BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

TOM FORESE – Chairman
BOB BURNS
DOUG LITTLE
ANDY TOBIN
BOYD W. DUNN

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR A HEARING TO DETERMINE THE FAIR VALUE OF THE UTILITY PROPERTY OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	DOCKET NO. E-01345A-16-0036
IN THE MATTER OF FUEL AND PURCHASED POWER PROCUREMENT AUDITS FOR ARIZONA PUBLIC SERVICE COMPANY.	DOCKET NO. E-01345A-16-0123
	DECISION NO. 76295
	OPINION AND ORDER

DATE OF HEARING:	October 20, 2016 and January 11, 2017 (Procedural Conferences); April 20, 2017 (Pre-Hearing Conference); April 24, 25, 26, 27, 28, May 1 and 2.
PLACE OF HEARING:	Phoenix, Arizona
PUBLIC COMMENT HEARINGS:	March 15, 2017 (Douglas, Arizona); March 22, 2017 (Phoenix, Arizona); March 29, 2017 (Clarkdale, Arizona); April 3, 2017 (Flagstaff, Arizona); April 20, 2017 (Yuma, Arizona)
ADMINISTRATIVE LAW JUDGE:	Teena Jibilian
APPEARANCES:	Mr. Thomas Loquvam, Mr. Thomas Mumaw, Ms. Melissa Krueger, Ms. Amanda Ho, PINNACLE WEST CAPITAL CORPORATION, and Mr. Ray Heyman, SNELL & WILMER, LLP on behalf of Arizona Public Service Company; Ms. Meghan H. Grabel, OSBORN MALEDON, on behalf of Arizona Investment Council; Mr. Nicholas J. Enoch, LUBIN & ENOCH, PC, on behalf of Local Unions 387 and 769 of IBEW, AFL-CIO; Mr. Timothy J. Sabo, SNELL & WILMER, LLP, on behalf of REP America d/b/a ConservAmerica;

Mr. Garry D. Hays, LAW OFFICES OF GARRY D. HAYS, PC, on behalf of Arizona Solar Deployment Alliance;

Mr. Timothy Hogan, ARIZONA CENTER FOR LAW IN THE PUBLIC INTEREST, on behalf of Arizona School Boards Association, Arizona Association of School Business Officials, Arizona Community Action Association, Cynthia Zwick, Western Resource Advocates, Southwest Energy Efficiency Project and Vote Solar;

Mr. David Bender and Ms. Chinyere Osuala, EARTHJUSTICE, on behalf of Vote Solar;

Mr. Giancarlo G. Estrada, KAMPER ESTRADA, LLP, on behalf of Solar Energy Industries Association;

Mr. Court S. Rich, ROSE LAW GROUP, PC, on behalf of Energy Freedom Coalition of America;

Mr. Craig A. Marks, CRAIG A. MARKS, PLLC, on behalf of Arizona Utility Ratepayer Alliance;

Mr. Kurt J. Boehm, BOEHM KURTZ & LOWRY, on behalf of The Kroger Co.;

Mr. Scott S. Wakefield, HEINTON & CURRY, PLLC, on behalf of Wal-Mart Stores, Inc. and Sam's West, Inc.;

Ms. Brittany L. DeLorenzo, on behalf of IO DATA CENTERS, LLC;

Mr. Patrick J. Black, FENNEMORE CRAIG, PC, on behalf of Freeport Minerals Corporation and Arizonans for Electric Choice and Competition;

Mr. Lawrence V. Robertson, Jr., on behalf of Calpine Energy Solutions, LLC, Constellation New Energy, Inc., and Direct Energy Business, LLC;

Mr. Greg Patterson, MUNGER CHADWICK, on behalf of Arizona Competitive Power Alliance;

Mr. Jason Moyes, MOYES SELLERS & HENDRICKS, LTD, on behalf of Electrical District Number Eight and McMullen Valley Water Conservation & Drainage District;

Mr. Albert H. Acken, RYLEY CARLOCK & APPLEWHITE, on behalf of Electrical District Number Six, Pinal County, Arizona, Electrical District Number Seven of the County of Maricopa, State of Arizona, Aguila Irrigation District, Tonopah Irrigation District, Harquahala Valley Power District, and Maricopa County Municipal Water Conservation District Number One;

Capt. Lanny L. Zieman and Capt. Natalie A. Cepak, on behalf of Federal Executive Agencies;

Mr. John B. Coffman, JOHN B. COFFMAN, LLC, and Ms. Ann-Marie Anderson, WRIGHT WELKER & PAUOLE, PLC, on behalf of AARP;

Mr. Greg Eisert, on behalf of Sun City Homeowners Association;

Mr. Al Gervenack, on behalf of Property Owners & Residents Association;

Mr. Richard Gayer, pro se; and

Mr. Warren Woodward, pro se;

Mr. Daniel W. Pozefsky, on behalf of the Residential Utility Consumer Office;

Ms. Maureen A. Scott, Senior Staff Counsel, Mr. Wesley C. Van Cleve, and Mr. Charles H. Hains, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

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BY THE COMMISSION:

I. PROCEDURAL HISTORY

On June 1, 2016, Arizona Public Service Company ("APS" or "Company") filed with the Arizona Corporation Commission ("Commission") the above-captioned Rate Case Application ("Application").[1] In the Application, which is based on a test year ending December 31, 2015, APS sought a $165.9 million net increase in base rates; changes in some of its adjustor mechanisms; establishment of a mandatory new three-part demand-based rate design for residential and small commercial rate design; reduction of on-peak time-of-use hours; and grandfathering of existing solar customers while modifying net metering arrangements for new solar customers.

On July 22, 2016, a Rate Case Procedural Order was issued setting the procedural schedule and associated procedural deadlines for the Application, and indicating that pursuant to Commission Decision No. 75047 (April 30, 2015), issues related to APS's proposed Automated Meter Opt-Out Service Schedule would also be addressed in this proceeding.

On August 1, 2016, a Procedural Order was issued granting a Motion by the Commission's Utilities Division ("Staff") to consolidate Docket No. E-01345A-16-0123 with the Application.

Parties to this docket are APS, the Commission's Utilities Division ("Staff"), Richard Gayer; Patricia Ferré; Warren Woodward; IO Data Centers, LLC ("IO"); Freeport Minerals Corporation ("Freeport"); Arizonans for Electric Choice and Competition ("AECC"); Sun City Home Owners Association ("SCHOA"); Western Resource Advocates ("WRA"); Arizona Investment Council ("AIC"); Arizona Utility Ratepayer Alliance ("AURA"); Property Owners and Residents Association of Sun City West ("PORA"); Arizona Solar Energy Industries Association ("AriSEIA"); Arizona School Boards Association ("ASBA"), Arizona Association of School Business Officials ("AASBO"); Cynthia Zwick (in her personal capacity); Arizona Community Action Association ("ACAA"); Southwest Energy Efficiency Project ("SWEEP"); the Residential Utility Consumer Office ("RUCO"); Vote Solar; Electrical District Number Eight and McMullen Valley Water Conservation & Drainage District (collectively, "ED8/McMullen"); The Kroger Co. ("Kroger"); Tucson Electric Power

[1] On January 29, 2016, APS filed its Notice of Intent to File a Rate Case Application and Request to Open Docket.

Company ("TEP"); Pima County; Solar Energy Industries Association ("SEIA"); the Energy Freedom Coalition of America ("EFCA"); Wal-Mart Stores, Inc. and Sam's West, Inc. (collectively, "Walmart"); Local Unions 387 and 769 of the International Brotherhood of Electrical Workers, AFL-CIO (collectively, "the IBEW Locals"); Calpine Energy Solutions LLC ("Calpine")(formerly Noble Energy Solutions, LLC); the Arizona Competitive Power Alliance ("the Alliance"); Electrical District Number Six, Pinal County, Arizona ("ED 6"), Electrical District Number Seven of the County of Maricopa, State of Arizona ("ED7"), Aguila Irrigation District ("AID"), Tonopah Irrigation District ("TID"), Harquahala Valley Power District ("HVPD"), and Maricopa County Municipal Water Conservation District Number One ("MWD") (collectively, "Districts"); the Federal Executive Agencies ("FEA"); Constellation New Energy, Inc. ("CNE"); Direct Energy Business, LLC ("Direct Energy"); AARP; the City of Sedona ("Sedona"); Arizona Solar Deployment Alliance ("ASDA"); the City of Coolidge ("Coolidge"); REP America d/b/a ConservAmerica ("ConservAmerica"); and Granite Creek Power & Gas and Granite Creek Farms LLC (collectively, "Granite Creek").

The full procedural history of this proceeding is set forth in the Findings of Fact herein.

On May 17, 2017, APS, AIC, the IBEW Locals, ConservAmerica, ASDA, Vote Solar, EFCA, SEIA, AriSEIA, AURA, Freeport, AECC, Calpine, CNE, Direct Energy, Walmart, FEA, ED8/McMullen, the Districts, ACAA, SWEEP, AARP, Mr. Gayer, Mr. Woodward, RUCO, and Staff filed Initial Closing Briefs.[2]

On June 1, 2017, APS, AIC, the IBEW Locals, ConservAmerica, EFCA, SEIA, Freeport, AECC, Calpine, CNE, Direct Energy, SWEEP, Mr. Woodward, and Staff filed Reply Closing Briefs.[3]

Numerous public comments were filed.

Following the parties' filings of Initial Closing Briefs and Reply Closing Briefs, this matter was taken under advisement by the Administrative Law Judge pending the submission of a Recommended Opinion and Order for the consideration of the Commission.

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[2] Freeport, AECC, Calpine, CNE, and Direct Energy jointly filed an Initial Closing Brief. Mr. Gayer filed his Initial Closing Brief on May 15, 2017.

[3] Freeport, AECC, Calpine, CNE, and Direct Energy jointly filed a Reply Closing Brief. On June 1, 2017, RUCO filed notice that it would not be filing a Reply Closing Brief.

II. BACKGROUND

APS, which is the largest subsidiary of Pinnacle West Capital Corporation ("Pinnacle West"), is the largest electric provider in Arizona, and serves more than 1.2 million customers, in 11 of Arizona's 15 counties. APS employs more than 6,300 employees, including employees at jointly-owned generating facilities for which APS serves as the generating facilities manager. In addition to the Palo Verde Nuclear Generating Station, which APS co-owns and operates, APS owns and operates six natural gas plants, two coal-fired plants, and renewable energy power generating facilities. APS currently generates approximately 11 percent of its electricity from more than 1,200 MW of renewable resources. APS also owns and operates more than 35,000 miles of transmission and distribution lines to deliver energy to its customers.[4]

APS's current rates and charges were authorized by Decision No. 73183 (May 24, 2012) in Docket No. E-01345A-11-0224. Among other things, Decision No. 73183 approved a Lost Fixed Cost Recovery Mechanism ("LFCR") which allows for the recovery of lost fixed costs, as measured by revenue per kWh, associated with energy efficiency and distributed generation ("DG").

On December 3, 2013, the Commission issued Decision No. 74202 in Docket No. E-01345A-13-0248, which acted upon an Application by APS to begin to address, in the LFCR, a cost shift from DG customers to non-DG customers.

On December 23, 2014, the Commission issued Decision No. 74876, which authorized the Four Corners Rate Rider as contemplated by Decision No. 73183.[5]

On January 3, 2017, the Commission issued Decision No. 75859 in the generic Docket No. E-00000J-14-0023, In the Matter of the Commission's Investigation of the Value and Cost of Distributed Generation, which established methodologies to be used in electric utility rate cases before the Commission for calculating the value of DG exports. Decision No. 75859 was amended by Decision No. 75932 (January 13, 2017) to establish parameters for grandfathering of DG customers, and clarified by Decision No. 76149 (June 22, 2017) regarding publication of the spreadsheet model to be used for the Resource Comparison Methodology ("RCP") in rate cases as ordered by Decision No. 75859.

[4] Hearing Exhibit APS-14 (Direct Testimony of Daniel Froetscher) at 3.
[5] Decision No. 74978 (February 9, 2015)(Order Granting Rehearing) amended Decision No. 74876 to add two additional Findings of Fact.

III. PARTIAL SETTLEMENT AGREEMENT

a. Overview

On March 1, 2017, a Settlement Term Sheet was filed in the case, indicating that many, but not all, parties to this case were in support of a Settlement Agreement, and outlining the terms. On March 27, 2017, the Settlement Agreement was filed. A copy of the signed Settlement Agreement, which was admitted into evidence during the hearing in this proceeding as Hearing Exhibit A-29, is attached hereto as Exhibit A.

b. Settling Parties

The parties to the Settlement Agreement are APS, AIC, the IBEW Locals, ConservAmerica, ASDA, Vote Solar, EFCA, SEIA, AriSEIA, AURA, Freeport, AECC, Direct Energy, CNE, Calpine, the Alliance, Walmart, Kroger, Granite Creek, FEA, Coolidge, WRA, ASBA, AASBO, SCHOA, PORA, ACAA, RUCO, and Staff ("Settling Parties").

c. Non-Settling Parties

Parties who did not sign the Settlement Agreement are Richard Gayer, Patricia Ferré, Warren Woodward, IO, Cynthia Zwick (in her personal capacity), SWEEP, ED8/McMullen, the Districts, AARP, and Sedona.[6]

d. Bifurcation of Section 30 of the Settlement Agreement

Pursuant to Commission Decision No. 74057 (April 30, 2015) and the Rate Case Procedural Order in these dockets, issues related to APS's Proposed Automated Meter Opt-Out Service Schedule were addressed in this proceeding.

Section 30 of the Settlement Agreement provides:

> 30.1 The AMI Opt-Out program will be approved as proposed by APS except the fees will be changed to reflect an upfront fee of $50 to change out a standard meter for a non-standard meter and monthly fee of $5. See Service Schedule 1, attached as Appendix M.
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> 30.2 Changes to Schedule 1 are attached in Appendix M.

[6] IO appeared through counsel at the hearing but did not otherwise participate in the hearing or post-hearing briefing process as a party. Patricia Ferré, Cynthia Zwick, and Sedona, who did not sign the Settlement Agreement, did not participate in the hearing or post-hearing briefing process as parties.

The issues surrounding the Settlement Agreement Proposed AMI Opt-Out program were heavily litigated in this proceeding. These issues will be bifurcated from this Decision, and will be addressed in a forthcoming Decision.

e. Procedural Opposition to Settlement Agreement / Process

i. **ED8/McMullen**

ED8/McMullen states that it intervened in this case "in hopes of raising questions about the recurring trend of settled rate cases that have become almost automatic before the Arizona Corporation Commission, at least when it comes to APS."[7] ED8/McMullen assert that settlement agreements do not provide ratepayers assurances that they are not being taken advantage of by a monopoly.[8] ED8/McMullen are critical of the fact that APS opened settlement negotiations by presenting a compromise offer, and of Staff's and RUCO's testimony comparing the revenue requirement in the settlement agreement to the revenue requirement APS proposed in the Application.[9]

ED8/McMullen are critical of RUCO's position that the Settlement Agreement terms would provide benefits that would not be possible in a litigated case. ED8/McMullen opine that it is "wholly presumptuous to assert that a fully litigated case and subsequent decision by the Commissioners would be detrimental to the ratepayers when compared to the settlement agreement."[10] ED8/McMullen argue that none of the parties supporting the Settlement Agreement addressed the validity of the relief APS requested in its Application, defended APS's need for the relief the Settlement Agreement would provide, or explained the consequences of denying APS a rate increase.[11] ED8/McMullen propose that "the Settlement Agreement be rejected and this matter be opened for a full evidentiary proceeding on the merits."[12]

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[7] ED8/McMullen Initial Closing Brief ("Br.") at 6.
[8] *Id.*at 7.
[9] Although ED8/McMullen filed post-hearing briefs, they raised no objections to specific Settlement Agreement revenue requirement issues, and offered no substantive revenue requirement evidence.
[10] ED8/McMullen Br. at 11.
[11] ED8/McMullen Br. at 9, 11.
[12] ED8/McMullen Br. at 11.

ii. **Districts**

The Districts contend that "the proposed non-unanimous settlement is the flawed result of a flawed process," that its terms will require ratepayers to "pay hundreds of millions of dollars to provide a windfall to APS and to resolve APS's battles with EFCA," and that "[m]eanwhile the District's farmers are losing options for affordable power."[13] The Districts state that their wholesale contracts with APS index their contractual rate to the E-34 retail rate, and contend that the rising rates are unaffordable for the farmers the Districts serve.[14] The Districts are concerned that wholesale power from APS will not be a viable alternative to the power they currently procure from the Navajo Generating Station ("NGS").[15]

The Districts argue that Rule 408 of the Arizona Rules of Evidence ("Rule 408") does not protect the settling parties from being forced to answer questions regarding the settlement process;[16] that exclusion of "evidence regarding the settlement process's many flaws" was prejudicial error;[17] and that "[e]vidence regarding the settlement process must be allowed in an evidentiary hearing that is being held solely for the purpose of evaluating whether the settlement is in the public interest."[18] The Districts claim that "the settlement process failed to provide for a meaningful opportunity for all, and APS cannot meet its burden that the non-unanimous settlement agreement is in the public's interest."[19]

iii. **Mr. Gayer**

Mr. Gayer asserts that "the entire settlement process and resulting agreement (APS 29) should be set aside and this entire rate case should be litigated *ab initio.*"[20] Mr. Gayer submits that Rule 408 is not a bar to use of settlement discussions when they are offered for a relevant purpose other than proving the validity of a claim or its amount.[21] Mr. Gayer believes that the Decision in this matter should reflect that the settlement negotiations and the Settlement Agreement constitute serious

