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OPEN MEETING AGENDA ITEM

Jeffrey B. Guldner
Chairman, President and
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October 25, 2021

Chairwoman Lea Márquez Peterson
Commissioner Sandra D. Kennedy
Commissioner Justin Olson
Commissioner Anna Tovar
Commissioner Jim O'Connor
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

RE: Arizona Public Service Company (APS or Company)
Application for Approval of Rates, Charges, and Schedules
Docket No. E-01345A-19-0236

Chairwoman Márquez Peterson and Commissioners,

The environment for operating an electric utility in the West is more challenging than ever before. We have extremely limited capacity available to meet summer peaks. We are in the midst of a fundamental transition in how we supply energy to customers and reduce carbon emissions, requiring significant investment in new technologies such as large-scale batteries. We also are now dealing with broad inflationary pressures and supply chain constraints. And, while having more growth occurring faster than ever before in our history is good for our state, it requires significant investments in our basic infrastructure. A reasonably constructive regulatory environment is critical to successfully navigate these challenges.

Last Thursday, Chairwoman Márquez Peterson proposed her Amendment No. 2 that suggests the further destruction of a utility's ability to deliver reliable, clean, and affordable energy and service. Not only do we find this proposal to be wholly unlawful and unsupported by anything in the record, it would also hamper our investment in infrastructure to provide reliable service to our customers, and it is not in the best interest of Arizona residents or customers. If, as the Chairwoman's proposed amendment suggests, our rate levels were harming economic development in Arizona, why would TSMC, Microsoft, Nikola, Lucid Motors and so many other companies have chosen to locate in our service territory? This proposed amendment, if adopted, will lead to further harm to our customers and Arizona.

If the ROO and approved amendments are adopted as is, APS is prepared to take immediate legal action – to the Arizona Supreme Court if necessary – to protect the interests of Arizona businesses and customers, to enforce the regulatory compact that has supported Arizona for more than 100 years, and to provide certainty of the prudence standard that applies to our investments.

ACC - Docket Control - Received 10/25/2021 10:11
ACC - Docket Control - Docketed 10/25/2021 10:31 AM

This is absolutely the last thing I want to do as CEO of the largest utility in Arizona. As I said earlier in the Special Open Meeting, my goal has always been to find alignment with the Commission to achieve a constructive outcome for our customers. However, the process that has unfolded in this rate case has not been constructive and leaves me little choice.

In a last attempt to resolve these issues and move forward, I offer a proposal that I hope you will consider. Although we are lawfully entitled to a different outcome, including a full return on and of our SCR investment, I am willing to forgo *all earnings* on this investment. Specifically, I propose the Commission allow 1) a debt return on our full SCR investment and deferral as initially raised by Commissioner O'Connor in his letter dated October 6 (see Scenario 7); 2) establish a revenue requirement no lower than a $111.4 million[1] net base revenue decrease; and 3) adopt no other harmful amendments such as Chairwoman Márquez Peterson Amendment No. 2. This accomplishes certain goals and outcomes the Commission seems determined to realize and would avoid a path of seeking appellate review. I have attached an amendment that would support this outcome (see Attachment A).

In addition, if the Commission accepts our proposal, APS will provide an additional $10 million of Company funding to the communities included in our Coal Communities Transition proposal. This additional payment together with the attached amendment would resolve the SCR issue in a manner that at least allows us to repay our lenders, while providing further immediate support for impacted coal communities. This is not without financial harm to our investors, who will be adversely impacted by an estimated $50 million write off this year.

Even though APS would not appeal the authorized ROE if the Commission were to adopt the attached amendment, the reality is that an 8.7% ROE hinders the Company's ability to attract the capital needed to support the growth in Arizona, and APS will be seeking a significantly higher ROE in its next rate case.

