ORIGINAL

0000172829

aps

State Regulation and Compliance

Mail Station 9712
PO Box 53999
Phoenix, Arizona 85072-3999
Tel 602-250-3341
Kerri.Carnes@aps.com

Arizona Corporation Commission
DOCKETED
AUG 24 2016
DOCKETED BY

August 24, 2016

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

RE: Arizona Public Service Company 2016 Rate Case
Docket No. E-01345A-16-0036 and E-01345A-16-0123

On August 23, 2016, Arizona Public Service Company (APS) conducted its second Rate Case Technical Conference, in the above-referenced matter. APS is providing a copy of the presentation, attached hereto.

If you have any questions regarding this information, please contact me at 602-250-3341.

Sincerely,

Kerri A. Carnes

KC/am

cc: Thomas Broderick
Terri Ford
Eric Van Epps

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL
2016 AUG 24 A 10: 31

APS Rate Case Technical Conference

August 23, 2016

aps®

Agenda

- Introduction
- Rate Request Overview and Pro Forma Adjustments (B-2 and C-2)
- Cost of Service
- Deferrals and Step Increase Overview
- Proposed Changes to Adjustor Mechanisms
- Topics and Dates for Future Technical Conferences

Note: APS's technical conferences are not offered, presented, sponsored or endorsed by The University of Arizona and are not in any way associated with The University of Arizona.

Rate Request Overview

Overview of Rate Increase ($ in thousands)		
Total Stated Base Rate Increase (inclusive of existing adjustor transfers)	$433,434	15.00%
Less: Transfer to base rates of various adjustors already in effect	$267,551	9.26%
Customer Net Bill Impact	$165,883	5.74%

Cost of Capital ($ in thousands)				
	Amount	%	Cost Rate	Composite Cost
Long-Term Debt	$ 3,728,555	44.20%	5.13%	2.27%
Common Equity	$ 4,706,351	55.80%	10.50%	5.86%
Total	$ 8,434,906	100.00%		8.13%

Other Details	
ACC Rate Base	$6.771B
Return on Fair Value Increment	1.0%
Base Fuel Rate	2.9882 ¢/kWh

Pro Forma Adjustments (B-2 and C-2)

Walk through of APS's proposed pro forma adjustments on SFRs B-2 and C-2

Where to find information in the filing

- Testimony: Elizabeth Blankenship
- Workpapers: EAB_WP07-10DR, EAB_WP17-50DR

- Testimony: Pete Ewen
- Workpapers: PME_WP17DR

- Testimony: Chuck Miessner
- Workpapers: CAM_WP05-08DR, CAM_WP10-14DR

- Testimony: Jacob Tetlow
- Workpapers: JT_WP1-2DR

- Testimony: John Lucas
- Workpapers: JRL_WP1DR

- Testimony: Stacy Derstine
- Workpapers: SLD_WP1DR

- Testimony: Jack Cadogan
- Workpapers: JJC_WP1DR

Rate Base Pro Forma Adjustments (B-2)

Page(s)	Column #	Description	Increase/(Decrease) ($ in thousands)*
1-2	2-6	Post-Test Year Plant Additions	$295,082
3	7	AG-1 Deferral	$8,626
3	8	West Phoenix Unit 4 Regulatory Disallowance	($6,515)
3	9	Property Tax Deferral	$23,849
4	10	Cash Working Capital	($18,888)
4	11	**Total Rate Base Adjustments**	**$302,154**

*Amount reflects Total Company impact on Rate Base. See B-2 for ACC jurisdictional amount.

Income Statement Pro Forma Adjustments (C-2)

Page(s)	Column #	Description	Increase/(Decrease) ($ in thousands)*
1-2	1-5	Post-Test Year Plant Additions	($67,632)
2	6	Base Fuel and Purchased Power	$41,625
3	7	PSA Revenue and Deferred Fuel Amortization**	-
3	8	Retail Deferred Fuel Expense and Non-Cash Mark-to-Market Accruals	$14,899
3	9	Normalize Weather Conditions	$6,867
4	10	Annualize Customer Levels	$6,700
4	11	Limited Income Discount (E-3/E-4)	($12,664)
4	12	Service Schedule Adjustments	($3,934)
5	13	AG-1 Adjustment	$11,695

*Amount reflects Total Company impact on Operating Income Before Income Tax. See C-2 for ACC jurisdictional amount and other income statement impacts.
**Revised as a result of APS's response to Staff 1.13.