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[13] Districts Br. at 2.
[14] *Id.* at 5. Although the Districts filed post-hearing briefs, they raised no objections to specific Settlement Agreement revenue requirement issues, and offered no substantive revenue requirement evidence.
[15] *Id.*
[16] Districts Br. at 4.
[17] *Id.* at 5.
[18] Districts Br. at 4.
[19] *Id.* at 5.
[20] Gayer Br. at 4. *See also* Gayer Reply Br. at 8.
[21] Gayer Br. at 4. citing to *Bradshaw v. State Farm Mutual Auto Ins. Co., 157 Ariz. 411, 420 (1988).*

violations of procedural due process, so that in the future there will be no such negotiations or agreements and that all rate cases will be fully litigated openly in the public.[22]

iv. **Mr. Woodward**

Mr. Woodward believes the settlement process was "fatally flawed,"[23] and supports the arguments of ED8/McMullen, the Districts, and Mr. Gayer against the Settlement Agreement.[24] Mr. Woodward is critical of RUCO's and Staff's support of the Settlement Agreement, claiming that RUCO is out of touch with and does not represent residential ratepayers;[25] that Staff is biased toward APS;[26] and that Staff's characterization of the settlement process as inclusive and transparent is incorrect.[27] Mr. Woodward is generally critical of APS's, and of all parties' defense of the Settlement Agreement,[28] contending that evidence he brought to the settlement discussions, and his initial objections to the settlement process itself, were ignored.[29] Mr. Woodward claims that the Settlement Agreement is not in the public interest,[30] and must be set aside in order to obtain a just outcome.[31]

v. **APS**

APS responds that the criticisms of the settlement process are not supported by the evidence, and that they reflect a misunderstanding of the role of settlements in Commission proceedings, and of the safeguards in the Commission's process that protect the public interest.[32] APS asserts that the parties critical of the settlement process fail to consider that settling disputed issues generally promotes good public policy, and fail to acknowledge the benefits the Settlement Agreement provides to

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[22] Gayer Br. at 15 and Reply Br. at 9.
[23] Woodward Br. at 40, citing to Hearing Exhibit Woodward-6 (Direct Testimony of Warren Woodward on the Settlement Agreement) and Hearing Exhibit Woodward-7 (Rebuttal Testimony of Warren Woodward on the Settlement Agreement); Woodward Reply Br. at 23, citing to Hearing Exhibit Woodward-6 (Direct Testimony of Warren Woodward on the Settlement Agreement) at Sections III.E, III.F, and to Hearing Exhibit Woodward-7 (Rebuttal Testimony of Warren Woodward on the Settlement Agreement) at Section VI.
[24] Woodward Br. at 40.
[25] *Id.* at 39, 40, citing to Woodward-7 (Rebuttal Testimony of Warren Woodward on the Settlement Agreement) at Section III.B and Woodward Reply Br. at 22,.
[26] Woodward Br. at 40, citing to Tr. at 1268, 1275-76, and 1304 (Staff witness Abinah).
[27] Woodward Br. at 30-34.
[28] Woodward Reply Br. at 22-28. For example, Mr. Woodward claims: "Indeed, the false notion that a fair consideration has occurred by an enlightened majority runs throughout the arguments of those parties in support of the Settlement Agreement." Woodward Reply Br. at 26.
[29] Woodward Reply Br. at 28-30.
[30] *Id.* at 28, 32.
[31] Woodward Reply Br. at 27.
[32] APS Br. at 52, 55.

customers.[33] APS points out that participation in the settlement discussions, which were led by the Director of the Commission's Utilities Division, was such that the discussions had to be held in the hearing room to accommodate all the participants.[34] APS states that all parties were allowed to participate in the settlement discussions, and that despite the divergent interests of the participants, the parties engaged in open, transparent, and arm's length negotiations over the nearly three month process; that the process was fair; and the outcome was just, reasonable, and in the public interest.[35] APS further states that the testimony in this case shows that "all parties were provided the opportunity to raise and discuss any issues they so chose during the Settlement negotiations, and had the opportunity to present their evidence at the hearing."[36] In particular, APS points to the testimony of non-signatory party witnesses that the settlement process was conducted in a fair manner, and that parties had the opportunity to be heard and have their issues fairly considered.[37]

APS contends that arguments in opposition to the structuring of the settlement process, and even the existence of a settlement process, should not be afforded weight because: 1) while it was necessary to initially bifurcate discussions into revenue requirement and rate design, there was no separate revenue requirement settlement; 2) complaints about the settlement process appear to be colored by dissatisfaction with the settlement outcome; and 3) in a large case with 40 parties, "[t]here is nothing procedurally or substantively improper about one-off meetings that don't involve all parties,

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[33] APS Reply Br. at 1.

[34] APS Br. at 52-53.

[35] *Id.* at 53, referring to Hearing Exhibit VoteSolar-1 (Direct Testimony of Briana Kobor on the Settlement Agreement); Hearing Exhibit Walmart-5 (Direct Testimony of Chris Hendrix on the Settlement Agreement); Hearing Exhibit AURA-3 at 2 (Direct Testimony of Patrick Quinn on the Settlement Agreement); Hearing Exhibit RUCO-6 at 2 (Direct Testimony of David Tenney on the Settlement Agreement); Hearing Exhibit ACAA-1 at 3 (Direct Testimony of Cynthia Zwick on the Settlement Agreement); Hearing Exhibit AIC-5 at 2 (Direct Testimony of Gary Yaquinto on the Settlement Agreement); Tr. at 1094-95 (RUCO witness Tenney); Tr. at 1281-82, 1266, 1274 (Staff witness Elijah Abinah).

[36] APS Br. at 55, citing to Tr. at 45 (Kroger counsel Boehm); Tr. at 74 (Staff counsel Van Cleve); Tr. at 184-185 (APS witness Lockwood); Tr. at 722 (AARP witness Coffman); Tr. at 906 (Gayer); Tr. 988 (Woodward); Tr. at 1164 (SWEEP witness Schlegel). APS also references Hearing Exhibit APS-X at 3-4 (Direct Testimony of Barbara Lockwood on the Settlement Agreement); Hearing Exhibit AARP-1 at 3 (Direct Testimony of John B. Coffman on the Settlement Agreement); Hearing Exhibit ACAA-1 at 3 (Direct Testimony of Cynthia Zwick on the Settlement Agreement); Hearing Exhibit AIC-5 at 2 (Direct Testimony of Gary Yaquinto on the Settlement Agreement); Hearing Exhibit AURA-3 at 2 (Direct Testimony of Patrick Quinn on the Settlement Agreement); Hearing Exhibit ConservAmerica-3 at 1-2 (Direct Testimony of Paul Walker on the Settlement Agreement); Hearing Exhibit RUCO-6 at 2 (Direct Testimony of David Tenney on the Settlement Agreement); Hearing Exhibit VoteSolar-2 at 1 (Direct Testimony of Briana Kobor on the Settlement Agreement).

[37] APS Br. at 53-54, citing to Hearing Exhibit AARP-1 (Direct Testimony of John B. Coffman on the Settlement Agreement), Hearing Exhibit SWEEP-3 (Direct Testimony of Jeff Schlegel on the Settlement Agreement), and Tr. at 575-76 (ED8/McMullen witness Jim Downing).

or meetings among smaller subsets of parties with unique interests."[38] APS asserts that settlements are not open meetings, but are confidential negotiations between litigants, with the outcome of the negotiations being made public and fully vetted at an evidentiary hearing.[39]

In response to the Districts' argument that the Settlement Agreement terms benefitting EFCA render the Settlement Agreement flawed and not of benefit to customers, APS points out that EFCA is only one party out of 29 Settling Parties with diverse interests, and that the agreement among these parties represents compromise and balance among all those interests, not an imbalance toward only one party's interests.[40] APS asserts that the diversity of the Settling Parties, which include representatives of several customer groups, including residential, limited-income, retiree, public schools and school business officials, federal agencies, and large industrial and commercial customers, is evidence in itself that the Settlement Agreement is in the public interest.[41] APS also points to the benefit of EFCA's agreement with the Signing Parties in this case, as the agreement has opened the door to collaboration in the future, as opposed to continual litigation of disputed issues surrounding the integration of DG.[42]

APS states that with the exception of the Districts, all parties who did not sign the Settlement Agreement, but participated in the evidentiary hearing, acknowledged that they had ample opportunity to participate in the settlement process and had a full and fair opportunity to present their case in the evidentiary hearing.[43] APS points out that the Districts acknowledged that they had the opportunity to present evidence in this case, and that they did not introduce testimony, by choice.[44] APS contends that after "declining to cross examine witnesses on substantive Settlement terms, and choosing to not put on their own evidence challenging the Settlement, the Districts cannot now complain that they have been shut out of the process."[45]

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[38] APS Br. at 54-55.
[39] *Id.* at 55.
[40] APS Reply Br. at 1.
[41] *Id.* at 2.
[42] APS Reply Br. at 1.
[43] *Id.* at 2, citing to Tr. at 722 (AARP witness Coffman); Tr. at 906 (Gayer); Tr. at 988 (Woodward); Tr. at 1164 (SWEEP witness Schlegel); and Tr. at 575-76 (ED8/McMullen witness Downing).
[44] APS Br. at 55; APS Reply Br. at 2-3, citing to Tr. at 1314 (Albert Acken, counsel for the Districts).
[45] APS Reply Br. at 3.

APS addresses the Districts' arguments appearing in their Initial Closing Brief that APS's rates are unaffordable to the farmers who are the Districts' retail customers.[46] APS states that the long-term wholesale power contracts between APS and the Districts are the result of negotiations between the parties, who agreed to the incorporation of APS's general service E-34 rate, and also include agreed-upon negotiated charges for transmission and distribution which are subject exclusively to Federal Energy Regulatory Commission ("FERC") jurisdiction.[47] Moreover, APS argues that over the last few years, the Districts have purchased little or no power from APS;[48] that the Districts admittedly have other power purchasing options; that the Districts have access to Federal preference power; and that the Districts are therefore not "captive" customers of APS.[49] APS is critical of the Districts' arguments regarding whether APS power would be an economic alternative if the NGS closes, stating that the Districts fail to acknowledge that they have other power options, including Federal preference power, self-generation, other utilities, or market purchases, and fail to explain why they should pay rates lower than cost, to be subsidized by other customers.[50]

vi. **AIC**

AIC believes that any criticism of the settlement process is unfounded.[51] AIC states that the Settlement Agreement is the result of a difficult but inclusive and collaborative effort; that AIC and other parties were provided advance notice of meetings for the discussion of the possibility of settlement; that parties were afforded ample opportunity to participate in the discussions; and that to aid discussions, term sheets and other supplemental materials were distributed prior to the meetings to allow parties to follow the progress of the settlement discussions.[52] AIC states that no party got everything it wanted, and that the terms of the Settlement Agreement demonstrate that the settlement was a compromise involving a collaborative effort of give and take.[53]

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[46] *Id.* at 3-5.
[47] APS Reply Br. at 4.
[48] *Id.*, citing to Tr. at 579 (ED8/McMullen witness Downing).
[49] APS Reply Br. at 4, citing to Districts Reply Br. at 5 and Tr. at 579 (ED8/McMullen witness Downing).
[50] APS Reply Br. at 4-5.
[51] AIC Br. at 12.
[52] *Id.*
[53] *Id.*

vii. **IBEW Locals**

The IBEW Locals state that the Settlement Agreement "was negotiated in an open and transparent process, is supported by the evidence, and is in the public interest."[54] The IBEW Locals state that they have a long history of negotiating differences with APS, and that the settlement process in this case involved "the *exact* same type of give and take exercise that transpired between the parties to reach the Settlement Agreement."[55] The IBEW Locals state that all intervenors were invited to participate in settlement discussions and were always notified of settlement meetings; term sheets and handouts were distributed in advance; each party had an opportunity to be present and heard; there was no attempt by any party to intimidate any other party into settlement; and while not all of the non-signatories' issues were resolved in the Settlement Agreement, neither were they ignored, and any issues not addressed in the Settlement Agreement were the subject of serious bargaining among capable, knowledgeable parties.[56] The IBEW Locals find the fact that only five of the 40 intervening parties filed testimony in opposition to the Settlement Agreement, while 29 signed on, should lend great weight to demonstrating that the Settlement Agreement is just, reasonable, and in the public interest.[57]

viii. **ConservAmerica**

ConservAmerica asserts that the settlement process was fair and appropriate;[58] that all the parties, which represent many divergent interests and differing perspectives, had a chance to participate, and many did; that the process was open and inclusive; and that all viewpoints were heard.[59]

ConservAmerica states that ED8/McMullen received a full evidentiary hearing on the merits, and that ED8/McMullen were free to cross-examine witnesses on all the pre-settlement testimony that was admitted into the record, and to raise any specific objections to the settlement revenue requirement,

[54] IBEW Locals Br. at 2.
[55] *Id.* at 3 (emphasis in original).
[56] IBEW Locals Reply Br. at 3.
[57] *Id.*
[58] ConservAmerica Reply Br. at 1.
[59] ConservAmerica Br. at 1, citing to Hearing Exhibit ConservAmerica-3 (Direct Testimony of Paul Walker on the Settlement Agreement) at 1-2.

but chose not to do so.[60] ConservAmerica also points out that ED8/McMullen chose not to offer any substantive testimony of their own on revenue requirement or on any other issue.[61]

In response to the Districts' arguments that the settlement process suffered from unequal bargaining power, ConservAmerica states that many parties filed extensive revenue requirement testimony and were well represented by counsel, and that collectively, the parties have resources equal to or greater than APS.[62] ConservAmerica points out that the Districts offered no testimony in support of their allegation of unequal bargaining power tainting the settlement process; that the Districts are represented by one of the largest law firms in Arizona; and that as utilities, the Districts had the knowledge and resources to produce revenue requirement testimony, if they had chosen to do so.[63]

ConservAmerica responds to Mr. Woodward's allegations regarding RUCO and Staff as being "without any proof, much less the heavy proof needed to impeach the credibility of the public servants in Staff and RUCO."[64] ConservAmerica states that while it disagrees with Mr. Woodward on many things, it believes he is acting on his sincere beliefs, and that the same courtesy should be accorded other parties to this case.[65]

ix. **ASDA**

ASDA states that the settlement process was fair and inclusive, and that the resulting Settlement Agreement is in the public interest.[66] ASDA requests that the Commission approve the Settlement Agreement without modification.[67]

x. **Vote Solar**

Vote Solar states that "[l]ike all parties, Vote Solar had an opportunity to actively participate in settlement negotiations."[68] Vote Solar "worked with APS, Staff, and other parties to reach a compromise and contributed to drafting settlement terms that protect solar customers consistent with

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[60] ConservAmerica Reply Br. at 1-2.
[61] *Id.* at 1.
[62] ConservAmerica Br. at 2.
[63] ConservAmerica Reply Br. at 2.
[64] *Id.* at 3.
[65] *Id.*
[66] ASDA Br. at 1-2, citing to Hearing Exhibit ASDA-1 (Direct Testimony of Sean Seitz on the Settlement Agreement) at 2.
[67] ASDA Br. at 2.
[68] Vote Solar Br. at 3.

this Commission's orders."[69] Vote Solar believes that the settlement "achieves a reasonable compromise on a range of issues affecting APS and its customers," and as a whole strikes a "delicate balance between competing issues on numerous interrelated issues among the signatory parties."[70] Vote Solar believes the Settlement Agreement is just, reasonable, fair, and in the public interest, and requests that it be approved without modification.[71]

xi. **EFCA**

EFCA states that the process leading to the Settlement Agreement was open, transparent, and all interested parties had an opportunity to be heard.[72] EFCA states that during the many settlement conferences that were held following notice to all parties of settlement discussions on December 29, 2016, each party had the opportunity to raise and have its issues considered multiple times during the negotiations.[73]

xii. **AURA**

AURA asserts that the negotiation process leading to the Settlement Agreement was fair and proper, and that a settlement process is an appropriate way to resolve this rate case.[74] AURA's witness testified that the Settlement Agreement is the result of many hours of negotiations and a willingness of the parties to compromise; that the negotiations were conducted fairly and reasonably with notice, in a way that allowed each party the opportunity to participate in every step of the negotiation, by teleconference, if necessary; that all documents were made available to all parties in the discussions; and that all parties were allowed to express their positions fully.[75]

xiii. **Freeport / AECC / Calpine / CNE / Direct Energy**

Freeport, AECC, Calpine, CNE, and Direct Energy state that the fact that all parties to this proceeding did not sign the Settlement Agreement does not mean that it is not in the public interest, but rather means that not all parties' viewpoints could be accommodated in the broader context of the

[69] *Id.*
[70] *Id.*
[71] Vote Solar Br. at 2-8.
[72] EFCA Br. at 22.
[73] *Id.*
[74] AURA Br. at 1-2.
[75] *Id.*, citing to Hearing Exhibit AURA-3 (Direct Testimony of Patrick Quinn on the Settlement Agreement) at 2.

Settlement Agreement.[76] Freeport, AECC, Calpine, CNE, and Direct Energy state that many viewpoints were accommodated by the Settlement Agreement, as well as the broad spectrum of stakeholder interests represented by the Settling Parties.[77]

xiv. **ACAA**

ACAA states that the settlement process was fair and open, where all parties had a chance to be heard, and that ACAA attended the majority of the meetings and was able to participate fully in the development of the Settlement Agreement.[78] ACAA believes the Settlement Agreement is a reasonable outcome to the good faith negotiation between the parties; that it represents a just and reasonable outcome for APS's low-income customers; and that it deserves the Commission's approval.[79]

xv. **RUCO**

RUCO states that the Settlement Agreement's achievement of consensus by a substantial majority of the parties in this matter is extraordinary, given the diverse interests and the nature of the issues involved. RUCO contends that the Settlement Agreement "is a comprehensive solution to a litany of issues which is fair to all involved, results in fair and reasonable rates and is in the public interest."[80] RUCO states that its settlement position differs from its direct case position as a result of negotiation and give-and-take compromise; that it has conducted a forensic analysis of APS's rate request as far as residential interests are concerned; and that RUCO is very aware of what it is giving up and what it is getting in the Settlement Agreement.[81] RUCO "is completely satisfied that this Settlement is in the best interests of the ratepayers under the circumstances of this case," and believes it is unlikely that ratepayers would be better off in a litigated case than under the terms of the Settlement Agreement.[82] RUCO asserts that the Settlement Agreement is "very balanced and fair to everyone's interests overall" and that it achieves the agreement of the solar interests to withdraw any appeals of the Value of Solar Decisions, and to refrain from seeking to undermine the Settlement Agreement through ballot initiatives, legislation, or advocacy at the Commission, which is something that the

[76] Freeport, AECC, Calpine, CNE, and Direct Energy Br. at 8.
[77] *Id.*
[78] ACAA Br. at 3.
[79] *Id.* at 3-4.
[80] RUCO Br. at 1.
[81] *Id.* at 4, 7-8.
[82] *Id.* at 4-5, 8.