Since the Recommended Opinion and Order (ROO) was issued on August 2, 2021, coupled with the amendments approved during the October Special Open Meeting, APS's credit ratings have been downgraded – before a final decision has even been issued. Furthermore, at least one rating agency has indicated it is moving toward downgrading the business environment for all regulated utilities in Arizona. Regulatory Research Associates (RRA), the research arm of S&P Global Market Intelligence, downgraded Arizona's regulatory environment to one of the lowest in the country. These actions have already resulted in our investors losing $1.8 billion in value. This means we will be forced to reduce our investments in Arizona, putting reliability, clean energy, customer programs, and our ability to support new business growth at risk.

None of this is good for our customers, the clean energy transition, or for the State of Arizona.

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[1] The total $111.4 million net base revenue decrease is calculated at the Corrected ROO's original $111.4 million decrease, minus the value of amendments passed in the Special Open Meeting on October 6, plus the impact of Hearing Division Amendment No. 2, plus $40 million for a debt return on the full SCR investment and deferral.

I appreciate Commissioner O'Connor raising the option of a debt return on the SCRs and I sincerely hope the Commission will consider this alternative to litigation.[2] If you do, we can avoid several years of conflict and turn our attention to making progress on our collective goals for our customers and for Arizona.

Sincerely,

Jeffrey B. Guldner

Attachment

cc: Docket Control

[2] By making this proposal, APS expressly reserves and is not waiving its rights to seek any regulatory and legal challenges to the final decision if the Commission does not adopt the approach described above, including the attached amendment.

TIME/DATE SUBMITTED: October 25, 2021

COMPANY: Arizona Public Service Company AGENDA ITEM NO.

DOCKET NO. E-01345A-19-0236 OPEN MEETING DATE:

PURPOSE: This amendment replaces Chairwoman Márquez Peterson's Proposed Amendment No. 3 and revises the Corrected ROO as amended by the Commission in the Open Meeting on October 6, 2021 (but also including Hearing Division Amendment No. 2), to (i) allow recovery of APS's SCR investment at the Four Corners Power Plant (4CPP), along with its associated deferral, at the Company's embedded cost of debt, (ii) provide for a base rate reduction of no more than $111.4 million, and (iii) provide an additional $10 million commitment by APS to fund CCT from Company funds (not included in rates). The revenue requirement impact of this amendment on top of APS's calculated revenue requirement for the ROO, plus amendments, as filed on October 13, 2021, is an increase of $40.010 million.

DELETE Page 112, Line 25 beginning at "Its evidence . . ." through Page 115, Line 25

AND REPLACE WITH the following: "Sierra Club has not provided clear and convincing evidence to support a finding that APS's investment in 4CPP and the SCRs was imprudent at the time it was made. Further, Sierra Club has not demonstrated that the cost of installing the SCRs is unreasonable. For the reasons expressed in the Recommended Opinion and Order issued on November 27, 2018, and the testimony in that proceeding as well as herein, the Commission finds that the SCRs are prudent, used and useful, and necessary to providing reliable service to APS's customers. Accordingly, it is appropriate to allow APS to recover the costs of the SCRs and its related deferral. Given APS's decision to close 4CPP in 2031, however, it is appropriate to allow recovery of APS's SCR investment, along with its associated deferral, at the Company's embedded cost of debt, in the amount of $363.165 million for the SCRs and $61.305 million for the deferral."

INSERT Page 427, Line 11 the word "not" between "has" and "rebutted"

DELETE Page 427, Line 13 in its entirety

AND REPLACE WITH the following: "5. APS's FVRB is $12,168,903."

DELETE Page 428, Lines 7-8 in their entirety

AND REPLACE WITH the following: "IT IS FURTHER ORDERED that APS shall recover the cost of its SCR investment at 4CPP and the associated deferral at the Company's embedded cost of debt, in the amount of $363.165 million for the SCRs and $61.305 million for the deferral."

INSERT Page 429, Line 16 "IT IS FURTHER ORDERED that the Commission acknowledges that in addition to the previously committed funds, the Company has made a further commitment of $10 million in Company funds (sometimes referred to as "shareholder funds") to support CCT. The Company notes that such funds will be remitted by year-end with $9 million to the Navajo Nation, $500,000 to the Navajo County Communities, and $500,000 the Hopi Tribe."

MAKE ALL CONFORMING CHANGES