Income Statement Pro Forma Adjustments (C-2), Cont.

Page(s)	Column #	Description	Increase/(Decrease) ($ in thousands)*
5	14	Amortization of AG-1 Deferral	($2,787)
5	15	Amortization of Pension/OPEB Deferral	$4,238
6	16	Amonix, Star Center Patent Rights and Sale of Kyrene to Knox Amortization	$4,038
6	17	Office Closure and Paystation Fee Socialization	$1,064
6-8	18-24	Remove and Transfer Adjustors (TCA, LFCR, EIS, DSMAC and REAC), Regulatory Assessment and Four Corners Rate Rider	($282,463)
9	25	Four Corners Deferral True Up	($1,388)
9	26	Cholla Non-Fuel/Non-Payroll Costs	$17,355
9	27	Cholla Unit 2 Regulatory Asset Amortization	($7,890)
10	28	West Phoenix Unit 4 Regulatory Disallowance	$329

*Amount reflects Total Company impact on Operating Income Before Income Tax. See C-2 for ACC jurisdictional amount and other income statement impacts.

Income Statement Pro Forma Adjustments (C-2), Cont.

Page(s)	Column #	Description	Increase/(Decrease) ($ in thousands)*
10	29	Interest Expense on Customer Deposits	($443)
10	30	Adjust Depreciation Expense (2016 Rate Study)	($75,989)
11	31	Nuclear Decommissioning and Spent Fuel Costs	$14,345
11	32	Annualize Payroll Expense	($5,328)
11	33	Normalize Employee Benefits	($8,400)
12	34	Supplemental Excess Benefit Retirement Plan Expense (SERP)	$7,808
12	35	Remove Stock Compensation	$15,753
12	36	Normalize Cash Incentive	$3,007
13	37	Income Tax Expense/Interest Synchronization	-

*Amount reflects Total Company impact on Operating Income Before Income Tax. See C-2 for ACC jurisdictional amount and other income statement impacts.

Income Statement Pro Forma Adjustments (C-2), Cont.

Page(s)	Column #	Description	Increase/(Decrease) ($ in thousands)*
13	38-39	Property Tax Expense/Deferral	($37,392)
14	40-41	Four Corners and Navajo Coal Reclamation Costs	$5,906
14	42	Cash Working Capital	-
15	43	Transfer Palo Verde Unit 2 Lease Reduction	$16,917
15	44-45	Normalize Nuclear and Fossil Maintenance Expense	($1,533)
16	46	Annualize Solar Partner Program Expense	($528)
16	47	Remove Out of Period and Miscellaneous Items	$1,633
16	48	**Total Income Statement Adjustments****	**($334,192)**

*Amount reflects Total Company impact on Operating Income Before Income Tax. See C-2 for ACC jurisdictional amount and other income statement impacts.
**Revised as a result of APS's response to Staff 1.13.

Cost of Service – Working Model

- COSS working model improvements
  - More user friendly, including clear labeling and color coding for all input locations
  - Inputs linked to outputs
  - Includes User Guide with step-by-step instructions and screen shots to help navigate
  - Based in Excel

- Where to find information in the filing
  - Testimony: Leland Snook
  - Workpaper: LRS_WP3DR Cost of Service Working Model (includes "How to Guide")
  - SFRs: G-1 to G-7
  - Working Model (3 Files):
    - Workbook A_Allocation Factors 2015TY
    - Workbook B – 2015TY COSS Working Model
    - Workbook C – 2015TY COSS Working Model

Cost of Service Study (COSS) Working Model: How To Guide

File Information:

There are three workbooks that comprise the COSS working model:

- Workbook A: Development of Allocation Factors
- Workbook B: Initial Cost of Service Calculations & Development of Solar Credits
- Workbook C: Final Cost of Service & Revenue Requirement Results After Solar Credits Applied

General Instructions on getting started with the COSS Working Model:

- Please download and save all 3 workbooks to the same location on your computer before opening any of the files. This will ensure that the links between the workbooks will work properly.