Commission could not order parties to do if the case is litigated.[83] While RUCO does not support every provision of the Settlement Agreement individually, it believes that when viewed in its entirety, the Settlement Agreement constitutes "a fair and reasonable resolution of a very complicated and contentious case for ratepayers and for the state of Arizona" and recommends that the Commission approve it.[84]

xvi. **Staff**

Staff states that the proposed Settlement Agreement is the result of a transparent and open process, and represents agreement among a diverse group of stakeholders.[85] Staff disputes the Districts' allegations that parties were shut out of the settlement process.[86] Staff states that throughout the settlement process, all parties were notified of settlement discussions and had multiple opportunities to be present and heard on their issues, and that although not all parties were signatories to the Settlement Agreement, it incorporates provisions that were either direct suggestions or were prompted by the express positions of non-signatories.[87] Staff finds it noteworthy that of the approximately 10 parties who did not sign the Settlement Agreement, only about six filed testimony in opposition to it, and several of those parties acknowledged and voiced support for many provisions in the Settlement Agreement.[88] Staff disputes the Districts' "power imbalance" allegations, emphasizing that Staff was an impartial participant and like RUCO, had no monetary interest in the outcome of this case. Staff states that its goal in cases before the Commission is "to assist the Commission in finding a resolution to each case that balances the interest of both the Company and its customers, that is in the public interest, and that it results in rates that are just and reasonable to consumers."[89] Staff disagrees with the Districts' contention that APS is receiving a "windfall" in the Settlement Agreement.[90] Staff states that the Districts filed no revenue requirement or rate design testimony in this case, and apparently rely on Staff's and RUCO's initial Direct Testimonies to support their allegations.[91] Staff believes that the

[83] *Id.* at 2, 4.
[84] *Id.* at 4-5.
[85] Staff Br. at 7.
[86] Staff Reply Br. at 7
[87] Staff Br. at 8; Staff Reply Br. at 7.
[88] Staff Br. at 20-21, referencing SWEEP and AARP positions; Staff Reply Br. at 8.
[89] Staff Reply Br. at 7.
[90] *Id.* at 10.
[91] *Id.*; Staff Reply Br. at 10.

Settlement Agreement reasonably balances APS's interests with the interests of consumers and stakeholders with divergent interests.[92]

Staff disagrees with the Districts' allegations that they were prevented from introducing evidence to demonstrate that the settlement process was flawed.[93] While acknowledging that Rule 408 does not prohibit all uses of evidence of a compromise, Staff states that the objections Staff and other parties raised during cross-examination by the Districts' counsel were to the Districts' attempts to characterize the positions of parties during negotiations, which under Rule 408 is normally inadmissible.[94] Staff states that the fact that some smaller meetings were held between Staff and other parties does not mean that the process was closed and that some parties were favored over others, as the District implies.[95] Staff states that it met with any party that requested a meeting, and showed no favoritism.[96]

Staff states that the concern ED8/McMullen expressed that settlement of APS's rate cases in the past may have led to significant additions to rate base over the years without "thorough scrutiny" ignores the "extensive process Staff undertakes as part of each rate case to ensure that assets were prudently acquired and are used and useful in serving customers."[97] In response to Ed8/McMullen's criticism of Staff's testimony comparing the revenue requirement in the Settlement Agreement to the revenue requirement APS proposed in its rate application, instead of to Staff's initial proposal in prefiled Direct Testimony, Staff responds that it is not unusual for Staff's position to change in rate cases, based on other parties' testimony and on information received from applicants, and therefore the comparison to the Company's application is appropriate.[98]

Staff responds to Mr. Woodward's and Mr. Gayer's attacks on the settlement process and on Staff's role in the case, stating they are unwarranted.[99] Staff states that its role in cases before the

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[92] Staff Reply Br. at 8.
[93] *Id.* at 9.
[94] *Id.*, citing to *Murray v. Murray*, 239 Ariz. 174, 367 P.3d (App. 2016). Staff also notes, in response to arguments by Mr. Gayer, that "[i]f settlement discussions were disclosed, and parties' compromising of positions offered in the course of negotiations were made public, this would act to chill meaningful and candid discussions and would result in overall harm to the process. The ALJ's rulings regarding Rule 408 were appropriate in this case." Staff Reply Br. at 15.
[95] Staff Reply Br. at 9.
[96] *Id.*
[97] Staff Reply Br. at 10.
[98] *Id.*; Staff Reply Br. at 11.
[99] Staff Reply Br. at 11, 15.

Commission is to make reasonable recommendations that balance the interests of both ratepayers and the utility, and that that favoring the ratepayer interest too much can jeopardize the utility's financial health and can impair its ability to provide reasonable and cost effective service.[100] Staff states that all parties had an opportunity to participate in the settlement process, and that the hearing on the Settlement Agreement provided those parties in opposition to the Settlement Agreement an opportunity to effectively make their points, which are a part of the record that the Commission will consider when it decides whether or not to adopt the Settlement Agreement.[101] As a signatory to the Settlement Agreement, Staff believes that it reflects the appropriate balance between ratepayer and utility interests; that the process in arriving at the Settlement Agreement was fair; and that the provisions of the Settlement Agreement are in the public interest and should be adopted without any modification.[102]

xvii. **Resolution**

Having examined and considered all arguments made regarding procedural opposition to the settlement process that the parties to this proceeding undertook, we find that the arguments are without merit and pose no barrier to our consideration of the substance of the Settlement Agreement. We note the dissatisfaction of some parties with the outcome of the Settlement Agreement including the issues regarding non-AMI meters litigated in this proceeding. Given the large number of intervenors, and the broad range of interests they represent, it is understandable that a total consensus was not reached. However, there is no support in the record for a finding of impropriety in the settlement process, and the fact that an individual party did not have its position incorporated in the Settlement Agreement does not reflect a deficiency in the settlement process or the Settlement Agreement itself. Our forthcoming bifurcated Decision on the litigated issues regarding non-AMI meters will not revisit the issue of whether any alleged improprieties occurred.

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[100] *Id.* at 11.
[101] Staff Reply Br. at 15.
[102] *Id.* at 11, 17.

IV. SUBSTANTIVELY UNDISPUTED SETTLEMENT AGREEMENT ISSUES

a. Fair Value Rate Base and Revenue Requirement

While some parties contest the way the revenue requirement would be collected from customers, no party to this proceeding contests the revenue requirement.[103] Many of the Settling Parties completed a thorough analysis of APS's rate case filing prior to the time the parties began settlement negotiations.[104]

The uncontested Settlement Agreement fair value rate base ("FVRB") is $9,990,561,000; total adjusted test year revenue is $2,888,903,000; and the non-fuel, non-depreciation revenue requirement increase is $87.25 million.[105] When the Settlement Agreement reduction for base fuel of $53.63 million and the increase for depreciation of $61.00 million is taken into account, the result is a net base rate increase of $94.624 million, exclusive of the adjustor transfer of $267.95 million.[106]

After including the transferred adjustor mechanism amount of $267.95 million, the total base rate revenue requirement is $362.58 million.[107] This amount is comprised of (1) a non-fuel base rate increase of $148.250 million, which includes a return on and of post-test year plant in service as of December 31, 2016; (2) a base fuel rate decrease of $53.63 million; and (3) the transfer from adjustor mechanisms of $267.95 million to base rates.[108] APS agrees to impute, in future rate cases, net revenue growth for any revenue producing plant included in post-test year plant.[109]

The transferred adjustor mechanism amount includes a transfer to base rates, and a zeroing out or reduction of the revenue requirements currently collected through the Renewable Energy Adjustor

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[103] *See, e.g.,* SWEEP Br. at 6, AARP Br. at 5.

[104] *See, e.g.,* FEA Br. at 1-6, referring to Hearing Exhibit FEA-1 (Direct Testimony of Brian Andrews)(depreciation expense), Hearing Exhibit FEA-1 (Direct Testimony of Michael Gorman)(cost of capital), and Hearing Exhibit FEA-1 (Direct Testimony of Amanda Alderson)(cost of service study). FEA commented that it is a signatory to the Settlement Agreement because it represents a reasonable compromise on the many complex issues in the case concerning APS's revenue requirement, the revenue spread across rate classes, and rate design. Through its witnesses, FEA presented evidence concerning cost of capital, depreciation rates and expense, and a cost of service study. FEA is not opposing the cost of capital, or any of its components, filed in the Settlement Agreement, and states that while the Settlement Agreement does not address the concerns it raised regarding depreciation, FEA "agrees to the total settlement in aggregate, rather than individual elements of the settlement which comprise specific findings on revenue requirement, cost of service and rate design."

[105] Settlement Agreement Section 3 (page 8).

[106] *Id.*

[107] *Id.*

[108] *Id.*

[109] *Id.*

Clause ("REAC"), Demand Side Management Adjustor Clause ("DSMAC"), Transmission Cost Adjustor ("TCA"), Environmental Impact Surcharge ("EIS"), Four Corners Rate Rider ("FCRR"), and the System Benefits Charge ("SBC").[110]

b. Cost of Capital

The Settlement Agreement adopts, for ratemaking purposes, an original cost of capital structure comprised of 44.2 percent debt and 55.8 percent common equity; a return on common equity of 10.0 percent and an embedded cost of debt of 5.13 percent.[111] The Settling Parties agree to a fair value rate of return ("FVROR") of 5.59 percent, which includes a 0.8 percent return on the fair value increment.[112]

c. Base Fuel Rate

The Settlement Agreement adopts a base fuel rate of $0.030168 per kWh, which is lowered from the $0.032071 set by Decision No. 73183.

d. Bill Impact

The Settlement Agreement rates result in an average a 3.28 percent bill impact when new rates become effective, with an average 4.54 percent bill impact for residential customers, and an average 1.93 percent bill impact on general service customers.[113]

e. Rate Case Stability Provision

As part of the Settlement Agreement, APS agrees not to file its next general rate case before June 1, 2019, with a test year ending no earlier than December 31, 2018.[114]

f. Four Corners Units 4 and 5

The Settlement Agreement provides that this docket will remain open to allow APS to file a request that its rates be adjusted no later than January 1, 2019 to reflect its proposed addition of Selective Catalytic Reduction ("SCR") equipment at the Four Corners Generating Station, and sets forth filing requirements and parameters regarding such filing.[115] The Settlement Agreement authorizes APS to defer, for possible later recovery through rates, all non-fuel costs of owning,

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[110] *Id.*, Section 8 (page 11).
[111] Settlement Agreement Section 5 (page 9).
[112] *Id.*
[113] Settlement Agreement Section 4 (pages 8-9).
[114] *Id.*, Section 2 (page 8).
[115] *Id.*, Section 9 (page 12-13).

operating, and maintaining the Selective Catalytic Reduction environmental controls at the Four Corners Power Plant from the date such controls go into service until the inclusion of such costs into rates.

g. Ocotillo Modernization Project

The Settlement Agreement authorizes APS to defer, for possible later recovery through rates, all non-fuel costs of owning, operating, and maintaining the Ocotillo Modernization Project and retiring the existing steam generation at Ocotillo.[116]

h. Property Tax Rate Deferral

The Settlement Agreement provides that APS shall be allowed to defer for future recovery (or credit to customers) the Arizona property tax expense above or below the test year caused by changes to the applicable composite property tax rate, subject to the provisions set forth in the Settlement Agreement Section.[117]

i. Tax Expense Adjustor Mechanism

The Settlement Agreement provides that in the event that significant Federal income tax reform legislation is enacted and becomes effective prior to the conclusion of Arizona Public Service Company's next general rate case, and such legislation materially impacts the Company's annual revenue requirements APS will create a rate adjustment mechanism to enable the pass-through of income tax effects to customers.[118]

j. Other Significant Provisions

Section 1.5 of the Settlement Agreement cites several provisions that the Settling Parties note as significant in balancing the rate increase with benefits for APS's customers.[119]

k. Rate Design for Low-Income Customers

The Settlement Agreement includes changes to existing rate design provisions benefiting low-income customers.[120]

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[116] *Id.*, Section 10 (page 13).
[117] *Id.*, Section 11 (page 13).
[118] *Id.*, Section 16 (pages 16-17).
[119] *Id.*, Section 1.5 (page 6).
[120] *Id.* Section 29 (pages 26-27).

ACAA states that it intervened to ensure that low-income customers in Arizona had a voice in this rate case. ACAA states that nearly one in five Arizonans are in poverty, and that the energy burden for low-income households is much higher than the energy burden for the average APS customer. ACAA states that the Settlement Agreement:

> provides substantial assistance to make electricity bills more affordable for those least able to pay for them. Increasing the low-income discount and low-income medical discount will make bills more affordable for low-income customers. For a family of three at the poverty level in the test year, this will decrease the average energy burden from 8.1% to 6.0%. As was stated in direct testimony, a 6% energy burden is generally considered to be affordable; in this case, the discount has allowed someone with a previously unaffordable bill to now be able to better afford it.[121]

ACAA also points favorably to the Settlement Agreement's requirement that APS pay $1.25 million in crisis bill assistance per year, which ACAA states will help thousands of APS customers in hardship situations that render them unable to pay their electric bill. ACAA states that the provision of consistent funding from year to year ensures the availability of such crisis assistance for several years. [122]

Staff states that through the addition of the $1.25 million annually for the crisis bill program to assist customers with incomes less than or equal to 200% of the Federal Poverty Income Guidelines, these low-income ratepayers will receive direct assistance to defray the impact of the Settlement Agreement rate increase.[123] In addition to the crisis bill assistance program, the Settlement Agreement increases funding and simplifies the bill discount for the E-3 Energy Support Program for limited income customers, with a flat 25% bill discount.[124]

l. Rate Design for DG Customers

The Settlement Agreement proposes the following for customers with Distributed Generation:[125]

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[121] ACAA Br. at 2.
[122] *Id.* at 3.
[123] Staff Br. at 13.
[124] *Id.*, citing to Hearing Exhibit APS-6 (Direct Testimony of Charles Miessner on the Settlement Agreement) at 5 and Tr. at 316 (APS witness Lockwood).
[125] Settlement Agreement Section 18 (pages 19-20)

18.1 DG customers are eligible for four different rate schedules including all proposed TOU and Demand rates. DG customers that select TOU-E will be subject to a Grid Access Charge as reflected in Appendix F.

18.2 The self-consumption offset rate for TOU-E will be $0.105/kWh, which is inclusive of the Grid Access Charge, but exclusive of taxes and adjustors. This is an approximately $0.120/kWh offset rate after these adjustments. The offset rate is based on the load profile and production profile of APS customers with DG during the test year. Individual customer offset will vary based on individual usage patterns and DG system size, orientation, and production.

18.3 The Resource Comparison Proxy Rate ("RCP") for exported energy established in Decision No. 75859, as amended by Decision No. 75932, will be $0.129/kWh in year one, which is inclusive of undifferentiated transmission, distribution, and loss components. This export rate was calculated using a 2015 base year with an adjustment to achieve the final export rate. Attached as Appendix H is the RCP Rate Rider, POA and EPR-6 Legacy Rate Rider.

18.4 This first year export rate is the product of settlement negotiations and does not create any precedent, imply any change to the structure of or detail in the Resource Comparison Proxy, or otherwise change any aspect of Decision No. 75859.

18.5 DG customers that file a completed interconnection application before the rate effective date adopted in the Decision in this case shall be grandfathered consistent with Section 18.6 for a period of twenty years, with the twenty year period beginning from the date the system is interconnected with APS.

18.6 As contemplated in Decision No. 75859, grandfathered DG customers will continue to take service under full retail rate net metering and will continue to take service on their current tariff schedule for the length of the grandfathering period, which for APS are rate schedules E-12, ET-1, ET-2, ECT-1, or ECT-2. In its next rate case, APS will propose that the rates on each of these legacy tariffs will be updated with an equal percent increase applied to every rate component equal to the residential average base rate increase approved. In addition, grandfathered DG customers currently served on E-3 or E-4 will continue on the current E-3 or E-4 Rate Riders for as long as they meet the eligibility criteria and/or discontinue participation in the program.

Vote Solar states that it participated in this proceeding to advocate for fair rates and rate designs that benefit all customers and support the integration of DG in Arizona.[126] While the Settlement Agreement does not incorporate all the rate design options for DG customers that Vote Solar initially proposed, it provides them with more rate options than APS initially proposed.[127] Vote Solar states that

[126] Vote Solar Br. at 2.
[127] *Id.* at 4.

the Settlement Agreement provisions, all taken together, including the negotiated Grid Access Charge, benefit existing DG customers and establish a just and reasonable RCP rate for new DG customers who sell their excess energy back to the grid.[128] Vote Solar believes that adoption of all the provisions of the Settlement Agreement together will provide a just, reasonable, and fair outcome in the public interest, and requests that the Settlement Agreement be approved without modification.

