peers and related industries.

Q. ARE THE TEST YEAR COSTS INCURRED BY THE COMPANY FOR PENSION AND OPEB PLANS SUFFICIENT TO RECOVER THE ACTUAL COSTS OF PROVIDING THESE EMPLOYEE BENEFITS GOING FORWARD?

A. No. APS witness Chris R. Bauer provides greater detail on this topic, with APS witness Elizabeth A. Blankenship sponsoring the pro forma adjustment to normalize Test Year (12-month period ending December 31, 2024) pension and OPEB expenses to reflect the actual, going-forward costs of providing the employee benefits necessary to attract and retain a talented and skilled workforce. For this proceeding, APS has used well-established methods for expense adjustment previously accepted by the Commission, which take into account (among other factors) total benefit plan participation, the level of committed benefits, asset performance, and key market condition indicators such as interest rates and expected asset return values — all based on data available during the Test Year.

The Company constantly looks for ways to reduce its pension and OPEB costs to ensure that these important employee benefits are provided in a way that is cost-effective for customers. Adopting the requested changes for prudently incurred, customarily recoverable costs is a critical factor in preserving the Company's ability to attract and retain highly skilled employees.

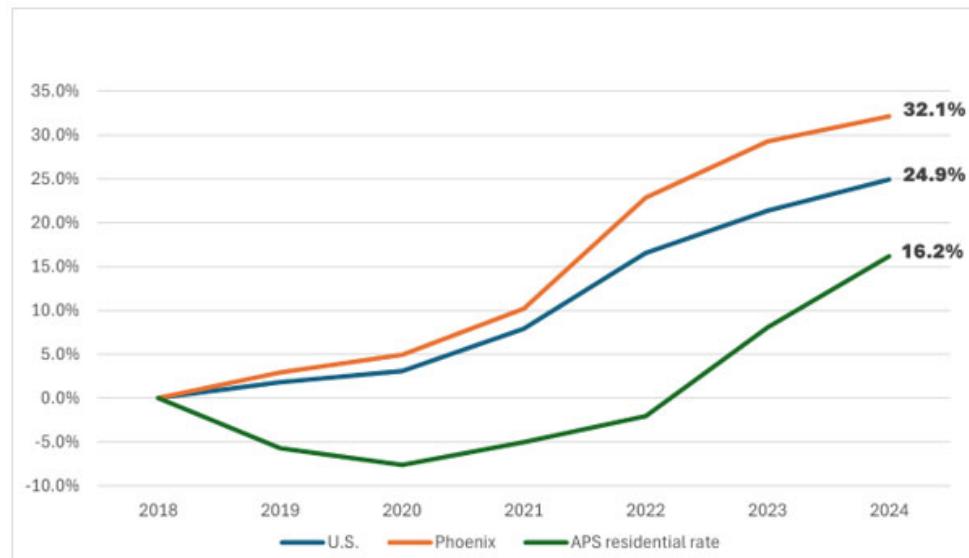
IV. ECONOMIC CONSIDERATIONS

Q. HAS INFLATION IMPACTED APS'S COSTS IN RECENT YEARS?

- A. Yes. We are sensitive to the same financial pressures that customers have experienced over the past several years due to inflation, higher interest rates, and other macroeconomic factors. The effects of these financial pressures are not reflected in the current rates (based on costs from 2021 and 2022) being recovered from APS customers, particularly for pass-through expenses on which the Company does not earn a return, such as interest expense, depreciation, operations and maintenance (O&M) costs, and employee benefits costs. The recent years of persistent economic volatility, combined with regulatory lag, play a substantial role in the timing of this application.

The effects of inflation in particular have dramatically impacted the cost of goods and services for consumers across the country and locally, as shown in Figure 1. The Consumer Price Index – All Urban (CPI-U) is a relative measure of consumer inflation and represents the average price paid over time for consumer goods. Nationally, the CPI-U rose 24.9% from 2018 through the Test Year. Consumers in the Phoenix-Mesa-Scottsdale area felt the impacts of inflation even more acutely, with the CPI-U increasing 32.1% during that time. By contrast, APS's average residential electricity rate remained well below those inflation figures, rising 16.2% for the same period, according to the Energy Information Administration.