- The files are linked accordingly:
  a. Workbook A is linked to Workbook B
  b. Workbook B is linked to Workbook C

  Please note that Workbook B and C are large files and depending on your computer's storage and technical specifications it could cause your computer to run slowly if they are open at the same time. Therefore if you have an older computer or a slower computer, to optimize the usefulness of the model, it is recommended to open one file at a time when updating calculations to save computer memory. Once changes are made, save the changes before opening the next workbook (versus having all 3 open at the same time).

- If you see an equation in any workbook, a helpful way to drill down on the data is to use "Ctrl+[" this will allow you to follow through the origins of a calculation.

Step by Step Instructions

1) Next to "Workbook A_Allocation Factors 2015TY", click the down arrow and select "Send to> Download a Copy"

Cost of Service – Working Model, Cont.

An Example – Workbook C- 2015TY COSS Working Model

Directions on where manual inputs are located

Everything is colored coded and matches tab colors

Tab Color	Contains Manual Input Cells	Description				
	NO	**Allocation Factors: Energy, Demand, Customer Counts, Misc Costs by Class**				
		Allocation Factors	Solar Credit Factors			
	NO	Rate for: Allowed Return, Long-Term Debt, Tax, and Plant; Fair Value Increment				
		Global Inputs				
	NO	**Dollars from Unadjusted Test Year**				
		Plant in Service	Revenues by Company	O&M	Wages & Salaries	Function Specific Inputs
		Plant Balance	Revenues by Class	O&M By Class	Fuel & Purchased Power	Functionalized Allocated Entities
		Plant Reserve	Surcharges by Class	Other O&M	Plant Depreciation Expense	Specific Assigned
	NO	**Dollars for Pro Formas**				
		Functionalized Expenses	Funtionalized Rate Base			
		Specific Assigned Expenses	Specific Assigned Rate Base			
		Pro Forma Expense by Class	Revenues by Class			
	NO	**Cost of Service Calculations, AFTER Solar Demand Credits**				
	NO	Solar Credit Calculations				
		Apply Solar Credit	Step 4: Adjusted Target ROR			
		Apply Solar Credit Offset	Step 5: Solar Cost Shift			
	NO	**Cost of Service and Revenue Requirement Reports**				
		Rate Base		**Expenses**	**Revenues**	**Summary Reports**
		Plant in Service	ADIT	O&M	Revenues	Allocation Factors
		General & Intangible	Misc Deferred Debits	Administrative & General	Other Revenues (Acct 450)	Summary of Results
		Plant Reserve	OPEB	Plant Depreciation Expense	Other Reveuues (Acct 454)	Revenue Requirement
		Other Deferred Credits	Other Rate Base Items	Other Taxes	Other Revenues (Acct 456)	
		Working Cash	Reg Assets & Liabilities	Income Taxes		
		Materials, Supplies & Prepayments		Other Expense Items		

TAB KEY | 0_APPLY_SOLAR_CREDIT | 0_APPLY_SOLAR_CREDIT_OFFSET_T | 1_INPUT_ALLOCATION_FACTORS | 1_INPUT_GLOBALS | 1_INPUT_PLANT_IN_SERVICE__DI