SEIA supports the Grid Access Charge established in the Settlement Agreement, as it is "within the range of possible outcomes presented for litigation."[129] SEIA emphasizes that "the Settlement Agreement's provision that DG customers are eligible for four different rate options is a fair and reasonable outcome that preserves customer choice and provides APS a reasonable opportunity to recover its costs of service"[130] and "treats DG and non-DG customers in a non-discriminatory manner."[131] SEIA is pleased that under the Settlement Agreement, residential DG customers can take service under the same TOU tariff that is available to non-DG customers. In regard to the settled RCP price, SEIA states that while it is below what SEIA would have recommended, SEIA supports the Settlement Agreement outcome as reasonable. SEIA is also supportive of the Settlement Agreement's grandfathering provisions for DG customers, because they preserve the expectations of solar DG customers at the time they invested in solar DG; they provide a reasonable window for customers currently pursuing solar DG to complete their installations; they are fair; and they are consistent with Decision No. 75859. SEIA states that the Settlement Agreement resolves policy disputes between APS, Staff, RUCO and the solar industry "in favor of stable solar policies and rates up through APS's next rate case so long as the Settlement Agreement is approved without material modification" and recommends its approval.[132]

EFCA states that the provisions of the Settlement Agreement that promote the continued expansion of DG (choice of rate schedules for DG customers, setting the RCP, and grandfathering solar DG customers) are of great benefit, because they will reduce the time and resources of the Commission

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[128] *Id.* at 5, 8.
[129] SEIA Br. at 4, citing to Hearing Exhibit SEIA-2 (Direct Testimony of Sara Birmingham on the Settlement Agreement) at 5.
[130] SEIA Br. at 4.
[131] *Id.* at 3.
[132] *Id.* at 2, 7.

that would otherwise be expended on litigation.[133] EFCA agrees with the Settling Parties that the Settlement Agreement presents a fair and balanced compromise, and will ultimately benefit APS's customers. EFCA recognizes that the Commission has the discretion to reject the Settlement Agreement in whole or in part, and reserves the right to object to and appeal any Commission Decision that denies or modifies any aspect of the Settlement Agreement.[134]

RUCO notes that a significant benefit of the Settlement Agreement is the progress it makes on modernizing rates and minimizing the cost shift from DG to non-DG customers, while still allowing the rooftop solar industry to transact.[135]

In regard to the Settlement Agreement provisions relating to rooftop solar, Staff states:

> A critical cornerstone of the heavily negotiated balance struck on these contentious issues is the agreement of parties to withdraw any appeals of the Commission's VOS orders, Decisions No. 75859 and 75932. Paragraph XXXV of the Settlement requires Signatories to withdraw any pending challenges to Decisions No. 75859 and 75932 and to refrain from pursuing any challenges to either Decision in any forum. Further, the Agreement requires a stay of any pending appeals of these Decisions until a final order is issued in the present matter that adopts the material terms of the Agreement. In concert with other provisions of the Settlement that require Signatories to mutually support and defend a Commission Order that adopts all material terms of the Settlement, a separate agreement was executed between APS, the solar providers and their respective affiliates as well as several others, wherein the signatories agree not to take steps to undermine the Agreement in any forum through ballot initiative, legislation, or advocacy.[136]

m. AG-X Program

Freeport and AECC (a customer group), along with Calpine, CNE, and Direct Energy (generation service providers, or "GSPs" who are serving customers under APS's current AG-1 tariff) support the Settlement Agreement as a whole, but their particular concern is the negotiated outcome of the AG-X program, which is detailed in Section 23 of the Settlement Agreement, and further depicted in Attachment K to the Settlement Agreement.[137] Freeport, AECC, Calpine, CNE, and Direct Energy state that the AG-X program modifies the existing AG-1 program which was initially approved in

[133] EFCA Br. at 23.
[134] EFCA Reply Br. at 19.
[135] RUCO Br. at 4.
[136] Staff Br. at 17.
[137] Freeport, AECC, Calpine, CNE, and Direct Energy Br. at 4 and Reply Br. at 7.

Decision No. 73183 (May 24, 2012) in the form of APS's Experimental Rate Rider AG-1.[138] The AG-1 program is a "buy-through" program under which participating large commercial and industrial customers may obtain generation from third-party GSPs to serve all or a portion of their power requirements, and Freeport, AECC, Calpine, CNE, and Direct Energy state that it is an example of the "mixed competition-regulation" rate design model that has recently emerged in the electric utility industry and represents a means of effecting needed changes to the existing regulatory framework to accommodate changing conditions.[139] Participating AG-1 customers, who were selected by means of a lottery conducted by APS, remain APS customers for their other electric service needs, including transmission and distribution service.

The Settlement Agreement proposes continuation of the experimental AG-1 program in the form of the AG-X program, which is no longer characterized as experimental. Freeport, AECC, Calpine, CNE, and Direct Energy state that "the continuation of APS's existing AG-1 'buy-through' program, as modified in the form of the AG-X program, represents a constructive means for continuing to advance [current] rate design objectives with respect to large commercial and industrial customers on APS's system.[140] Freeport, AECC, Calpine, CNE, and Direct Energy describe the positions of various parties to adjust APS's existing rate schedules to "(i) more properly reflect the realities of a rapidly and significantly changing electric utility industry, and (ii) better match cost causation and rate recovery responsibility" and believe that the AG-X program proposed in the Settlement Agreement meets those rate design objectives.[141] Accordingly, Freeport, AECC, Calpine, CNE, and Direct Energy believe the Commission should approve the AG-X program, in conjunction with its approval of the Settlement Agreement in its entirety.

Walmart is also a participant in the current AG-1 program, and takes service from a GSP at 53 of its 73 retail locations in the APS service territory.[142] Noting that the Settlement Agreement, to which it is a party, includes provisions that APS will not file a new base rate application until at least June 1,

[138] Freeport, AECC, Calpine, CNE, and Direct Energy Br. at 2-3 (detailing the history of the AG-1 program from inception through the present).
[139] Freeport, AECC, Calpine, CNE, and Direct Energy Br. at 3; Freeport, AECC, Calpine, CNE, and Direct Energy Reply Br. at 4.
[140] Freeport, AECC, Calpine, CNE, and Direct Energy Reply Br. at 3.
[141] *Id.* at 3-6.
[142] Walmart Br. at 1, citing to Hearing Exhibit Walmart-1 (Direct Testimony of Gregory Tillman) at 3.

2019, and also that it retains a buy-through program, now to be known as AG-X, which is a somewhat modified, non-experimental version of the current AG-1 program, Walmart urges the Commission to adopt the Settlement Agreement.[143]

Staff states that the Settlement Agreement's AG-X program provides for a continuation of the AG-1 program with changes that anticipate and prevent the under-recovery issues presented by the AG-1 tariff, improve upon other aspects of the program, and expand it to allow more opportunity for qualifying General Service customers to participate.[144]

n. Power Procurement Audit

Decision No. 73183 required Staff to perform an audit of APS's fuel and purchase power activities. APS requests approval of Staff witness Dennis Schumaker's recommendations regarding the fuel and purchase power audit, with requested modifications from APS, agreed to by Staff.[145] APS proposes that the time allowed for APS to conduct an audit of its PSA filings as required by Staff Recommendation No. III-2 be extended from twelve months to eighteen months, in order to allow APS sufficient time to fully implement Staff's other recommendations prior to auditing the PSA filings.[146] Staff agreed to this modification.[147] APS also proposes that Staff Recommendation No. III-5, which would require APS to reconfigure its systems to disallow transactions when a counterparty is overexposed, be removed, due to unintended negative consequences to reliability that could result.[148] Staff also agreed to this modification, noting that APS has other ways built into its system to flag potential credit and over-exposure issues.[149]

The results of Staff's audit of APS's fuel and purchase power activities and resulting recommendations are reasonable and should be adopted. APS will be required to comply with Staff's

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[143] Walmart Br. at 1-2.
[144] Staff Br. at 15, citing to Hearing Exhibit APS-6 (Direct Testimony of Charles Miessner on the Settlement Agreement) at 15.
[145] APS Br. at 67, citing to Hearing Exhibit APS-3 (Rebuttal Testimony of Barbara Lockwood on the Settlement Agreement) at 10-11 and Tr. at 735-737 (Staff witness Schumaker).
[146] APS Br. at 67, citing to Hearing Exhibit APS-3 (Rebuttal Testimony of Barbara Lockwood on the Settlement Agreement) at 10.
[147] APS Br. at 67, citing to Tr. at 735-36 (Staff witness Schumaker).
[148] APS Br. at 67, citing to Hearing Exhibit APS-3 (Rebuttal Testimony of Barbara Lockwood on the Settlement Agreement) at 10-11.
[149] APS Br. at 67, citing to Tr. at 737 (Staff witness Schumaker).

recommendations, with the exception of the modifications to Staff Recommendation No. III-2 and Staff Recommendation No. III-5, as proposed by APS and agreed to by Staff.

V. SUBSTANTIVELY DISPUTED SETTLEMENT AGREEMENT ISSUES

a. Use of Unspent DSMAC Funds

To mitigate the first year bill impacts, the Settling Parties agreed that APS will refund to customers through the DSMAC $15 million in collected, but unspent DSMAC funds.[150]

i. SWEEP

SWEEP opposes this refund of DSMAC funds, and proposes instead that any use of, or any timely refund of, the DSMAC unspent funds be addressed in the DSM Implementation Plan proceeding instead of in this rate case proceeding.[151] SWEEP argues that its proposed process would provide adequate due process in a proceeding that is focused on DSM issues.[152] SWEEP is concerned that if the unspent DSMAC funds are not used to fund DSM programs, APS will have insufficient funds to adequately support those programs and customer projects.[153] SWEEP asserts that for the third year in a row, the funding for the APS DSM budget has been short of that needed to support DSM programs and meet customer needs, and that unspent funds could be used to make up the difference, as the Commission has ordered in the past.[154] SWEEP is concerned that if the unspent funds are ordered refunded in this proceeding, customers and stakeholders will not have been aware of the Settlement Agreement proposal or have had an opportunity to participate, and that the issues in this rate proceeding are not directly relevant to the scope and focus of the DSM proceeding.[155]

In response to Staff's statement on brief that the unspent DSMAC funds are not funding any programs that would be terminated as a result of the Settlement Agreement proposed refund, SWEEP states that it is concerned not just with termination of programs, but with reductions in spending and reductions in customer incentives.[156]

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[150] Settlement Agreement Section 4 (page 9).
[151] SWEEP Br. at 5, 19.
[152] *Id.* at 5.
[153] *Id.* at 19.
[154] *Id.*; SWEEP Reply Br. at 9.
[155] SWEEP Br. at 20; SWEEP Reply Br. at 11.
[156] SWEEP Reply Br. at 9.

SWEEP contends that "in April 2017, APS reduced custom incentive levels for its commercial and industrial customers by 45% and cut the incentives for customer studies by 50% because it has insufficient DSMAC funds to meet customer interest in the programs."[157] SWEEP charges that APS's arguments ignore that its DSM programs are facing a funding shortfall in 2017, and that DSMAC unspent funds could be used to provide adequate and stable funding for those programs, in the manner the Commission ordered in 2015 and 2016.[158]

SWEEP contends that the magnitude of the rate increase in the Settlement Agreement (4.54% for the residential class) does not require the gradualism that APS argues the refund of the unspent DSMAC funds would provide.[159]

ii. APS

APS states that the Settling Parties agreed that the $15 million of unspent and unallocated DSMAC funds should be returned to customers now. APS asserts that returning the funds to customers is always within the Commission's discretion, and that a refund at this time, rather than waiting for a subsequent proceeding, would provide some gradualism for any rate increase ordered in this matter. APS contends that using the unspent DSMAC funds would not impact existing DSM programs or customers, and that, to the extent needed, the Commission can modify the DSMAC to collect additional funds as necessary for the 2017 DSM Implementation Plan or budget. [160]

iii. Staff

Staff believes that SWEEP's opposition to refunding the $15 million of unspent DSMAC funds is without merit, and states that if it were adopted, the delicate balance reached by widely divergent parties to the Settlement Agreement would be disturbed.[161] Staff states that SWEEP acknowledges that the funds in question are not funding any current programs that would be terminated as a result of the refund of this ratepayer money, and admits that nothing would prevent the Commission from ordering a refund, either through approval of the Settlement Agreement, or through APS's DSM Implementation

[157] *Id.*, citing to Hearing Exhibit SWEEP 4 (Rebuttal Testimony of Jeff Schlegel on the Settlement Agreement) at 13-14.
[158] SWEEP Reply Br. at 8-10.
[159] *Id.* at 11
[160] APS Br. at 55-56.
[161] Staff Br. at 24.

Plan proceeding.[162] Staff contends that the Commission retains the ability to modify the level of the DSMAC to collect sufficient funds to accomplish the Commission's priorities, which can address SWEEP's concerns regarding adequate support for programs and customer projects. Staff argues that SWEEP's due process arguments are without merit, because it is Staff's understanding that the $15 million refund to ratepayers will actually take place in the DSM docket, after approval of the Settlement Agreement in this proceeding.[163] Staff believes that the provision regarding the refund of $15 million in collected but unspent DSMAC funds to ratepayers to mitigate the first year rate impacts to ratepayers should be approved.

iv. Resolution

After examining and considering the facts and arguments presented regarding the Settlement Agreement's provision regarding the refund of $15 million in collected but unspent DSMAC funds to ratepayers to mitigate the first year rate impacts to ratepayers, we find that the provision is well-supported, reasonable, and in the public interest.

b. AZ Sun II

Section 28 of the Settlement Agreement pertains to approval of the proposed AZ Sun II program, under which APS will use third-party solar contractors, competitively selected through an RFP process, to install rooftop solar systems on the roofs of low- and moderate-income homeowners. Under the Settlement Agreement, APS will propose a program of $10 - $15 million per year in direct capital costs. The Settlement Agreement provides that expenses of the program eligible for recovery, including capital carrying costs, may be reviewed for prudence in each annual REST docket, and will be recoverable through APS's Renewable Energy Adjustment Clause until its next rate case, when APS may request that the capital costs of the installed solar systems be included in rate base.[164]

i. Mr. Gayer

Mr. Gayer asserts that the AZ Sun II program is "worthless," "wastes customers' money," and "unfairly competes with private solar installers."[165] Mr. Gayer argues that his Hearing Exhibit Gayer-

[162] *Id.*, citing to Tr. at 1143, 1167-68 (SWEEP witness Schlegel).
[163] Staff Reply Br. at 6.
[164] Settlement Agreement Section 28 (pages 24-23).
[165] Gayer Br. at 14-15, citing to Tr. at 78-82 (public comment of Dru Bacon).

17 demonstrates that "all 1.2 million APS customers will pay 87 cents per month for AZ Sun II."[166] Mr. Gayer proposes that if the AZ Sun II proposal is approved, the Commission order that all of APS's customers should also share the cost of reading non-AMI meters.[167]

ii. APS

APS states that the AZ Sun II program is a creative and reasonable negotiation outcome that will help meet the needs and interests of various parties in this case, and emphasizes that the outcome is one which would not have resulted from a litigated proceeding. APS points out that the AZ Sun II provisions include an agreement by APS not to implement any additional utility-owned residential solar DG programs prior to APS's next general rate case. [168]

iii. ConservAmerica

ConservAmerica asserts that while the impact of the proposed AZ Sun II on residential customers would be small, the benefits would be great. ConservAmerica disputes the validity of the inputs to Hearing Exhibit Gayer-17, and of the conclusions Mr. Gayer attempts to draw from it. ConservAmerica explains that Hearing Exhibit Gayer-17 is flawed, because it assumes that the $10 to $15 million in AZ Sun II costs would be recovered directly from APS customers. Instead, as ConserveAmerica explains, the $10 to $15 million in capital costs would be APS-invested funds, which if put into rate base in a future rate case, would then be eligible to earn a return which would be calculated into the revenue requirement, and that only a portion of the resulting revenue requirement would be recovered from residential ratepayers.[169]

In response to Mr. Gayer's charge that the AZ Sun II program would create unfair competition with solar installers, ConservAmerica points out that Settling Parties to this case who represent actual solar companies do not share Mr. Gayer's view, and that Mr. Gayer cited to public comment, and not evidence, for this allegation. ConservAmerica asserts that AZ Sun II is targeted at the underserved market of low- and moderate- income APS customers, and will therefore have little effect on rooftop solar competition.[170]

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[166] Gayer Br. at 15, citing to Hearing Exhibit Gayer-17.
[167] Gayer Br. at 15, 16; Gayer Reply Br. at 10.
[168] APS Br. at 15, 16.
[169] ConservAmerica Reply Br. at 7.
[170] *Id.*

ConservAmerica's witness testified that subsidized rooftop solar in Arizona benefits the wealthy, and leaves the poor behind.[171] ConservAmerica contends that this should change, and believes that the AZ Sun II program would provide a "small but good start at broadening access to rooftop solar in Arizona" with 65% of funding dedicated to low-income customers, and the remainder available for either low- or moderate-income customers.[172]

iv. ACAA

ACAA states that the AZ Sun II program will provide the option to "go solar" for thousands of low-income households who previously did not have such an opportunity, and that with a credit of up to $600 per year, electric bills will be much more affordable for these low-income customers.[173]

v. RUCO

RUCO states that the Settlement Agreement's AZ Sun II program will provide benefits to ratepayers beyond this rate case by making utility-owned solar DG available to low- and moderate-income APS customers, a segment of APS customers who have not heretofore been able to participate in solar DG for financial reasons.[174]

vi. Staff

Staff states that through adoption of the AZ Sun II program, lower- and moderate-income residential customers, as well as certain schools and rural municipalities, will have the opportunity to install rooftop solar facilities and receive a monthly bill credit in exchange for granting APS rooftop access.[175] The program requires APS to invest between $10 and $15 million annually over a term of three years, with at least 65 percent of each year's annual program expenditure dedicated to residential installations.[176]

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[171] ConservAmerica Br. at 4-5; ConservAmerica Reply Br. at 7, 8 citing to Hearing Exhibit ConservAmerica-1 (Direct Testimony of Paul Walker) at 9-14 and Hearing Exhibit ConsevrAmerica-3 (Direct Testimony of Paul Walker on the Settlement Agreement) at 12-13 (wealthiest neighborhoods in Arizona have a solar penetration rate of 2.99% and poorest neighborhoods 0.82%).
[172] ConservAmerica Br. at 5.
[173] ACAA Br. at 3.
[174] RUCO Br. at 3.
[175] Staff Br. at 14.
[176] *Id.*

vii. Resolution

After examining and considering the facts and arguments presented regarding the Settlement Agreement's provision regarding the AZ Sun II program, we find that the provision is well-supported, reasonable, and in the public interest.