Figure 1. APS Residential Rate Change vs. Consumer Price Indices (2018-2024)



Q. HAS INFLATION AFFECTED APS’S OPERATIONS IN OTHER WAYS SINCE THE LAST TEST YEAR?

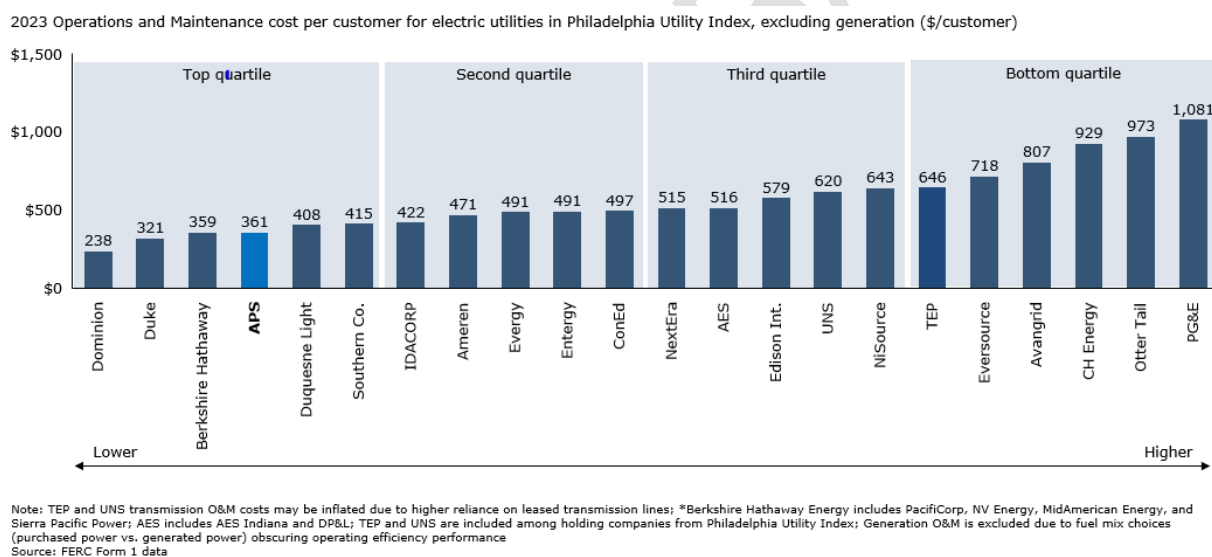
A. Yes. The financial impact of this inflationary environment is felt across virtually all aspects of the Company’s business, resulting in increased costs for expenses such as material, labor, and vendor service, fuel price fluctuations, and capital project deployment. As Mr. Bauer explains in his Direct Testimony, this under collection in rates has produced lower earned returns each year and reduced cash flows needed to service debt and fund critical operating expenses. On top of inflation, continually higher short-term interest rates — a response to the inflationary environment created by the Federal Reserve — have resulted in higher borrowing costs for the Company. The increase in interest rates is reflected in the Company’s Test Year cost of debt rising from 3.85% in the last rate case to 4.25% today, which has also led to reduced cash flows. As explained by Mr. Bauer, APS operates with negative free cash flow, which is common for capital-intensive and growing utilities. This means ongoing capital needs to invest in critical electricity generation, transmission, and distribution resources cannot be generated solely

from rates customers pay due to delayed cost recovery. Overall, the inflationary environment that has driven increased costs and higher interest rates has produced a detrimental effect on the Company's financial performance.

Q. HOW DOES APS'S O&M COSTS COMPARE TO ITS PEERS IN THE INDUSTRY?

A. The Company has achieved a top-quartile O&M cost per customer when compared to other United States investor-owned electric utilities, as shown in Figure 2. This effort to streamline business processes helps to mitigate costs and positively impact customer bills.

Figure 2. O&M Cost Per Customer for Select United States Investor-Owned Electric Utilities (2023)



Q. WHAT STEPS HAS APS TAKEN TO REDUCE COSTS AND KEEP RATES AFFORDABLE FOR CUSTOMERS?

A. APS consistently focuses on cost management so that we continue to provide our customers with reliable service at the lowest cost possible in the long term.