All hyperlinked for quick navigation

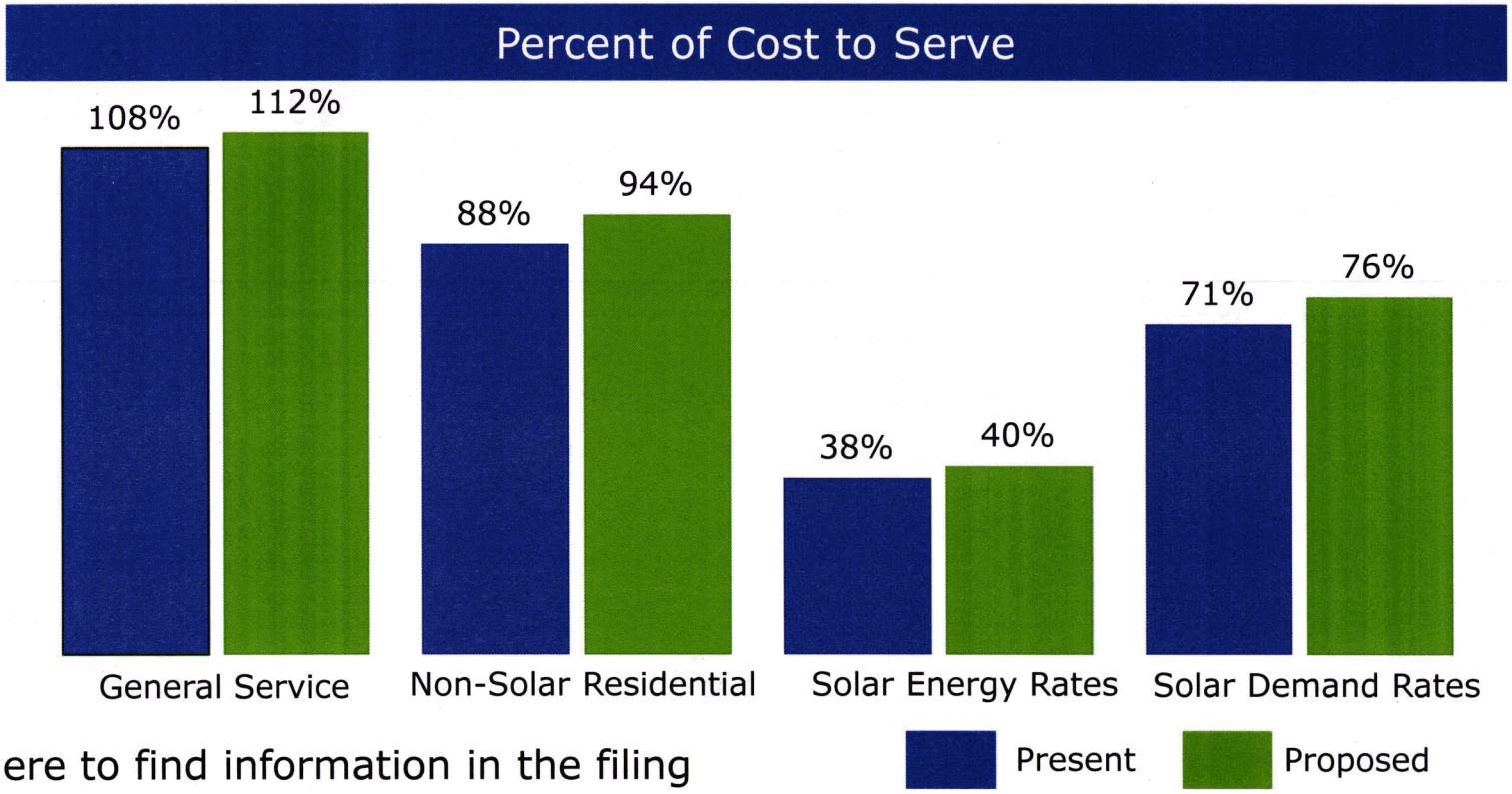
Cost of Service - Overview

Allocation Factors

- Primary allocation factors
  - Generation: Average and Excess
  - Energy: Weighted Hourly Energy
  - Transmission: 4CP
  - Distribution Primary: NCP
  - Distribution Secondary: Sum of Individual Max
  - Customer: Number of Customer Accounts

- Where to find information in the filing
  - Testimony: Leland Snook
  - Workpapers:
    - LRS_WP3DR Cost of Service Working Model (Workbook A)
    - LRS_WP5DR 2015 Test Year Development of Allocation Factors Report
  - SFRs: G-1 to G-7

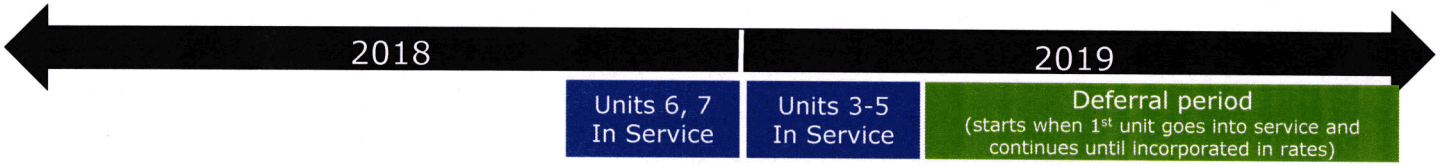
Cost of Service – Overview, Cont.