Mr. Gayer's proposal regarding the costs of reading non-AMI meters will be addressed in a forthcoming separate Decision in this docket.

c. Disputed Rate Design Issues

i. **Basic Service Charges ("BSCs")**

The following table depicts the BSCs proposed by the Settlement Agreement, SWEEP, and AARP:

Settlement Agreement Rate Schedule	Residential Extra Small **R-XS**	Residential Basic **R-Basic**	Residential Basic Large **R-Basic Large**	Time of Use **R-TOU-E**	3-Part Demand Rates **R-2 & R-3**	On-Site Technology Pilot Program **R-Tech**[177]
Rate Schedule Qualifications	(≤ 600 kWh/month)	(600-1000 kWh/month)	(≥ 1000 kWh/month)	(Available to all customers)	(Available to all customers)	Appendix F to Settlement Agreement[178]
Current BSC On Current Similar Rate Schedule	$8.67 (E-12 Residential-Basic)	$8.67 (E-12 Residential-Basic)	$8.67 (E-12 Residential-Basic)	$17.00 (Time Advantage Rate)	$17.00 (Time Advantage Rate)	N/A
Settlement Agreement BSC[179]	$10.00	$15.00	$20.00	$13.00	$13.00	$15.00
APS Fixed Cost Calculations for BSC[180]	$24.51	$24.51	$24.51	$29.79	$34.12	N/A

[177] R-Tech is a TOU rate with on-peak and off-peak demand and energy charges, initially available to up to 10,000 customers, to help reduce APS's system peak. APS Br. at 10. This experimental rate was developed to incentivize technology adoption, RUCO Br. at 3, and is available to customers that adopt certain home energy technologies such as battery storage. Staff Br. at 17. The R-Tech three-part pilot rate program is for residential customers with two or more qualifying primary on-site technologies, that also includes a BSC, and one TOU rate available to all customers with a BSC for non-DG customers and a Grid Access Charge for DG customers. Vote Solar Br. at 7. The Settlement Agreement provides that the Commission will review the R-Tech rate once 6,000 customers have signed up for it. EFCA Reply Br. at 19-20, citing to Section 17.1 of the Settlement Agreement. The R-Tech rate is intended to lead to lower costs to ratepayers in the future. RUCO Br. at 3.

[178] Settlement Agreement at Appendix F.

[179] Settlement Agreement Sections 17.1-17.7 (pages 17-19)

[180] APS Reply Br. at 9, referring to Hearing Exhibit APS-32 (outlining fixed costs to serve by customer class and rate, from the Cost of Service Study).

SWEEP BSC (Based on its Fixed Cost Calculations)[181]	$8.00	$8.00 or $10.00	$8.00 or $10.00	$8.00	not addressed	not addressed
AARP BSC[182]	not opposed	$10.00 to $13.00	not opposed	not opposed	not addressed	not addressed

1. SWEEP

SWEEP does not contest the revenue requirement or the size of the R-XS, R-Basic, or Small General Service bill increases overall on average.[183] However, SWEEP opposes the BSCs proposed in the Settlement Agreement for residential, extra small general service, and small general service customers, based on its assertion that the Settlement Agreement BSCs are "very large increases in fixed charges."[184] SWEEP contends that the Settlement Agreement's increases to the BSCs would cause customers "with different usage levels" to experience "unfair, unjust, and unreasonable bill impacts."[185] SWEEP argues that because the Settlement Agreement rate design increases the BSC, which is a fixed charge portion of customers' bills, it "would result in the loss of customers' control over a significant portion of their utility bills."[186]

SWEEP finds it problematic that under the Settlement Agreement proposed BSCs, some customers will experience a higher percentage increase in their BSCs than in their overall bill amounts.[187] SWEEP contends that this leaves such customers with no meaningful opportunity to mitigate the effect of the overall bill increase.[188] SWEEP believes "[i]t is crucial for the Commission to examine and consider the range of significant bill impacts on real customers in its review of the Settlement Agreement."[189] SWEEP contends that the BSCs approved in TEP's recent rate Decision

[181] SWEEP Br. at 5. SWEEP also proposes that the General Service Extra-Small BSC and the Small General Service BSC rates both be set at $12.00 as opposed to those rates set forth in Appendix G to the Settlement Agreement.
[182] AARP Br. at 3-6.
[183] SWEEP Br. at 6, citing to Tr. at 1118 (SWEEP witness Schlegel).
[184] *Id.*
[185] SWEEP Br. at 6, 14, citing to Tr. at 1118, 1134 (SWEEP witness Schlegel); SWEEP Reply Br. at 5-6, citing to Tr. at 1121 (SWEEP witness Schlegel).
[186] SWEEP Br. at 6, citing to Tr. at 1118, (SWEEP witness Schlegel); *See also* SWEEP Br. at 11, and SWEEP Reply Br. at 5, citing to Hearing Exhibit SWEEP-4 (Rebuttal Testimony of Jeff Schlegel on the Settlement Agreement) at 10, and SWEEP Br. at 14.
[187] SWEEP Br. at 10, SWEEP Reply Br. at 5, citing to Hearing Exhibit SWEEP-6. *See also* SWEEP Br. at 11-14, citing to Tr. at 1119-1121 and 1128-1135 (SWEEP witness Schlegel), and to Hearing Exhibit SWEEP-8A.
[188] SWEEP Br. at 10, SWEEP Reply Br. at 5, citing to Hearing Exhibit SWEEP-6.
[189] SWEEP Br. at 6, 14, citing to Tr. at 1121 (SWEEP witness Schlegel).

are the "appropriate point of comparison" for Commission consideration in this case.[190] SWEEP disagrees with APS that the Settlement Agreement proposed BSCs are consistent with those approved for TEP.[191]

SWEEP proposes that the Residential Basic rates be set at $7.97 (or rounded up to $8.00) for R-XS, R-Basic, R-Basic Large, and TOU-E rates.[192] SWEEP believes that its proposed BSCs "would eliminate or reduce the unfair effects of the Settlement-proposed rates and higher BSCs on customers and the bill impacts."[193] SWEEP alternatively proposes that should the Commission wish to incentivize uptake of the TOU-E rate through the BSC, the R-XS and TOU-E BSCs be set at $7.97 (or rounded up to $8.00), and set the R-Basic and R-Basic Large rates at $10.[194]

SWEEP contends that the Settlement Agreement BSCs for R-XS, R-Basic, R-Basic Large, General Service Extra-Small and the Small General Service, which were derived through the settlement compromise process, are not cost-based or cost justified, and that only SWEEP's proposed BSCs are cost-justified.[195] SWEEP disagrees with APS that the purpose of the BSCs should be to reflect the larger category of fixed costs of service.[196] SWEEP argues that only costs that vary with the number of customers should be used to determine the BSC, and not all the larger category of fixed costs, which do not vary with the number of customers.[197] SWEEP criticizes the Settlement Agreement BSCs because they include some distribution costs, and some costs that are not customer related.[198] SWEEP asserts that the Settlement Agreement BSCs should not include transformer costs, even though they are near a customer's residence, because transformer size and the number of transformers are both based on load, and not on the number of customers.[199] SWEEP asserts that the load a customer places on the

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[190] SWEEP Br. at 6, 15.
[191] *Id.* at 15.
[192] *Id.* at 5.
[193] *Id.* at 14, citing to Hearing Exhibit SWEEP-8A.
[194] SWEEP Br. at 5.
[195] *Id.* at 10; SWEEP Reply Br. at 5
[196] SWEEP Br. at 9-10; SWEEP Reply Br. at 4-5, citing to Tr. at 341 (APS witness Miessner) and 1122-23 (SWEEP witness Schlegel).
[197] SWEEP Br. at 9-10; SWEEP Reply Br. at 5, citing to Tr. at 341 (APS witness Miessner) and 1122-23 (SWEEP witness Schlegel).
[198] SWEEP Br. at 9; SWEEP Reply Br. at 4, citing to Hearing Exhibit APS-32 (APS Data Response Staff 5.23) and Hearing Exhibit SWEEP-3 (Direct Testimony of Jeff Schlegel on the Settlement Agreement) at 6.
[199] SWEEP Br. at 9.

system can vary greatly, depending on how much energy a given customer can consume (such as, for instance, the difference between a small apartment residence load and a 10,000 sq. ft. residence load).[200]

SWEEP states that the customer costs included in its proposed BSCs are based on FERC accounts and account numbers consistent with the Uniform System of Accounts for Public Utilities ("USOA").[201] SWEEP summed the customer costs contained in the FERC USOA accounts for APS's meters, meter reading, billing, and customer services costs in order to reach its recommended BSCs.[202] SWEEP states that it included APS's costs for the appropriate FERC USOA plant and expense accounts.[203] SWEEP contends that the end result of its BSC analysis is "an objective and evidence-based, bottom-up summation of the appropriate customer costs as the basis for the BSCs."[204] SWEEP contends that the Basic Service Method it used to calculate its proposed BSCs is based on cost causation and is the only equitable method for calculating BSCs.[205]

2. AARP

AARP opposes the Settlement Agreement's proposed BSCs, stating that it is concerned by the "dramatic increase in the fixed charge for most R-Basic customers to $15.00."[206] AARP contends that the BSC for R-Basic customers should be set at $10.00, or no higher than $13.00 per month, with the energy rate adjusted accordingly.[207] AARP states that such a change to the Settlement Agreement rate design "would be a very minor adjustment, a change that leaves APS revenue neutral. But nonetheless, it would be a change that could result in significant savings for many customers."[208] AARP states that this would make the R-Basic BSC more comparable with the Settlement Agreement proposed BSC for TOU customers.[209]

AARP is not requesting any change to the Settlement Agreement proposed BSCs for R-Basic Large customers of $20.00, or the Settlement Agreement proposed BSCs for R-XS customers of

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[200] *Id.*
[201] SWEEP Br. at 8-9; SWEEP Reply Br. at 4, citing to Hearing Exhibit SWEEP-5 and Tr. at 1125-1128 (SWEEP witness Schlegel).
[202] SWEEP Br. at 9, SWEEP Reply Br. at 4, citing to Tr. at 1124-1128 (SWEEP witness Schlegel).
[203] SWEEP Br. at 9, SWEEP Reply Br. at 4, citing to Tr. at 1124-1128 (SWEEP witness Schlegel).
[204] SWEEP Br. at 9, SWEEP Reply Br. at 4, citing to Tr. at 1128 (SWEEP witness Schlegel).
[205] SWEEP Br. at 7, SWEEP Reply Br. at 3.
[206] AARP Br. at 3.
[207] AARP Br. at 3-6.
[208] AARP Br. at 6.
[209] AARP Br. at 6.

$10.00.[210] AARP believes that "[c]harging residential customers too much in the BSC, limits the ability of those customers to control their monthly bills and reduces the incentive for energy efficiency and energy conservation measures, especially for low usage customers."[211] AARP agrees with SWEEP's position that the BSC should include only direct costs which vary with the number of customers on the system, including meters, billing, the service drop, and customer installation expense,[212] and believes that SWEEP's methodology would produce a much lower BSC than the Settlement Agreement Proposal.[213] AARP contends that the BSC proposed in the Settlement Agreement for R-Basic customers does not meet the ratemaking principles of public acceptability, gradualism, or simplicity.[214]

3. Mr. Woodward

Mr. Woodward supports the arguments of AARP and SWEEP to lessen the BSCs on standard rates.[215]

4. APS

APS asserts that the Settlement Agreement's tiered BSCs are reasonable, cost-based, further good rate policy, and are consistent with prior Commission Decisions.[216] APS contends that the non-settling parties' objections to the BSCs agreed upon by the Settling Parties overlook actual fixed costs incurred to serve customers, and due to Distributed Generation, placing fixed costs in volumetric rates unduly risks exacerbating the cost shift.[217] APS states that the Settlement Agreement rate design would reduce BSCs for more than 50 percent of APS's customers.[218] APS contends that it incurs approximately $28 per month in fixed costs to serve its customers, as measured by the straight Basic Customer Method,[219] and that the Settlement Agreement BSCs reflect compromises with a diverse

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[210] AARP Br. at 4.
[211] AAPR Br. at 4, citing to Hearing Exhibit AARP-1 (Direct Testimony of John B. Coffman on the Settlement Agreement) at 3; AARP Br. at 5.
[212] AARP Br. at 5, citing to Hearing Exhibit SWEEP-3 (Direct Testimony of Jeff Schlegel on the Settlement Agreement) at 6.
[213] AARP Br. at 5.
[214] AARP Br. at 5.
[215] Woodward Br. at 42, Reply Br. at 23.
[216] APS Br. at 61-66; APS Reply Br. at 7-10.
[217] APS Br. at 61-66.
[218] *Id.*, citing to Tr. at 299 (APS witness Lockwood) and 1153 (SWEEP witness Schlegel).
[219] APS Br. at 62, citing to Tr. at 802 and 845 (APS witness Snook); APS Reply Br. at 8, referring to Hearing Exhibit APS-32 (the range by residential rate is between $24 and $34, and includes revenue cycle costs, such as metering, billing, customer service, and certain distribution related costs).

group of interests represented by the Settling Parties. APS contends that any BSC below $28.52 is cost-justified, regardless of SWEEP's assertions to the contrary.[220]

Customers receiving an increase in their BSC under the Settlement Agreement are free to choose the new TOU-E rate or a time-based demand rate, which have BSCs of $13 in addition to providing an opportunity to save money by shifting usage.[221] Additionally, the Settlement Agreement increases and simplifies assistance to low-income customers.[222]

APS criticizes SWEEP's calculation of BSCs because it omits the costs of service drops and customer facilities, both of which should be included when calculating a BSC under the Basic Customer Method.[223] APS points out that SWEEP's witness acknowledged that the Settlement Agreement's R-Basic BSC charge does not recover all APS's fixed costs.[224] APS asserts that SWEEP's position also overlooks the fact that because residential DG customers self-supply a portion of their volumetric needs, if recovery of fixed costs is left in volumetric rates instead of moved to BSCs, costs will be shifted to residential customers without DG, including limited income customers.[225] APS states that the dynamic caused by the integration of DG limits the flexibility of policy decisions regarding the nature and size of basic service charges.[226]

APS notes that neither SWEEP nor AARP contest the agreed upon revenue requirement, but that they are contesting only the allocation of costs between the BSCs and volumetric energy charges for the higher-usage customers on standard, non-time differentiated rates.[227] APS responds that the BSCs agreed to by the Settling Parties are cost-based, designed to recover fixed costs in a fair manner, and are supported by the evidence.[228] In response to SWEEP's claims that some customers could experience larger bill impacts than average, APS acknowledges that even using the best rate design practices, sometimes customers within a class, or near the border between two rate classes, will experience anomalous results, but such anomalies do not render a rate structure unfair, provided that

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[220] APS Reply Br. at 8.
[221] APS Br. at 63.
[222] APS Br. at 63, citing to Settlement Agreement Sections 29.1-29.3 (pages 26-27).
[223] APS Br. at 64, citing to Tr. at 801-802 and 843-844 (APS witness Snook).
[224] APS Br. at 64-65, citing to Tr. at 1153 (SWEEP witness Schlegel).
[225] APS Br. at 65-66.
[226] *Id.* at 66.
[227] APS Reply Br. at 7.
[228] *Id.*

the overall impacts to the majority of customers are fair and reasonable.[229] APS believes that the support of the Settlement Agreement by a broad range of diverse customer interests attests to the fair and balanced nature of the rate design, and asserts that SWEEP's claims do not provide a reason to condemn the entire structure of the BSCs, but instead strengthens the case for offering a strong and effective customer education program regarding the transition to the new rate structure.[230]

APS asserts that the Settling Parties in this case are proposing a BSC structure consistent with that the Commission recently adopted in Decision Nos. 75697 (August 18, 2016)(UNS Electric, Inc. ("UNSE") Rates) and 75975 (February 24, 2017) (TEP Rates), in order to address the changing load characteristics of the residential customer class.[231] The BSC structure includes higher BSCs for higher-usage customers who choose to stay on standard two-part rates, in order to incent them to move to time- or demand-differentiated rates. APS argues that SWEEP's proposal for BSCs that collect the "bare minimum" of costs through the BSCs goes against the Commission's policy adopted in the recent UNSE and TEP Rate Decisions to incentivize customers to try rate plans that can benefit them with cost savings on their bills and potential system peak reductions.[232]

5. AIC

AIC submits that to keep up with the evolution of the electric power grid, utility rate design must evolve too, and that rates need to provide a utility with an opportunity to recover its fixed costs while also allowing customers options for installing cost-effective behind-the-meter technologies that offer them an opportunity to save energy and money.[233] AIC contends that the Settlement Agreement rate design appropriately uses the BSC to recover fixed costs while at the same time acting as a price signal to influence customer choice of rate plans.[234] AIC explains that charging a lower BSC for time-differentiated or time and demand-differentiated rate plans was deliberate on the part of the Settling Parties, in order to incentivize customers to choose such a plan, and to send a more accurate price signal to a greater number of customers.[235] AIC points out that if the Commission were to change the BSCs

[229] APS Rely Br. at 9-10.
[230] *Id.* at 10.
[231] APS Reply Br. at 11, citing to Decision No. 75697 at 64, 66 and Decision No. 75975 at 64.
[232] APS Reply Br. at 12.
[233] AIC Br. at 1; AIC Reply Br. at 3.
[234] AIC Br. at 5.
[235] *Id.* at 6, citing to Tr. at 171 (APS witness Lockwood).

to a lower dollar amount as advocated by some parties, the energy rate would have to increase accordingly,[236] and stresses that putting cost recovery into the energy rate would exacerbate the shifting of cost recovery from those with consumption-lowering behind-the-meter technologies to those without such technologies.[237] AIC contends that the Settlement Agreement rate design reached an equitable balance, and that neither SWEEP's nor AARP's arguments to decrease the BSC warrant altering the Settlement Agreement at the expense of reducing the total benefit to all ratepayers.