Our employees have worked diligently to identify areas of cost savings and improve productivity to enhance affordability, especially in the wake of inflation and supply chain disruptions that have continued since the last test year (2021-2022).

- Technology cost savings of \$2 million was realized when engineers at Palo Verde removed an obsolete mechanical monitoring system and replaced it with an industry-proven process, preventing the need for a new system. In addition to the cost savings, the process is saving more than 400 annual maintenance hours.
- The Customer Experience Workforce Management team generated \$1.05 million in cost savings in 2024 by developing more accurate forecasts for advisor staffing needs in the Customer Experience Center.
- The Predictive Maintenance team increased its coverage capabilities and improved maintenance processes, such as installing infrared scanners and using drone technology in areas of high wildfire risk. Performing inspections using this technology versus traditional inspection methods saved the Company nearly \$985,000 in 2024.
- APS saved \$16 million when the Ocotillo Power Plant team approached a Wisconsin utility to acquire a turbine from a power plant that was being decommissioned. The turbine replaced an aging turbine, reducing lead time to acquire new equipment by two years while also increasing the unit's production.
- Approximately \$98 million in benefit was realized in 2023 and 2024 combined, as reported by California Independent System Operator, due to the Company's participation in the Western Energy Imbalance Market. The regional real-time market continues to generate benefits that are directly passed through to APS customers.

These innovations not only impact customer affordability by helping to reduce costs, but they also provide enhanced reliability and safety for customers.

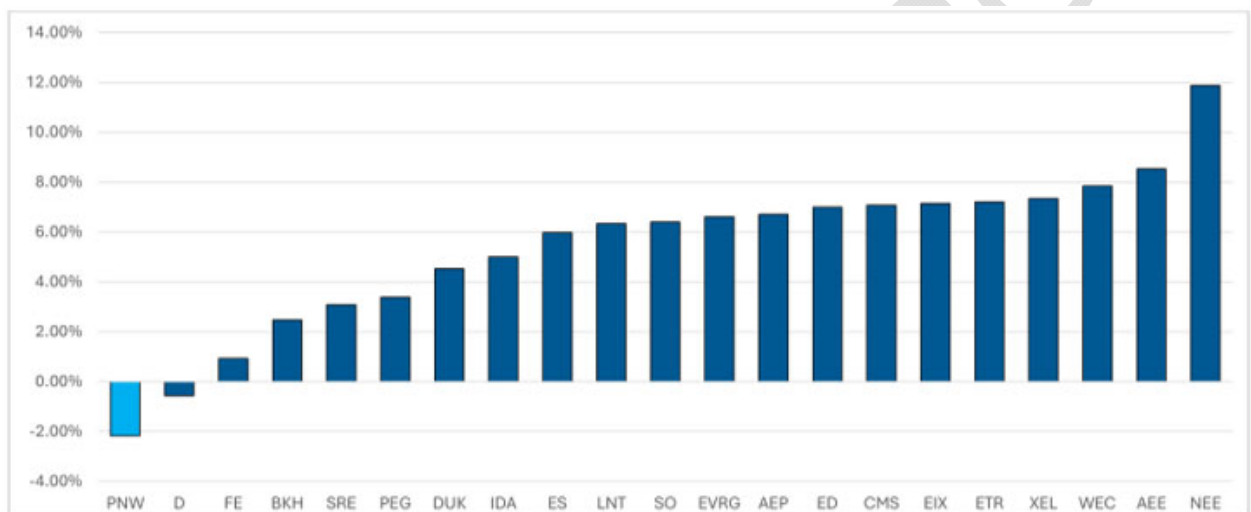
Q. HOW DO APS CUSTOMERS AND ARIZONA BENEFIT FROM A HEALTHY, FINANCIALLY STABLE UTILITY?