- Where to find information in the filing
  - Testimony: Leland Snook
  - Workpapers:
    - LRS_WP2DR Jurisdictional Allocation of Pro forma Adjustments
    - LRS_WP3DR Cost of Service Working Model (includes "How to Guide")
    - LRS_WP4DR 2015 Test Year Adjusted Cost of Service and Revenue Requirement
    - LRS_WP5DR 2015 Test Year Development of Allocation Factors Report
    - LRS_WP6DR 2015 Test Year Solar Credit Information
  - SFRs: G-1 to G-7

Deferrals and Step Increase Overview

Ocotillo Modernization Project Deferral



- Request: a cost deferral from the date of commercial operation in 2018 and 2019 to the effective date of rates in the next rate case
- Background: 5 units going into service in Fall 2018 and Spring 2019
- Total Cost: $500 Million
- Estimated Cost Deferral: $45 Million (through 2019)
- Where to find information in the filing
  - Testimony: Leland Snook
  - Workpaper: LRS_WP1DR Ocotillo and SCR Deferral Calculations
  - SFRs: F-1, F-2 and F-4

Deferrals and Step Increase Overview

Four Corners SCRs Deferral and Step Increase

- Request: a cost deferral from the date of installation to incorporation of SCR costs in rates using a step increase effective by January 1, 2019
- Background: Unit 5 goes into service in late 2017 and Unit 4 in Spring 2018
- Total Cost: $400 Million
- Estimated Cost Deferral: $30 Million (through 2018)
- Where to find information in the filing
  - Testimony: Leland Snook
  - Workpaper: LRS_WP1DR Ocotillo and SCR Deferral Calculations
  - SFRs: F-1, F-2 and F-4

Deferrals and Step Increase Overview

Arizona Property Tax Deferral

- Request: a deferral for any changes (increase or decrease) in the Arizona property tax rates until the next rate case
- Background: APS received a property tax deferral in its last rate case and proposes it should continue
- Estimated Cost Deferral: estimates dependent on property tax rates in the future
- Where to find information in the filing
  - Testimony: Elizabeth Blankenship

Proposed Changes to Adjustor Mechanisms

Power Supply Adjustor (PSA)

- Request: include environmental chemical costs, cost of water to supply generation plants, and contracts with third-party suppliers of electrical storage (batteries)

- Background: environmental chemicals and water to operate the plant vary depending on the production of the plant - similar to fuel

- Where to find information in the filing
  - Testimony: Pete Ewen
  - Plan of Administration: PSA POA is included in the Standard Filing Requirement information under "Redlined Plans of Administration" and "Plans of Administration"
  - Workpapers: PME_WP26DR Generation Related Environmental Chemical and Water Costs
    PME_WP27DR Fossil Generation Water and Chemical Costs

Proposed Changes to Adjustor Mechanisms

Lost Fixed Cost Recovery (LFCR)

- Request: improve the recovery of lost fixed costs associated with energy efficiency and distributed generation by including all non-fuel costs

- Background: the current LFCR only collects 30-40% of lost fixed costs and does not provide adequate collection of lost fixed costs resulting from Commission policies

- Where to find information in the filing
  - Testimony: Leland Snook
  - Plan of Administration: LFCR Plan of Administration is provided in the Standard Filing Requirement information under "Plans of Administration"

Proposed Changes to Adjustor Mechanisms

Environmental Improvement Surcharge (EIS)

- Request: increase the cap on the EIS to a $10 million year-over-year cap
- Background: current cap of $5 million is inadequate to cover the costs incurred to comply with environmental regulations
- Where to find information in the filing
  - Testimony: Leland Snook
  - Plan of Administration: EIS Plan of Administration is provided in the Standard Filing Requirement information under "Plans of Administration"

Proposed Changes to Adjustor Mechanisms

Transmission Cost Adjustor (TCA)

- Request: include a balancing account in the TCA
- Background: the current TCA does not have a balancing account. By adding it customers will only pay the amount authorized - no more, no less
- Where to find information in the filing
  - Testimony: Leland Snook
  - Plan of Administration: TCA Plan of Administration is provided in the Standard Filing Requirement information under "Plans of Administration"

Future Technical Conferences

- Thursday, September 29th, 2016 from 10:00-11:30am
  - Proposed Topics
    - Customer education and outreach
    - Renewable and technology update

- **Thursday, November 3rd, 2016 from 2:00-3:30pm (Date Change)**
  - Proposed Topics
    - Resource planning
    - Adjustments and updates to APS's request and SFR's
    - Discovery
    - Dates and locations for settlement discussions

If have any questions, please email ratecase@aps.com