AIC points out that SWEEP's and AARP's arguments overlook the fact that a customer with concerns about the BSC of a rate plan has a number of other rate plan options from which to choose. AIC believes that the compromise reached in the Settlement Agreement regarding BSCs is a balanced approach and should be adopted.[238]

6. ConservAmerica

ConservAmerica asserts that the current two-part rate design, which is focused on kWh sales for cost recovery, is broken in that it no longer makes sense from a social equity standpoint or from a cost-causation standpoint at a time when rooftop solar and other new technologies decrease billed kWh without reducing the fixed costs of the utility system.[239] ConservAmerica is concerned that because of the current decline in kWh (energy) sales, placing additional fixed costs in the energy usage charges "shifts these fixed costs from wealthier rooftop solar customers to poorer non-solar customers,"[240] and "will only enhance the growing inequities as more affluent customers adopt new technologies to limit or eliminate their kWh, while other customers are left behind to bear the costs."[241] ConservAmerica states that the amount of the fixed charges included in the BSCs is a matter of policy, and that there is no dispute that APS's fixed costs exceed any of the proposed BSCs in this proceeding. ConservAmerica argues that in a time when some customers have very little kWh usage but still cause significant fixed costs, fairness requires a BSC that adequately recovers fixed costs.

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[236] AIC Br. at 6, citing to Tr. at 314 (APS witness Lockwood).
[237] AIC Br. at 6.
[238] *Id.*
[239] ConservAmerica Br. at 2, citing to Hearing Exhibit ConservAmerica-2 (Direct Rate Design Testimony of Paul Walker) at 2, 10.
[240] ConservAmerica Br. at 2, citing to Hearing Exhibit ConservAmerica-2 (Direct Rate Design Testimony of Paul Walker) at 15.
[241] ConservAmerica Reply Br. at 3.

ConservAmerica points out SWEEP's acknowledgement that under the Settlement Agreement, a majority of customers will see a reduction in their BSCs.[242] In response to SWEEP's concerns of the impact of increases in BSCs on R-Basic and R-Basic Large customers, ConservAmerica states that the intent of the Settlement Agreement's higher BSCs for those rate plans is to encourage customers to move to time-differentiated or demand-differentiated rates and change their consumption behavior, which will benefit all customers by reducing system peak, thereby creating emissions and cost savings for everyone.[243] ConservAmerica contends that, as acknowledged by SWEEP's witness, moving from basic two-part rates to such rate plans will actually allow customers multiple opportunities to control their bill, while reducing costs.[244]

ConservAmerica states that the Settlement Agreement's R-Basic BSC of $15 is the same as that approved for UNSE, and less than the $20 BSC for the comparable rate charged by Salt River Project ("SRP").[245] ConservAmerica points out that, as acknowledged by AARP's witness, the higher BSC for the R-Basic rate plan is an incentive for customers to move to TOU and demand rate plans, as the Commission approved in the recent UNSE rate Decision.[246] In response to AARP's contention that a reduced BSC would be revenue neutral, ConservAmerica states that this is so only when considering the test year billing determinants in this case.[247] ConservAmerica states that as kWh sales continue to fall, it would not be revenue neutral, and more fixed costs would go unrecovered, necessitating a larger revenue requirement to be recovered in the next rate case.[248]

7. Vote Solar

Vote Solar contends that the seven different residential rate options in the Settlement Agreement, which would replace Vote Solar's preferred standard tiered rate, when considered with the balance of issues addressed by the Settlement Agreement, are reasonable and in the public interest.[249]

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[242] *Id.* at 4, citing to Tr. at 1151-52 (SWEEP witness Schlegel).
[243] ConservAmerica Br. at 2, citing to Tr. at 1264-65 (Staff witness Abinah); ConservAmerica Reply Br. at4.
[244] ConservAmerica Reply Br. at 4, citing to Tr. at 1151-52 (SWEEP witness Schlegel).
[245] ConservAmerica Br. at 3-4, citing to Hearing Exhibit ConservAmerica-4 (Rebuttal Testimony of Paul Walker on the Settlement Agreement) at 5-6.
[246] ConservAmerica Br. at 3, citing to Tr. at 707 (AARP witness Coffman).
[247] ConservAmerica Reply Br. at 3.
[248] *Id.* at 3-4.
[249] Vote Solar Br. at 7.

8. AURA

AURA states that it was concerned with APS's original proposals for mandatory three-part demand rates and high BSCs for residential customers, but that the Settlement Agreement resolved these concerns, with no mandatory demand rates for any residential ratepayer, and with many more rate design options for residential customers. AURA's witness testified that the "modest increases to basic service charge for customers under 600kWh/month and actual reductions to service charges for TOU and three-part-rate customers more than offset the larger (though lower than initially proposed) increases for customers using more than 600kWh/month."[250]

9. ACAA

ACAA states that the Settlement Agreement rate design provides a marked improvement over APS's initial request, in that it has no mandatory demand charges, but instead gives customers the option to enroll in a demand charge rate or not, and it has much lower BSCs for the R-XS rate than APS initially requested. ACAA notes that the BSC for R-XS is $10 under the Settlement Agreement, decreasing from $18. ACAA states that high BSCs affect low-income customers especially hard, because the average low-income customer uses less energy than the average non-low-income customer, and that the R-XS rate will allow low-income customers to better manage their bills.[251]

10. FEA

FEA believes that the spread of the revenue increase across customer classes represents a reasonable compromise on complex cost of service issues, and that the ultimate rates for retail customers proposed by the Settlement Agreement are reasonable.[252]

11. RUCO

RUCO states that while it does not dismiss the concerns raised by AARP and SWEEP on this issue, RUCO sees it from a different perspective. RUCO believes that the increase to the R-Basic rate is outweighed by the other benefits of the Settlement Agreement.[253] RUCO asserts that: 1) the focus by AARP and SWEEP on the increase to the BSC for R-Basic customers ignores the overall bill impact

[250] AURA Br. at 2-3, citing to Hearing Exhibit AURA-3 (Direct Testimony of Patrick Quinn on the Settlement Agreement) at 4-5, 6.
[251] ACAA Br. at 2-3.
[252] FEA Br. at 6.
[253] RUCO Br. at 5.

after the energy usage component is factored in; 2) the number of customers currently on rate plans equivalent to the R-Basic and R-Basic Large rate together constitutes a small percentage of APS's residential customers (approximately 18 percent) while approximately 82 percent will see either a decrease or a very small increase in their BSC;[254] 3) the Settlement Agreement BSC rate design is consistent with Commission precedent in recent rate cases for TEP and UNSE, where the Commission decided to incentivize customers to move to a TOU rate;[255] and 4) R-Basic customers who prefer a lower BSC have a variety of options from which to choose.[256]

12. Staff

Staff contends that the arguments of AARP and SWEEP in opposition to the BSCs proposed in the Settlement Agreement are not compelling.[257] Staff contends that AARP's criticism of the R-Basic BSC is without evidentiary support, other than AARP's opinion that $13 is "too high" and "higher than similar customers must pay under the most recent Arizona Commission decisions changing rates for UNS and TEP."[258] Staff points out that at the hearing, AARP's witness acknowledged that UNSE currently has a $15 BSC for most residential customers.[259] Staff also points out that AARP acknowledged that there are many components of the Settlement Agreement that would be beneficial to AARP membership in Arizona; that there are AARP members with various energy usage levels; that there are low-income AARP members who stand to benefit from the continuation and expansion of the low-income programs contained in the Settlement Agreement; and that AARP has acknowledged that several of the residential rate design provisions are appropriate, and AARP takes no issue with them.[260]

Staff states that SWEEP's position 1) overlooks the fact that the Settlement Agreement rate design continues to recover a significant portion of customer bills through volumetric charges that customers can reduce through efficiency measures; and 2) fails to address the cost recovery concerns of the utility or the necessary balancing of the wide-ranging interests accommodated by the Settlement

[254] RUCO Br. at 5-6
[255] *Id.* at 6, citing to Decision No. 7596 at 65-66 and Decision No. 75975 at 64. RUCO points out that the $15 BSC in the UNSE case for a similar rate plan is the same as that proposed here in the Settlement Agreement.
[256] RUCO Br. at 6.
[257] Staff Br. at 21-22; Staff Reply Br. at 2-3, 6.
[258] Staff Br. at 21, citing to Hearing Exhibit AARP-1 (Rebuttal Testimony of John B. Coffman on the Settlement Agreement) at 4.
[259] Staff Br. at 21, citing to Tr. at 706-07.
[260] Staff Br. at 20.

Agreement.[261] Staff states that SWEEP attempts to justify its recommendation for lower BSCs by focusing on the percentage increases in the BSCs instead of on the overall bill impact percentage of the rate increase on customers. Staff explains that while on its face, some of the percent increases to the BSCs appear to be large, it is important to consider the overall rate increase impact of 4.54% for the average residential customer, pointing out that SWEEP does not take issue with the overall rate increase, or with the fact that APS incurs the costs included in the Settlement Agreement BSCs.[262] Staff notes that SWEEP is a nonprofit agency that advances its energy efficiency goals, and that its "narrowly focused advocacy promoting energy efficiency" drives SWEEP's proposal to put most of the rate increase into volumetric charges.[263] Staff points out that the Settlement Agreement rate design utilizes the same two methods, the Basic Customer Method and the Minimum System Method to calculate the BSCs that the Commission relied on to inform its policy decision in the recent TEP Rate Decision.[264] Staff states that while it would agree with SWEEP that BSCs should not be set based on what has been authorized for other electric utilities, a comparison to other Arizona electric utility BSCs can be an appropriate benchmark or factor to consider, among others.[265]

Staff contends that the rates as structured in the Settlement Agreement, including the BSCs, properly balance the needs of customers' continued ability to save through energy efficiency with the need for APS to better recover its authorized revenue requirement, and that the Settlement Agreement should be approved without modification.

13. Resolution

After examination of the evidence and the legal arguments on this contested issue, we find that the BSCs set forth in the Settlement Agreement reasonably and appropriately balance the interests of the ratepayers and the Company, and are in the public interest.

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[261] *Id.* at 23; Staff Reply Br. at 3.
[262] Staff Reply Br. at 2-3.
[263] Staff Br. at 23; Staff Reply Br. at 3.
[264] Staff Br. at 22-23; Staff Reply Br. at 2, citing to Decision No. 75975 at 64.
[265] Staff Reply Br. at 3.

ii. **Choice of Rate Plan / 90-Day Trial Period**

Section 19.1 of the Settlement Agreement provides as follows:

> All customers may select R-Basic, R-Basic Large, TOU-E, R-2, R-3, R-Tech or R-XS if they qualify until May 1, 2018, except to the extent grandfathered under other sections of this Settlement Agreement. Distributed Generation customers will not be eligible for R-XS, R-Basic or R-Basic Large. After May 1, 2018, R-Basic Large will no longer be available to new customers or customers who are on another rate. New customers after May 1, 2018 may choose TOU-E, R-2, R-3 or if they qualify, R-XS or R-Tech. After 90 days, new customers may opt-out of their current rate and select R-Basic if they qualify. Customers transitioning to R-Basic must stay on that rate for at least 12 months.[266]

1. SWEEP

SWEEP proposes that the Settlement Agreement's 90-day trial period for new customers be eliminated.[267] SWEEP believes that on their first day as an APS customer, customers should be allowed to choose their rate plan from among options for which they are eligible, without waiting 90 days.[268] SWEEP proposes that if the Commission approves the 90-day waiting period, the Commission should also require APS to notify customers of all rates available to them at the end of the 90-day period.[269]

In response to APS's assertion that a significant majority of customers will save money on the new rates, SWEEP responds "[i]f that is true, then customers will choose the rates that save them the most money."[270] SWEEP believes that with incentives for customers to move to time-of-use rates, the 90-day trial period is not justified.[271]

2. AARP

AARP opposes any limits on the availability of residential rate design options as proposed in Section 19.1 of the Settlement Agreement.[272] AARP requests that the Commission reject the provision in the Settlement Agreement that precludes new customers, after May 1, 2018, from choosing the R-Basic rate plan until after first taking service under a TOU plan for a period of 90 days.[273] AARP

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[266] Settlement Agreement Section 19.1 (page 20).
[267] SWEEP Br. at 5, 16; SWEEP Reply Br. at 7.
[268] SWEEP Br. at 6; SWEEP Reply Br. at 7.
[269] SWEEP Br. at 17; SWEEP Reply Br. at 8.
[270] SWEEP Reply Br. at 7.
[271] *Id.*
[272] AARP Br. at 3.
[273] *Id.* at 6, 8.

asserts that the 90-day trial period "is unnecessarily complicated and confusing, and it would prevent many customers from choosing the rate option that they believe is the best plan for them."[274] AARP argues that the 90-day trial period for new customers "would create a policy of discriminatory treatment towards new customers and would also create a high barrier for switching to a Basic rate plan later."[275] AARP contends that the 90-day trial period "would likely be confusing and frustrating for the affected customers, creating the need for considerable customer education."[276]

AARP alludes to "extreme difficulty" that a customer would face in attempting to switch to an R-Basic plan after the 90-day trial period, and states that AARP would expect most customers to be "confused about how to switch after 90 days."[277] AARP claims that "[i]t appears that the proposed 90-day provision is an attempt by APS to divert large numbers of unwitting residential customers onto a demand rate."[278]

AARP is concerned that the Settlement Agreement lacks specificity regarding how customers will be notified of their choice to change rate plans after the 90-day trial period has elapsed.[279] AARP proposes that if the 90-day trial period is adopted, APS be specifically required to provide written notification to new customers as to all of the rate options that will be available to them, including R-Basic, after the 90-day trial period has elapsed.[280] In addition, AARP proposes that APS be required to notify new customers at or about 90 days after they begin taking service on a TOU or Demand Rate plan of their eligibility to switch to an R-Basic plan.[281]

3. Mr. Gayer

Mr. Gayer contends that the Settlement Agreement's 90-day trial period for new customers is discriminatory under A.R.S. § 40-334; would violate new customers' due process rights; and would constitute a form of consumer fraud under A.R.S. § 44-1521 *et seq.*[282] Mr. Gayer believes new customers should be allowed to choose from any rate for which they qualify when they become a new

[274] *Id.* at 8.
[275] *Id.*
[276] *Id.*
[277] AARP Br. at 7.
[278] AARP Br. at 7.
[279] *Id.*
[280] *Id.*. at 9.
[281] *Id.*
[282] Gayer Br. at 9-12.

customer and should not be required to take service for a 90-day trial period on a time-based rate.[283] Mr. Gayer proposes that if the Commission approves the 90-day trial period, APS should be required to inform new customers of their options sufficiently before the 90 days have passed so that their newly chosen rate will be effective on the date that the 90-day period expires.[284]

4. Mr. Woodward

Mr. Woodward asserts that the 90-day trial period for new customers to take service under TOU or demand rates is unjust because he believes they are unaffordable for some customers, and that it should be removed. [285] He supports the arguments of AARP and SWEEP to remove the 90-day trial period but if approved, to hold APS accountable for effective customer notification as to their options after the 90-day trial period. In addition, Mr. Woodward contends that APS should not receive $5 million to use for customer education on the new rate design proposals in the Settlement Agreement.[286]

5. APS

APS believes that AARP and SWEEP, in their opposition to the 90-day trial period provision of the Settlement Agreement, fail to consider the importance of how customer rate choices impact all customers and the system as a whole,[287] and that they fail to consider the balance that was struck in the Settlement Agreement between parties with widely divergent views.[288] APS states that the 90-day trial period in the Settlement Agreement would expose new customers to modern rates that are time- or demand-differentiated while still allowing them to move to rates that are not time- or demand-differentiated at the end of the 90-day trial period, when they will have a minimum of three rate plan choices.[289] APS states that data shows that a significant majority of APS customers will save money on time- or demand-differentiated rates, with savings occurring even before customers modify their behavior and shift usage.[290] However, customers whose average monthly usage is 600 kWh or below are less likely to benefit as much from time- or demand-differentiated rates, and the terms of the

[283] Gayer Br. at 15; Gayer Reply Br. at 9.
[284] *Id.*
[285] Woodward Br. at 41,42 citing to Hearing Exhibit Woodward-1 generally (Direct Testimony of Warren Woodward) and Hearing Exhibit Woodward-6 generally (Direct Testimony of Warren Woodward on the Settlement Agreement).
[286] Woodward Br. at 42.
[287] APS Reply Br. at 57.
[288] *Id.* at 6.
[289] APS Br. at 56, 57.
[290] *Id.*; APS Reply Br. at 5, citing to Tr. at 858-60 (APS witness Snook).