- A. The Company's financial health has a direct effect on the rates customers pay and the quality of service they experience. APS must obtain hundreds of millions of dollars in debt and equity financing each year to fund necessary investments, build infrastructure to serve customers, and further enhance Arizona's energy security. Largely in response to the unprecedented growth in our service territory, the Company has increased planned capital expenditure, including generation, distribution, transmission and other categories by 29% from \$2.06 billion in 2024 to an estimated \$2.65 billion in 2027. Because the costs of financing these investments can be substantial, customers benefit significantly when APS has access to low-cost capital on reasonable terms.

As Mr. Bauer explains in his testimony, APS must demonstrate that it is financially stable to compete for and obtain low-cost financing in the market. This includes showing a reasonable opportunity to recover its costs from customers in a timely manner and providing a competitive, market-aligned return on equity (ROE). The ability to maintain a healthy credit rating is also an important factor because lenders evaluate credit metrics to determine whether to finance APS's operations and at what cost. Companies with higher risks to cost recovery, longer lag time for recovery, and deteriorating credit metrics will bear increased capital costs because fewer lenders are willing to offer capital under these circumstances. As a utility company loses its ability to effectively compete for capital, financing costs increase, resulting in higher cost for customers.

Earnings is another measure of financial health that can significantly impact investor confidence in a company, and in turn its financial outlook. Companies with lagging earnings may struggle to attract investment or secure competitively priced loans. Figure 3 below shows that Pinnacle West finished last in five-year earnings per share (EPS) growth rate based on final guidance estimates among a group of investor-owned electric utilities.

Figure 3. Five-Year Annual EPS Growth Rate Guidance Midpoint to Midpoint for Select Investor-Owned Utilities – 2020E-2025E



Source: As reported by S&P Global Market Intelligence Capital IQ Pro

Q. HOW DOES REGULATORY LAG IMPACT UTILITIES IN ARIZONA, INCLUDING APS?

A. Arizona’s historic test year model and lengthy rate case process have contributed to an uncertain regulatory climate for the state’s utilities. Combined, those practices create significant delay between when utilities, including APS, incur costs until they are able to recover those costs, a situation known as regulatory lag. According to BTU Analytics, Arizona’s average rate case duration was longer than any United States jurisdiction other than the District of Columbia during a five-year period

through 2023.² As shown in Figure 4, APS has filed a general rate case about every three years since 2011, and the rate cases have taken on average 17 months to resolve from filing date to the rate effective date.

Figure 4. Recent APS Rate Case Lengths

Rate Case Filing Date	Test Year	Decision No. ³	Decision Date	Rate Case Length*
6/1/11	1/1/10 to 12/31/10	73183	5/4/12	396 days
6/1/16	1/1/15 to 12/31/15	76295	8/18/17	444 days
10/31/19	7/1/18 to 6/30/19	78317	11/9/21	665 days**
10/28/22	7/1/21 to 6/30/22	79293	3/5/24	494 days

*Time period from Rate Case Filing Date to Rate Effective Date

**Overall length was 740 days; case was extended 75 days due to COVID-19 considerations.

Regulatory lag adversely affects the Company's financial health, operating efficiency, and investment decisions, and ultimately impacts customer service levels and rates. Reducing regulatory lag promotes savings for customers by decreasing financial risk, which leads to potentially lower borrowing costs for the Company. Those savings then can be passed on to customers through lower rates. APS currently implements Commission-approved tools, such as adjustors, that partially address regulatory lag by enabling more timely cost recovery while

² Jon Bowman, *Arizona's Utility Regulatory Environment: Improving or False Dawn?*, FactSet (Mar. 21, 2024) <https://insight.factset.com/arizonas-utility-regulatory-environment-improving-or-false-dawn>.

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-11-0224, Decision No. 73183 (May 24, 2012); *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); *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); and *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, Decision No. 79293 (Mar. 5, 2024).

providing more gradual price changes for customers between rate cases. Ratemaking mechanisms such as multiyear rate plans, revenue decoupling, and formula rates are used in other states to address regulatory lag.