Settlement Agreement therefore exempt these low-usage, R-XS customers from the 90-day trial period.[291]

APS believes it is important to balance the benefits that accrue to all customers from time- and demand-differentiated rates with individual customer choice.[292] APS describes the benefits as follows:

> When customers react to rates that are time-differentiated, and in particular rates with demand components, they shift load to off-peak periods, taking service when there is excess supply and capacity. This not only permits short-term cost savings with lower fuel costs, but also the possibility that APS can avoid building new infrastructure to meet growing peak demand.[293]

APS states that the 90-day trial period for new customers that the Settling Parties agreed to is a compromise position designed to achieve a balance.[294] While the 90-day trial period does not adopt the outcome sought by those who are opposed to any changes to APS's rate design, neither does it adopt the outcome sought by APS that all customers take service on time-differentiated demand rates.[295] APS contends that the Settlement Agreement 90-day trial period provision establishes a more moderate path towards implementing time- and demand-differentiated rates than APS's initial proposal, and that part of the moderation involves customers being able to return to the R-Basic rate after the 90-day trial.[296]

APS takes issue with AARP's arguments that the 90-day trial period would "likely be confusing and frustrating for the affected customers,"[297] and AARP's assertion that customers would prefer a basic rate plan. APS posits that AARP's position that a TOU or demand rate could be detrimental to customers lacks evidentiary support, and likely reflects national, and not local interests. APS states that AARP does not represent the concerns of local seniors groups such as PORA in Sun City West, and SCHOA in Sun City, both of which are signatories to the Settlement Agreement.[298] And APS points to the admission by AARP's witness that AARP never gathered data from its constituents regarding

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[291] APS Br. at 57.
[292] *Id.* at 58.
[293] *Id.*, referring to Hearing Exhibit APS-7 (Rebuttal Testimony of Charles Miessner on the Settlement Agreement) at 12-13.
[294] APS Br. at 58, Reply Br. at 6.
[295] APS Br. at 58.
[296] *Id.* at 7-8, Reply Br. at 6.
[297] APS Reply Br. at 5, citing to AARP Br. at 8.
[298] APS Reply Br. at 5.

whether they would prefer lower overall bills, or a simpler bill structure.[299] APS believes that the fact that over half of its customers are already on a TOU rate demonstrates that APS customers have the ability to adapt to and manage time-differentiated rates, and that there is no basis for an assumption that future APS customers will be less sophisticated.[300]

6. AIC

AIC contends that, in contrast to the characterization by AARP of "taking away" customer choice, the Settlement Agreement provides a choice of seven residential rate options, and balances customers' individual interests and customer choice with the benefits that moving all customers toward time-differentiated and demand-differentiated rate plans would provide.[301]

7. ConservAmerica

ConservAmerica believes that the Settlement Agreement rate design, of which the 90-day trial period for new customers is an integral part, is fairer than the current rate design; is a sensible limitation, because it applies only to new customers, and only for a limited time; will promote reductions in costs and emissions; and should be approved. ConservAmerica asserts that providing new customers with experience on time-differentiated and demand-differentiated rate plans, after customer education, will benefit those customers because many will save money, while beginning to provide the benefits for all customers – lower costs, reduced emissions, and reduced inequities – that will come from having more customers taking service under the TOU or demand rate plans, and modifying their usage patterns accordingly.[302] ConservAmerica agrees with Staff that 90 days is an appropriate time period to provide customers with their usage data so that they can determine which rate plan is better for them.[303]

In response to Mr. Gayer's argument that the 90-day trial period would violate due process, ConservAmerica responds that adequate public notice was provided which more than satisfied any due process requirements.[304]

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[299] *Id.*, citing to Tr. at 724 (AARP witness Coffman).
[300] APS Reply Br. at 5-6.
[301] AIC Reply Br. at 3.
[302] ConservAmerica Br. at 4; ConservAmerica Reply Br. at 5.
[303] ConservAmerica Br. at 4, citing to Tr. at 1268 (Staff witness Abinah).
[304] ConservAmerica Reply Br. at 5. ConservAmerica asserts that there are no constitutional or statutory provisions requiring notice of setting utility rates. ConservAmerica Reply Br. at 4-6, citing to *Appeal of Office of Consumer Advocate*, 803 A.2d 1054, 1059 (N.H. 2002), and referring to *Arizona Corp. Comm'n v. Tucson Ins. & Bonding Agency*, 3 Ariz. App. 458, 463,

ConservAmerica responds to AARP's statement on brief that public comments oppose "mandatory demand charges," pointing out that the terms of the Settlement Agreement do not require any customer, including new customers in the 90-day trial period, to take service on a demand charge rate plan.[305]

8. RUCO

RUCO believes that new customers will not be disadvantaged by the 90-day trial period before they can sign up for the R-Basic rate plan because: 1) there are new rate plans available to choose from; 2) those rate plans have BSCs that are either decreasing from present BSCs or increasing only slightly; and 3) the new TOU options, with lower BSCs, will provide the new customers with more control over the variable portion of their bills than does the R-Basic rate plan. RUCO asserts that having new customers try a TOU option for 90 days will result in more customer control, energy efficiency, and will better reflect cost causation, and that customers will have the choice to go to the R-Basic plan after the 90-day trial period if they wish to do so.[306]

9. Staff

Staff states that the purpose of the 90-day trial period is to encourage the implementation of newer and updated rate designs going forward. Staff believes that inclusion of the 90-day trial period for new customers strikes an appropriate balance in that it gives customers options with respect to rate plans while also providing a reasonable means for APS to educate customers on new updated rate designs.[307]

Staff agrees with the proposals of SWEEP and AARP that APS be required to notify customers near the end of the 90-day period about their option to switch to another rate,[308] and that such notification should be accompanied with information on the estimated bill impact of switching to another rate.[309] Staff states that the Settlement Agreement already provides that APS will expend $5

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415 P.2d 472, 477 (1966); *Walker v. De Concini*, 86 Ariz. 143, 148, 341 P.2d 933, 937 (1959); Arizona Administrative Code ("A.A.C.") R14-2-105(B); and A.A.C. R14-3-109(B).

[305] ConservAmerica Reply Br. at 4, citing to AARP Br. at 15 and to Settlement Agreement at Section 19.1 (page 20).

[306] RUCO Br. at 7.

[307] Staff Reply Br. at 5.

[308] Staff Reply Br. at 5, 6 citing to SWEEP Br. at 17, AARP Br. at 9-10, and Hearing Exhibit S-12 (Rebuttal Testimony of Ralph Smith on the Settlement Agreement) at 9.

[309] Staff Reply Br. at 5, citing to Hearing Exhibit S-12 (Rebuttal Testimony of Ralph Smith on the Settlement Agreement) at 9.

million of over collected DSMAC funds toward ratepayer education to help them understand and manage new rates and rate options, and that Staff sees no inconsistency with the Settlement Agreement if the Commission were to order APS to develop a notice as part of its customer education program to inform new ratepayers subject to the 90-day trial period of their rate options at the conclusion of the trial period.[310]

10. Resolution

After examination of the evidence and the legal arguments on this contested issue, we find that the 90-day trial period for new customers as set forth in the Settlement Agreement is in the public interest. Notably, however, the Settlement Agreement provides at most an eight-month window for customers who are on another rate to evaluate several new rate plans. We find there is sufficient evidence in the record and it is in the public interest for existing customers to have additional time to adequately consider the R-Basic Large plan. We therefore recommend that the sunset for R-Basic Large be modified as follows: "After September 1, 2018, R-Basic Large will no longer be available to customers who are on another rate."

Educating customers about the energy efficiency effects of both time-differentiated and demand-differentiated rate plans will encourage customers to be cognizant of efficient energy use. This customer knowledge will ultimately benefit all APS customers. For new customers, a short trial period on their choice of either a time- or demand-differentiated rate is reasonable, in order to demonstrate how they can manage their usage in order to better control their bills. The 90-day trial period reasonably and appropriately balances the goal of increased energy efficiency with the customer interest of having a variety of rate plans from which to choose, so that customers can decide, based on specific facts particular to them, which rate plan works best for their individual circumstances.

Arguments have been advanced regarding the lack of specificity in the Settlement Agreement in regard to educating customers about their rate plan choices at the end of the 90-day trial period. The Settlement Agreement provides that:

> APS will make a one-time allocation of $5 million from over-collected DSMAC funds to DSM programs for education and to help customers manage new rates and rate

[310] Staff Reply Br. at 6-7.

> options including services and tools available to customers to help them manage their utility costs. APS shall file an outreach and education plan and shall provide stakeholders with an opportunity to review and comment on the draft plan prior to completing its final plan.[311]

The record does not support elimination of Section 27.1 of the Settlement Agreement. APS has indicated that it is committed to making sure that customers are aware of their options, and that it will notify customers through a variety of different channels and encourage customers to choose the rate plan that works best for them.[312] The evidentiary record supports the imposition of the following specific requirement for the Settlement Agreement's customer outreach and education plan:

> The draft plan that APS files according to Section 27 of the Settlement Agreement shall include a form of notice to inform new ratepayers subject to the 90-day trial period of their rate options at the conclusion of the trial period, accompanied by information on the estimated bill impact of switching to another rate, and shall address a suitable method for delivery of such notice so that such customers will receive the notice shortly after, or concurrently with, their second bill, in order to provide them with sufficient notice should they wish to begin taking service at that time on the R-Basic rate plan instead of a time- or demand-differentiated rate plan.

Because the Settlement Agreement does not set forth deadlines for the roll out of the customer education plans, we will require APS to file a draft Customer Education and Outreach Program ("CEOP") in Docket Control within 15 business days of a Commission Decision in this matter. The CEOP should contain at a minimum, simple, easy to understand information regarding the new rate plans, the transition plan, and the plans available after May 1, 2018. Stakeholders will have 10 days thereafter to review and comment on the draft plan. APS will have 10 additional days following the review and comment deadline to submit a final plan for Commission Staff's consideration and approval.

The Settlement Agreement makes significant changes to the existing rate plans. We find that it is in the public's interest to have adequate notice in a timely manner so customers can evaluate the available plans before the deadline. The evidentiary record supports the imposition of the following specific requirements for the Settlement Agreement's CEOP:

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[311] *See* Settlement Agreement Section 27.1 (page 24).

[312] *See* Hearing Exhibit APS-3 (Rebuttal Testimony of Barbara Lockwood on the Settlement Agreement) at 6, and Tr. at 251, 293 (APS witness Lockwood).

The draft CEOP should include a form of notice for both new customers and customers who are on another rate.

For customers who are on another rate, the final approved notice must be provided to the customers on another rate at least 3 billing cycles prior to May 1, 2018, or the date on which APS's new rate plans commence, whichever occurs later.

For both new customers and customers who are on another rate, the form of notice in the draft CEOP shall inform the customers of their rate options after May 1, 2018, accompanied by information on the estimated bill impact of switching to another rate.

iii. **Time of Use Hours**

The Settlement Agreement provides for TOU on-peak rates from 3:00 p.m. to 8:00 p.m. on weekdays, excluding holidays.[313] In addition, the Settlement Agreement provides for a Winter Super Off-peak period from 10:00 a.m. to 3:00 p.m. weekdays during the winter months.[314]

1. SWEEP

SWEEP proposes that the on-peak period for residential TOU rates be set for 4:00 p.m. to 7:00 p.m. instead.[315] SWEEP contends that "[a] five-hour (3:00 pm to 8:00 pm) on-peak period virtually mandates that Arizona families and other customers (e.g., homebound customers) will face high on-peak charges without any real flexibility to move some activities and energy use to off-peak periods."[316]

SWEEP contends that "[t]he Commission should not set the on-peak period for 2020 or future years in this rate case; that decision could be made and is more appropriately made in the next rate case with the then-current facts available for consideration."[317] SWEEP argues that APS's testimony regarding its peak load shape shows that the three summer hours with the highest peak demand are 4:00 p.m. to 7:00 p.m.[318] SWEEP asserts that if customers could shift some of their demand to hours before 4:00 p.m., they would not increase the APS system demand between 4:00 p.m. and 7:00 p.m.[319] SWEEP asserts that the shorter on-peak period it proposes would be attractive to more customers, and additional customers would move to TOU rates.[320]

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[313] Settlement Agreement Section 17.8 (page 19).
[314] Settlement Agreement Section 17.4 (page 18).
[315] SWEEP Br. at 5, 15, SWEEP Reply Br. at 6.
[316] SWEEP Br. at 15, citing to Hearing Exhibit SWEEP 4 (Rebuttal Testimony of Jeff Schlegel on the Settlement Agreement) at 12.
[317] SWEEP Reply Br. at 7.
[318] SWEEP Br. at 16 and Reply Br. at 6, referring to Hearing Exhibit APS-7 (Rebuttal Testimony of Charles Miessner on the Settlement Agreement) at 9, Figure 1, and to Tr. at 1137 (SWEEP witness Schlegel).
[319] SWEEP Br. at 16; SWEEP Reply Br. at 7.
[320] *Id.*, citing to Tr. at 1138 (SWEEP witness Schlegel).

2. AARP

AARP opposes the 3:00 to 8:00 p.m. on-peak period proposed in the Settlement Agreement.[321] AARP asserts that this late in the day peak period "will leave many seniors with less flexibility to adjust their usage to find savings."[322] AARP supports SWEEP's position.[323]

3. Districts

The Districts assert that the Settlement Agreement's proposed time of use rates would be "punishing for working families."[324]

4. APS

APS contends that the Settlement Agreement's proposed 3:00 p.m. to 8:00 p.m. on peak time period properly balances system realities with customer convenience, and that SWEEP's proposal disregards actual system conditions and the policy goal of influencing prospective usage.[325] APS states that the Settlement Agreement reduces the number of on-peak hours, and adds more off-peak holidays, compared to the present TOU tariffs, which have on-peak periods from 12:00 noon to 7:00 p.m. and 9:00 a.m. to 9:00 p.m.[326] APS asserts that the Settlement Agreement on-peak hours are part of a carefully crafted and balanced rate design agreed upon by the Settling Parties, and that failure to adopt them has the potential to disrupt the balance and the result desired by numerous parties, particularly the solar intervenors.[327]

APS asserts that the Settlement Agreement on-peak hours are aligned with APS's highest system peaks and costs,[328] and that energy use during system peak should properly align with the costs to provide that service.[329] In contrast, the current TOU on-peak hours send customers the wrong conservation message.[330] APS's witness James Wilde explains that current on-peak times encourage conservation at mid-day and early afternoon, when demand and wholesale prices are low, and energy

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[321] AARP Br. at 3.
[322] *Id.* at 3, 11.
[323] *Id.* at 11.
[324] Districts Br. at 2 -3.
[325] APS Reply Br. at 6
[326] APS Br. at 58, citing to Tr. at 341 (APS witness Miessner) and Hearing Exhibit APS-19 (Direct Testimony of James Wilde) at 12.
[327] APS Br. at 61.
[328] *Id.* at 58, citing to Tr. at 341 (APS witness Miessner).
[329] APS Br. at 61.
[330] APS Br. at 58-59, citing to Exhibit APS-19 (Direct Testimony of James Wilde) at 13-14.

abundant on the regional system, but not in the evening hours when system demand is peaking and wholesale prices are high.[331]

APS witness Charles Miessner included a graph in his prefiled testimony showing APS's System Summer Peak Hours.[332] APS states that APS has a very broad peak, and that in the summer months APS's load often remains within 5% of the peak hour for 4-5 hours, such that on-peak time periods must run later in the evening.[333] APS's witness testified that in the summer months particularly, system peak is generally expected to occur between 7:00 p.m. and 9:00 p.m.[334] APS projects that the trend for later system peak loads will continue in the future.[335]

APS argues that TOU periods should not be set looking backward, but looking forward, in order to maximize the benefits of energy conservation that occur when customers shift usage.[336] APS acknowledges SWEEP's argument that the Settlement Agreement's proposed 3:00 p.m. to 8:00 p.m. on peak time period may be inconvenient for customers, but points out that the resulting shift in usage by customers may allow APS to avoid or delay construction of new infrastructure, and the period is shorter than existing on-peak time periods.[337] APS asserts that the proposed 3:00 p.m. to 8:00 p.m. on

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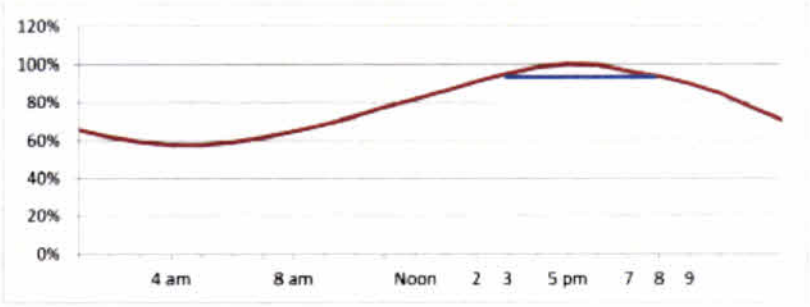
[331] APS Br. at 58-59, citing to Exhibit APS-19 (Direct Testimony of James Wilde) at 13-14.
[332] Hearing Exhibit APS-7 (Rebuttal Testimony of Charles Miessner on the Settlement Agreement) at 9, Figure 1.

Figure 1 APS Summer System Sumer Peak Hours[5]



[5] Test Year 2015 system load, top 80 hours, June through September.

[333] APS Br. at 59, citing to Hearing Exhibit APS-7 (Rebuttal Testimony of Charles Miessner on the Settlement Agreement Testimony) at 9, Figure 1.
[334] Hearing Exhibit APS-19 (Direct Testimony of James Wilde) at 14.
[335] APS Br. at 59-60, citing to Hearing Exhibit APS-7 (Miessner Rebuttal Settlement Agreement Testimony) at 12, Figure 2 (Time of Day Relative Energy & Capacity Heat Map).
[336] APS Br. at 60.
[337] *Id.* at 60-61.

peak time period was carefully crafted to maximize the efficiencies of shifting load to off-peak.[338] Without a change in the on-peak period to align it with actual system peak, system costs will not be reduced, and the entire purpose of on-peak rates would be undermined. APS believes its current TOU customers and new TOU customers can and will respond to the new shorter on-peak times in a meaningful manner, and that setting forward-looking on-peak periods would also remove the need for extensive customer re-education in future rate cases.[339]

5. AIC

Along with the other rate design changes in the Settlement Agreement, AIC supports the adjusted on-peak hours of 3:00 p.m. to 8:00 p.m. in the Settlement Agreement, noting that the majority of parties support the change.[340] AIC states that the new hours allow customers to take advantage of fewer on-peak hours, and more off-peak holidays, than they currently have, while focusing more accurately on the time of day when demand reduction is needed most, and argues that "[t]he TOU on-peak periods were carefully designed to achieve the stated revenue amount, properly align the cost of providing service during on-peak times, and preserve the economics of rooftop solar – they should remain unmodified in the Settlement."[341]

6. Vote Solar

Vote Solar asserts that "when considered with the balance of many different issues addressed by the Proposed Settlement Agreement, the 3 p.m. to 8 p.m. period peak is reasonable."[342]

7. SEIA

SEIA supports the 3:00 p.m. to 8:00 p.m. on-peak period established in the Settlement Agreement.[343]

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[338] APS Reply Br. at 7.
[339] APS Br. at 60-61.
[340] AIC Br. at 5; AIC Reply Br. at 3.
[341] AIC Reply Br. at 3, 4.
[342] Vote Solar Br. at 6, citing to Hearing Exhibit Vote Solar-2 (Direct Testimony of Brianna Kobor on the Settlement Agreement) at 5.
[343] SEIA Br. at 4, citing to Hearing Exhibit SEIA-2 (Direct Testimony of Sara Birmingham on the Settlement Agreement) at 5.