The Commission took a significant step toward updating its ratemaking process and reducing regulatory lag in 2024 by adopting a formula rate policy statement in Decision No. 79647 (Dec. 31, 2024) ⁴ that allows Arizona utilities to propose formula rate plans in future rate cases. The policy statement establishes a framework that enables a utility to update its rates annually between general rate cases by using a predetermined formula with transparent, audited financial statements. The process preserves Commission oversight and also allows stakeholders and customers the opportunity to review and challenge a utility's filing through an established process. I will briefly review the Company's formula rate proposal below. APS witnesses Jessica E. Hobbick and Mr. Bauer discuss the formula rate proposal in more detail in their Direct Testimonies.

V. KEY CHALLENGES TO PROVIDING RELIABLE SERVICE

Q. **WHAT CHALLENGES DOES SUBSTANTIAL LOAD GROWTH CREATE FOR APS AND ITS CUSTOMERS?**

A. Unprecedented customer and energy demand growth pose several challenges to ensuring reliability and resiliency for APS. Substantial capital investments, the complexities of acquiring and integrating new energy resources, and the rapid expansion of data center customers who are locating in our service territory are some of the challenges APS faces today. Securing the relief requested in this rate case is essential to meeting the demands placed on the system by this growth.

⁴ *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) at Attachment A.

The state's population growth has averaged 1.5% annually since 2020, with APS's customer growth rate topping 2.1% during the same period. Arizona continues to add new jobs and attract large and small businesses due in part to our competitive prices, balanced generation resources, and high reliability. Maricopa County was recently ranked No. 1 in the country for economic growth by Site Selection magazine for its considerable increase in jobs and investment from businesses for January 2023 to March 2024.⁵ According to a report from global real estate firm Newmark Group, Inc., Metro Phoenix ranked No. 1 out of the top 15 United States growth regions for projected employment from major manufacturing projects.⁶

The combination of population growth, dynamic economic activity, and Arizona's increasing temperatures is leading to a historic increase in energy demand from customers. In August 2024, APS customers set a peak demand record of 8,210 megawatts (MW), and we project that APS's total load requirement will grow to over 12,000 MW by 2031 and is expected to increase to more than 14,800 MW by 2038, primarily due to data centers and other high load factor industrial customers. To meet customer demand, APS is rapidly procuring new resources. For example, the Company secured nearly 7,300 MW of new generation and energy storage resources through its 2023 All-Source Request for Proposals (RFP), and the Company is seeking at least 2,000 MW of resources in its 2024 All-Source RFP.

⁵ Mark Arend, *America's Best Counties*, SITE SELECTION (Jul. 2024) at 65, <https://siteselection.com/digitalEdition/2024/jul/#page=70>.

⁶NEWMARK, *Manufacturing Momentum: Scaling for Success in Key Markets*, (January 2024) <https://www.nmrk.com/insights/thought-leadership/manufacturing-momentum-scaling-for-success-in-key-markets>; see also Corina Vanek, *Report: Phoenix leads nation in manufacturing job growth. What to know*, Arizona Republic (Jan. 11, 2024), <https://www.azcentral.com/story/money/business/jobs/2024/01/11/phoenix-leads-nation-in-manufacturing-job-growth-says-report/72193601007/>.

Q. HOW DOES WILDFIRE RISK IMPACT THE SERVICE THE COMPANY PROVIDES?

A. Drought, changing weather patterns, and the growing wildland-urban interface have contributed to growing wildfire risk in Arizona. Wildfires present an enormous risk to our ability to provide reliable service to customers, which has required APS to develop extensive and comprehensive fire mitigation strategies and programs. These preventative measures are becoming more commonplace and expected throughout the electric utility industry. The risk of wildfires and the necessary mitigation efforts have increased costs for APS and its customers. These increased costs are due not only to the implementation of new wildfire mitigation programs and technologies, but also to dramatically climbing insurance premium costs due to rising wildfire risk.

Western United States electric utilities in states including California, Colorado, Hawaii, Oregon, and Texas have collectively faced tens of billions of dollars in losses from wind-driven wildfires linked to utility equipment. The resulting liability has led to serious financial consequences for impacted utilities — bankruptcy filings, downgraded credit ratings, and limited access to capital markets and cost-effective financing needed to fund new infrastructure. As a result, the rapidly growing costs for programs to support wildfire mitigation are necessary to protect the communities we serve.

Q. WHAT ARE SOME OTHER CHALLENGES APS FACES IN DELIVERING RELIABLE SERVICE TO CUSTOMERS?

A. As described by Mr. Tetlow in his Direct Testimony, other key challenges that the Company faces today include:

- Growing and more sophisticated cyber security threats from a range of outside actors seeking to disrupt the systems and facilities necessary for a reliable grid;
- Summertime extreme weather and heat, that places a constant strain on the Company's generation resources needed to ensure around-the-clock reliable service; and
- Expanding APS's fleet of generation resources necessary to ensure cost-effective and reliable service.

While these and other challenges may seem daunting, APS is more than up to the task of maintaining reliable service across a range of conditions and circumstances. But in order to do that, the Company requires the rate relief spelled out in this application.

Q. WHY ARE THE PROPOSALS WITHIN APS'S RATE APPLICATION CRITICAL TO ADDRESSING THESE CHALLENGES?

A. Beyond just recovering costs that APS incurs to maintain and operate the electric grid, this application proposes solutions that will:

- Enable the Company to catch up on investment and expense recovery associated with costs incurred since the test year in APS's last rate case, all of which have been essential to providing reliable and affordable service to customers;
- Reduce regulatory lag through a formula rate proposal, which will promote rate stability and gradualism, and more concurrently align cost recovery for the expenses and investments necessary to serve rapidly growing load;
- Reform rate designs for APS's high-load factor customers such as data centers to ensure that growth pays for growth and mitigate the risk of cost shifts to other customer classes;

- Continue and strengthen APS's wildfire mitigation efforts to help reduce the risk of wildfires for those areas and communities most susceptible; and
- Improve APS's ability to meet and satisfy the evolving needs of its growing customer base with access to low-cost capital.

With these mechanisms in place, APS can continue investing in reliability, preparing for growth, and maintaining the lowest possible costs for customers.

VI. ENHANCING CUSTOMER EXPERIENCE

Q. **WHAT ARE SOME STEPS APS HAS TAKEN TO CONTINUE IMPROVING ITS CUSTOMER EXPERIENCE?**

A. We recognize the importance of creating customer value and we remain focused on delivering an excellent customer experience. Our employees put customers first and are working towards our goal of achieving an industry-leading customer experience – we have seen marked improvement in customer satisfaction as a result, which I will address below. We are also working closely with customers, stakeholders, and the Commission to strengthen programs that build customer trust and increase satisfaction. Changes implemented during the Test Year include:

- **Outage Center and Communications** – The APS website outage center was redesigned with more detailed outage information, improved navigation and a refreshed map. We continued auto-enrolling customers in and enhancing our outage alerts and notifications, which now include more descriptive information and understandable cause codes, crew status, and improved estimated restoration times. The result is nearly nine out of ten customers receive notifications during an outage, reducing their need to call the Center or go online for information. In post-outage surveys, nearly 60% of customers rated APS 'outstanding' when it comes to keeping them informed about their outage. We also developed systems and content for events such as a Public Safety Power Shutoff (PSPS) that can be delivered

quickly (within an hour) to alert impacted customers via text, email, or phone call.

- **APS Website and Mobile App Updates** – The customer energy usage portion of the APS website was redesigned to make it easier for customers to access and understand it. Improved visual tools help customers track their usage trends over time and pinpoint the exact date and hour of their highest demand during a monthly billing cycle. Customers can now view up to 24 months of past usage data, up from 12 months, to help them track long-term usage patterns. Graphs and usage data for rooftop solar customers are combined into one chart, eliminating the need for them to navigate multiple pages to view data. The mobile app customer dashboard was updated to reflect the website’s design for a more cohesive and informative experience.
- **Automated Service Confirmation Alerts** – Customers who interact with Customer Care advisors now receive automated email confirmations when payment arrangements are created, modified, or canceled at their request. The messages provide clear details about the arrangement and access to agency assistance or community resources, which gives customers reassurance and transparency.
- **Customer Bill Redesign** – Implemented the Commission-approved redesigned customer bill, which provides customers with additional information about their usage in an easy-to-view format for paper and electronic bills. The redesign positively impacted customer response in J.D. Power year-end results, with the Billing and Payment driver moving into the first quartile among APS’s peer group for residential customers and finishing one place away from the first quartile for business customers. . The ‘clarity of information on the bill’ category also improved to first quartile for residential customers following the change.

In addition to these initiatives, our Customer Care Center and team of Customer Care advisors, who are available to assist customers 24 hours a day, seven days a week, continue to perform at or exceeding industry benchmarks. How quickly representatives respond to customer calls is one indicator of how APS is serving customers. In 2024, 79% of more than 1.7 million phone calls to the Customer Care Center were answered in 30 seconds or less, with an average answer speed of 41 seconds.

While advisors are always available to help customers who prefer to call, more customers today choose to do business digitally on their mobile phone or other electronic devices. As noted above, APS has invested in improving our website and mobile app and also in growing our capabilities for text and email notifications and alerts to keep customers informed about their account and minimize the need for calls. Through the APS website, mobile app, text and email alerts and notifications, customers are able to complete tasks such as starting and stopping service, changing rate plans, updating contact information, signing up for programs, and reporting outages, as well as staying updated on their account and service. Collectively in 2024, more than 68 million digital engagements occurred with customers through our website, mobile app, and text or email alerts and notifications.

Q. HAS THE COMPANY SEEN MEASURABLE RESULTS IN CUSTOMER SATISFACTION IN RESPONSE TO THESE ACTIVITIES?

A. Yes. The Company's improved scores in the J.D. Power United States Electric Utility Customer Satisfaction Study reflect our employees' continual focus on delivering excellent customer service. APS finished at the top of the second quartile for both residential and business customers in the 2024 year-end studies. The

rankings show a significant turnaround from recent years. The 2024 overall score for residential customers resulted in our highest rank nationally since 2016—APS tied for 14th among 54 peer large investor-owned utilities, just one place from the first quartile. The Customer Care Center’s performance contributed significantly to meeting customers’ expectations. APS finished 2024 ranked first in APS’s peer group and seventh nationally among all participating electric utilities in the Phone Customer Care driver, which measures attributes including advisors’ knowledge, courtesy, concern for the customer, speed to answer, and timeliness to resolve issues. In the most recent J.D. Power Utility Digital Experience Study, APS rose to the first quartile from the second quartile in the 2024 study, finishing eighth overall among participating utilities. Newsweek magazine also recognized APS as one of America’s most trustworthy companies in 2024.⁷ These results confirm the determination, commitment, and collaboration that our employees have displayed across the entire organization to better serve our customers.

VII. APS’S RATE CASE REQUEST

Q. PLEASE PROVIDE AN OVERVIEW OF APS’S REQUEST IN THIS PROCEEDING.

- A. APS is requesting an overall net customer rate increase of \$579.52 million, and the Company is requesting rates reflecting an increase in that amount to become effective in 2026. This request is based on a Test Year ending December 31, 2024, an ROE of 10.7%, and results in a 7.63% weighted average cost of capital. The overall net of the requested rate increase on all customers is an average of 13.99%. Residential customers will see a net impact of 14.58% and Ms. Hobbick discusses a more detailed breakdown of rate class specific impacts in her Direct Testimony.

⁷ Nancy Cooper, *Most Trustworthy Companies in America 2024*, NEWSWEEK (Feb. 2024), <https://rankings.newsweek.com/most-trustworthy-companies-america-2024>.

APS is also proposing the inclusion of 12 months of post-Test Year plant (PTYP) in its request, which is consistent with previous APS rate cases. Projects that will be complete and serving our customers during the period of January 1, 2025 through December 31, 2025, have been included in the request. Mr. Tetlow will discuss these investments in more detail in his testimony. In alignment with recent Company PTYP requests and Commission decisions, APS has excluded growth-related plant from its PTYP request and has rolled forward accumulated depreciation and taxes, which significantly reduces the Company's PTYP request.

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

A. Yes. APS is proposing a formula rate that is consistent with the Commission's formula rate policy statement. Formula rates enable rate gradualism that benefits customers and they promote regulatory efficiency, improved financial stability, enhance transparency and predictability, and align rates with customer growth. Formula rates are common across the country. More than 50 utilities in 12 states have used retail formula rates, and the Company has considerable experience implementing a formula rate under the jurisdiction of the Federal Energy Regulatory Commission (FERC). APS has used the FERC formula rate since 2008 for recovery of transmission-related expenses. Mr. Bauer and Ms. Hobbick present details of the formula rate proposal and its benefits in their respective testimonies.

Q. WHAT ARE THE BENEFITS OF FORMULA RATES FOR APS CUSTOMERS?

A. Formula rates provide direct benefits to customers when compared to the current rate case process. Formula rates provide a clear and predictable method for calculating the utility's cost of service and what it can charge customers each year. With formula rates, customers will benefit from rate gradualism through smaller, more moderate annual rate changes up or down that enable customers to more effectively budget while reducing the impact of larger increases often seen

under the current multi-year process. Formula rates are designed to put more guardrails in place by ensuring utilities do not over earn due to a variety of possible factors, such as cost fluctuations, interest rate reductions, or tax credits, and to allow utilities to pass on benefits more quickly. Customers can see those cost savings within months through formula rates rather than waiting multiple years for the utility's next general rate case. The use of formula rates can streamline the regulatory process and create administrative efficiencies by reducing the need for frequent, full-scale rate cases.

Q. HOW DO FORMULA RATES PROVIDE FINANCIAL STABILITY FOR THE COMPANY?

A. Formula rate plans reduce the uncertainty around timely cost recovery that currently exists in general rate cases. Therefore, implementing formula rates is expected to improve the Company's financial stability, allowing APS to obtain lower interest rates and have greater access to low-cost capital. Those outcomes will ultimately lead to cost savings for customers and better equip the Company to keep up with the unprecedented growth in our service territory. Updating rates each year better matches customer growth with the costs necessary to pay for the infrastructure needed to serve the growth.

Q. WHY IS APS PROPOSING CHANGES TO ADDRESS LARGE HIGH LOAD FACTOR CUSTOMER GROWTH?

A. While APS's customer base continues to lean heavily residential, it is also now more diverse than ever, mirroring the diversification in our growing Arizona economy. A robust increase in commercial and industrial customers in our service territory, including new and expanded data center operations, is leading to strong economic growth across Arizona. Those customers are also driving the extraordinary increase in peak demand and overall energy use that APS and other electric utilities in the state must plan to serve. With that in mind, the Company is

proposing an updated cost allocation and rate design so customers creating the need for additional infrastructure are directly assigned responsibility for the costs. As detailed in the testimonies of APS witnesses Jamie Moe and Ms. Hobbick, APS is proposing to assign growth-related investment costs to the customer classes that create the need for new infrastructure and generation resources.

Q. HOW DO THESE PROPOSALS HELP APS MANAGE GROWTH AND PROTECT OTHER CUSTOMER CLASSES?

A. Cost allocation and recovery for new infrastructure typically would be spread across all customer classes and would not isolate costs attributed to customers who create the need for new generation and infrastructure to serve them. Thus, some costs would be spread to residential and smaller general service customer classes. The proposed changes would align with the Commission's consistent direction for utilities to propose rates and customer programs that do not cause cost shifts among customer classes. The proposed changes would also ensure that customers creating the need for additional generation and infrastructure pay for the growth, maintain reliability for existing customers, and preserve resource capacity for other customers on the system.

VIII. CONCLUSION

Q. DO YOU HAVE ANY CONCLUDING REMARKS?

A. Yes. As one of the few remaining single-state, vertically integrated electric utilities in the country, we have the ability to concentrate solely on doing what's right for our customers and the prosperity of Arizona. Our grid is tailored completely to Arizona's geography, climate, economy, and most importantly, the people. Our employees deliver top-quartile reliability and focus on delivering exceptional customer experience while working to drive down costs for our customers — supporting our state's historical population and economic growth in the midst of volatile macroeconomic conditions in the United States and internationally. This

rate case request reflects the investments APS has made to provide our customers with safe, reliable, and affordable service. Approval of this request will enable the Company to make the necessary investments to continue the service our customers expect and will lay the foundation for a secure energy future for Arizona.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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