8. Staff

Staff characterizes SWEEP's proposed modification to the Settlement Agreement's on-peak hours, to 4:00 to 7:00 p.m., as unbalanced and one-sided, and as being based on customer convenience rather than APS's system peak.[344] Staff asserts that while SWEEP's argument that its proposal would be attractive to more customers and lead more customers to subscribe to TOU rates might seem reasonable on its face, SWEEP's advocacy is narrowly focused on its own interests, and does not strike an appropriate balance between customer needs and utility needs.[345] Staff emphasizes that the Settlement Agreement would provide customers with a shorter on-peak period than they currently have, and would add four additional off-peak holidays.[346]

Staff states that the Settlement Agreement's on-peak hours of 3:00 p.m. to 8:00 p.m. are aligned with APS's highest peaks and costs;[347] that it is undisputed that APS has a very broad peak, where loads remain very near peak until as late as 9:00 p.m.;[348] and that even though APS's peak has not yet occurred after 7:00 p.m., its loads remain very near peak until 8:00 to 9:00 p.m.[349] Staff points out that SWEEP acknowledged two factors that support approval of the on-peak period of 3:00 p.m. to 8:00 p.m. agreed to by the Settling Parties: 1) APS's system peak can shift to a later time than SWEEP's proposed 7:00 p.m. cutoff; and 2) APS's peak period has shifted over time, to later in the day.[350]

Staff contends that the Settlement Agreement's proposed changes to TOU on-peak hours balance competing interests, and move APS's rate design in the right direction by sending appropriate cost signals to encourage customers to shift load to off-peak hours.[351]

9. Resolution

We agree with Staff that the TOU on-peak period proposed in the Settlement Agreement "strikes that appropriate balance between the [TOU] customer's ability to adjust usage into off-peak

[344] Staff Br. at 23.
[345] Staff Reply Br. at 4.
[346] Staff Br. at 23; Staff Reply Br. at 4.
[347] Staff Reply Br. at 4, citing to Tr. at 341 (APS witness Miessner).
[348] Staff Reply Br. at 4, citing to Hearing Exhibit APS-7 (Rebuttal Testimony of Charles Miessner on the Settlement Agreement) at 9.
[349] Staff Reply Br. at 4.
[350] Staff Br. at 23; Staff Reply Br. at 4, citing to Tr. at 1174, 1176-77 (SWEEP witness Schlegel).
[351] Staff Br. at 23; Staff Reply Br. at 4.

hours while recognizing that demand on APS's system can remain high after 7:00 p.m."[352] The arguments advanced by SWEEP and AARP in favor of rejecting the proposed Settlement Agreement on-peak TOU hours are not convincing on this important point. The Settlement Agreement provides customers with more off-peak hours than TOU customers currently have, and importantly, customers retain the choice to take service under the R-Basic rate plan, if they determine that the on-peak hours, which reflect system costs, are not suited to their individual energy usage patterns.

VI. ADOPTION OF THE SETTLEMENT AGREEMENT

After reviewing the Settlement Agreement in its entirety, as well as the arguments in support of and in opposition to its adoption, we believe the Settlement Agreement is in the public interest and should be adopted, as discussed herein.[353] As the Settlement proponents point out, a broad range of parties representing vastly different interests were able to craft a comprehensive agreement through negotiation and compromise. The Settlement Agreement provides a number of benefits for customers, including: a base rate increase substantially less than originally requested by APS; increased rate options for residential customers, including TOU rates with additional non-peak hours and days; a stay-out provision that precludes APS from seeking another base rate increase prior to June 1, 2019; a pilot program to incent customers to adopt technologies to manage demand and reduce system peak; increased assistance for low-income customers; continuation of a buy-through program for industrial customers; and a collaborative resolution of issues related to DG customers and net metering. When viewed in its totality, the benefits of adopting the Settlement Agreement outweigh the arguments in opposition raised by several non-signatory parties. We will therefore adopt the Settlement Agreement, for the reasons set forth above.

VII. INCENTIVIZING BATTERY STORAGE FOR E-32 L CUSTOMERS

The Settling Parties did not reach agreement on the rate design issue of ratcheted rates for APS's large commercial customers. The interested parties litigated it in this proceeding, and their arguments are set forth here.

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[352] *See* Staff Reply Br. at 4.

[353] As stated out the outset of the discussion, Section 30 of the Settlement Agreement is bifurcated from our Decision today, and will be addressed in a forthcoming Decision.

a. APS's E-32 L and E-32 L TOU Rates

APS's E-32 L and E-32 L TOU rates[354] apply to large commercial customers whose average demand is 401-3,000 kW per month, and include an 80 percent demand ratchet, declining demand blocks, and a decreased off-peak demand charge for the E-32 L TOU rate.[355] These rates were established in APS's prior rate case, where the parties agreed that instead of paying an LFCR to address unrecovered fixed costs, E-32 L and E-32 L TOU customers would take service under rates that included, among other cost-recovery protections, a ratchet.[356] APS states that as an existing approved rate structure, its E-32 L and E-32 L TOU rates are entitled to the legal presumption that they are just and reasonable, absent persuasive evidence to the contrary.[357]

APS states that the differential in the on-peak and the off-peak demand charges, which under the Settlement Agreement's proposed rates would be $5.98/kW on-peak, but only $2.275/kW off-peak, incentivizes customers to shift their consumption to off-peak periods.[358] The ratchet is for 80 percent of the customer's peak demand imposed on the system during APS's peak summer months, and remains in effect for the single year following that customer's summer peak.[359] APS states that ratchets are advantageous because they: (i) mitigate any cost shift; (ii) promote revenue stability; (iii) promote equitable rate design; and (iv) promote efficient use of the system.[360]

APS states that the ratchet is cost based, and poses no barriers to commercial customers to install battery storage.[361] APS asserts that ratcheted rates properly incentivize storage technologies, because reductions in energy usage result in bill savings (due to the fact that reductions in energy usage are not affected by the ratchet); because the ratchet period is a rolling 12 months, such that reductions in demand that occur after the summer peak will result in savings the following summer; and because the ratchet emphasizes the importance of reducing summer demand.[362] APS states that the ratchet

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[354] *See* Settlement Agreement Appendix I.
[355] APS Br. at 33.
[356] APS Reply Br. at 19.
[357] APS Reply Br. at 29, referring to *Tucson Elec. Power Co. v. Ariz. Corp. Comm'n*, 132 Ariz. 240, 242, 645 P.2d 231, 233 (1982); *Litchfield Park Serv. Co. v. Ariz. Corp. Comm'n*, 178 Ariz. 431, 434, 874 P.2d 988, 991 (App. 1994); and *PPL Wallingford Energy LLC v. F.E.R.C.*, 419 F.3d 1194, 1199 (D.C. Cir.2005).
[358] APS Reply Br. at 30, referring to Settlement Agreement Appendix G at 11 of 14.
[359] APS Br. at 28.
[360] *Id.* at 40, citing to Hearing Exhibit Staff-11 (Direct Testimony of Ralph Smith on the Settlement Agreement) at 22-23.
[361] APS Br. at 32-33.
[362] *Id.* at 38.

serves to promote the recovery of costs by the customers who cause them. APS believes that the fact that E-32 L customers install energy efficiency in proportion to other general service customers suggests that the current E-32 L rate structure does not impede customer efforts to reduce load.[363]

APS states that the off-peak demand charge in the E-32 L TOU rate recognizes that significant costs exist year round, during both peak and off-peak periods of the day, and the off-peak demand charge is appropriately set at less than half of the on-peak charge.[364] APS points out that the R-Tech residential rate in the Settlement Agreement also has an off-peak demand charge which serves as a safeguard to ensure that the customer who causes a cost pays that cost.[365] APS contends that off-peak usage drives costs too, and that removing the off-peak demand charge from the E-32 L TOU rate would remove an essential safeguard for cost recovery, and would be inappropriate because it currently allows sophisticated customers the opportunity to shift their load to avoid costs far beyond system savings.[366] APS states that when a technology reduces grid costs, the cost of service savings will equal the bill savings, avoiding shifting of costs to other customers.[367]

AIC supports approval of the E-32 L rates as proposed by APS.[368] AIC asserts that a demand ratchet is a common feature of commercial billing rate design and its purpose is to help ensure that a customer pays its appropriate level of grid costs when demand is billed on a monthly basis, and that for this class of customer, because grid infrastructure is commonly upgraded to serve the customer's specific requirements, the demand ratchet is important for recovering those costs.[369] AIC states that if APS invests in infrastructure to serve a customer with a specific demand requirement, and that customer's demand drops or fluctuates, there is a likelihood that APS's investment costs will be stranded.[370] AIC contends that APS's proposed E-32 L rates reflect APS's consistent advocacy for rates that provide clear and accurate price signals, regardless of the type of technology customers

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[363] APS Reply Br. at 20.
[364] APS Br. at 37, citing to Tr. at 422, 442, 473 (APS witness Miessner) and referring to Hearing Exhibit APS-6 (Direct Testimony of Charles Miessner on the Settlement Agreement) at 19; APS Reply Br. at 30.
[365] APS Br. at 38, citing to Tr. at 802, 803 (APS witness Snook).
[366] APS Br. at 38; APS Reply Br. at 30.
[367] APS Reply Br. at 21-22, citing to Tr. at 372 (APS witness Miessner).
[368] AIC Br. at 7, 11.
[369] *Id.* at 8, citing to Hearing Exhibit APS-6 (Direct Testimony of Charles Miessner on the Settlement Agreement) at 17.
[370] AIC Br. at 8-9, citing to Hearing Exhibit APS-6 (Direct Testimony of Charles Miessner on the Settlement Agreement) at 18 and Tr. at 1000 (Staff witness Ralph Smith).

choose to adopt.[371] AIC states that when costs are appropriately reflected in rates, as AIC contends they are in the E-32 rates, proper price signals are sent to incentivize customers to change behavior to take advantage of that cost-based price signal, for example, by installing energy storage to reduce its demand.[372] AIC believes that rate design should incentivize long term reduction in summertime peak demand in a predictable and sustainable manner, and that the E-32 L rate sends the appropriate price signal to do that while also providing an incentive for customers to adopt storage technology.[373]

EFCA contends that demand ratchets serve as an impediment to the adoption of storage because they act like unavoidable fixed charges and therefore send poor price signals.[374] EFCA asserts that with a demand ratchet, the absence of strong price signals to reduce load during system peak provides no economic incentive for customers to adopt storage,[375] and because of the annual reset of the ratchet, a customer installing storage must wait a full year to recognize the benefit of their storage investment.[376] EFCA states that because the ratchet is set based on a customer's usage during any 15-minute interval in the summer months, a single unexpected or unmitigated demand surge can set the ratchet for the next year, and the customer has no incentive to reduce demand in the current month.[377] EFCA contends that in addition to the ratchet, two other features of the existing rate design fail to foster peak reduction and deployment of storage solutions.[378] EFCA asserts that the first block of declining block demand charges in both existing rates is so small that it is unavoidable, thus acting as an unavoidable fixed charge,[379] and that the off-peak demand charge in the E-32 L TOU rate actually charges customers for shifting peak consumption to system off-peak.[380]

b. EFCA's Proposed Optional E-32 Rate

EFCA proposes that in addition to APS's E-32 L and E-32 L TOU rates, the Commission also adopt its proposed optional non-ratchet tariffs ("Optional E-32 Rates") which would be available to

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[371] AIC Reply Br. at 5.
[372] *Id.*
[373] *Id.*
[374] EFCA Br. at 4-6.
[375] *Id.* at 5-6.
[376] *Id.* at 7.
[377] *Id.* at 6.
[378] *Id.* at 7-9.
[379] *Id.* at 8, citing to Tr. at 1204 (EFCA witness Mark E. Garrett).
[380] EFCA Br. at 8-9, citing to Hearing Exhibit EFCA-4 (Direct Rate Design Testimony of Mark E. Garrett) at 14-15.

customers taking service under APS's E-32 L and E-32 L TOU rates. EFCA's proposed Optional E-32 Rates are shown in the following two tables reproduced from Hearing Exhibit EFCA-14 (Rebuttal Testimony of Mark E. Garrett on the Settlement Agreement) at 15-16:

Table 1: Optional LGS Storage Rates

Source: EFCA 29.1 and EFCA 31.5(c)	Rate Class: E-32-L APS Proposed Settlement kW Rates (with Ratchet)	APS Units	APS Proposed Revenue Settlement	Step 1 - Remove Ratchets: EFCA Proposed No Ratchet	EFCA Units	EFCA Proposed Revenue	Step 2 - Remove Tiers: Avg Rev	Avg Units	EFCA Proposed Rates
Summer Days									
kW Secondary tier 1	$ 25.37	437,397	$11,097,637	$ 26.71	415,527	$11,097,637	$ 58,489,047	2,972,860	$ 19.67
kW Secondary tier 2	17.61	2,691,929	47,391,410	18.53	2,557,333	47,391,410			
kW Primary tier 1	23.05	34,800	802,105	24.26	33,060	802,105	8,030,347	451,488	$ 17.79
kW Primary tier 2	16.41	440,451	7,228,241	17.27	418,428	7,228,241			
kW Transmission tier 1	17.62	2,600	45,822	18.55	2,470	45,822	364,199	28,205	$ 12.91
kW Transmission tier 2	11.75	27,089	318,377	12.37	25,735	318,377			
Proof Summer Demand Revenue			$66,883,593			$66,883,593	$ 66,883,593		
Winter Days									
kW Secondary tier 1	$ 25.37	441,333	$11,197,501	$ 26.71	419,266	$11,197,501	$ 54,325,948	2,746,561	$ 19.78
kW Secondary tier 2	17.61	2,449,784	43,128,447	18.53	2,327,295	43,128,447			
kW Primary tier 1	23.05	35,600	820,544	24.26	33,820	820,544	$ 7,614,387	427,102	$ 17.83
kW Primary tier 2	16.41	413,981	6,793,842	17.27	393,282	6,793,842			
kW Transmission tier 1	17.62	2,400	42,298	18.55	2,280	42,298	$ 343,433	26,621	$ 12.90
kW Transmission tier 2	11.75	25,622	301,135	12.37	24,341	301,135			
Proof Winter Demand Revenue			$62,283,768			$62,283,768	$ 62,283,768		

Table 2: Optional LGS-TOU Storage Rates

Source EFCA 29.1 and EFCA 31.5(c)	Rate Class E-32-TOU-L APS Proposed Settlement kW Rates (with Ratchet)	APS Units	APS Proposed Revenue	Step 1 - Remove Ratchets: EFCA Proposed (No Ratchet)	EFCA Units	EFCA Proposed Revenue kW Rates (No Ratchet)	Step 2 - Remove Tiers and Off Peak kW: Avg Rev	Avg Units	EFCA Proposed Rates
Summer Days									
kW tier 1 - secondary - on	$ 17.51	27,250	$ 477,093	$ 18.43	25,888	$ 477,093	$ 3,678,113	216,890	$ 16.96
kW tier 2 - secondary - on	11.80	201,055	2,371,444	12.42	191,002	2,371,444			
kW tier 1 - secondary - off	6.40	27,223	174,118	6.73	25,862	174,118			
kW tier 2 - secondary - off	3.37	194,498	655,458	3.55	184,773	655,458			
kW tier 1 - primary - on	16.94	5,700	96,535	17.83	5,415	96,535	$ 1,257,187	75,627	$ 16.62
kW tier 2 - primary - on	11.71	73,907	865,451	12.33	70,212	865,451			
kW tier 1 - primary - off	5.68	6,115	34,727	5.98	5,809	34,727			
kW tier 2 - primary - off	3.27	79,607	260,474	3.44	75,627	260,474			
kW tier 1 - transmission - on	15.92	573	9,120	16.75	544	9,120	$ 149,693	10,075	$ 14.86
kW tier 2 - transmission - on	10.48	10,032	105,115	11.03	9,530	105,115			
kW tier 1 - transmission - off	4.87	559	2,723	5.13	531	2,723			
kW tier 2 - transmission - off	3.14	10,435	32,735	3.30	9,913	32,735			
Proof Summer Demand Revenue			$ 5,084,993			$ 5,084,993	$ 5,084,993		
Winter Days									
kW tier 1 - secondary - on	$ 17.51	36,700	$ 642,544	$ 18.43	34,865	$ 642,544	$ 3,681,359	217,795	$ 16.90
kW tier 2 - secondary - on	11.80	192,558	2,271,222	12.42	182,930	2,271,222			
kW tier 1 - secondary - off	6.40	26,700	170,773	6.73	25,365	170,773			
kW tier 2 - secondary - off	3.37	177,098	596,820	3.55	168,243	596,820			
kW tier 1 - primary - on	16.94	5,280	89,422	17.83	5,016	89,422	$ 905,811	54,593	$ 16.59
kW tier 2 - primary - on	11.71	52,186	611,098	12.33	49,577	611,098			
kW tier 1 - primary - off	5.68	5,376	30,530	5.98	5,107	30,530			
kW tier 2 - primary - off	3.27	53,411	174,761	3.44	50,740	174,761			
kW tier 1 - transmission - on	15.92	576	9,168	16.75	547	9,168	$ 171,302	11,747	$ 14.58
kW tier 2 - transmission - on	10.48	11,789	123,525	11.03	11,200	123,525			
kW tier 1 - transmission - off	4.87	576	2,806	5.13	547	2,806			
kW tier 2 - transmission - off	3.04	11,789	35,803	3.20	11,200	35,803			
Proof Winter Demand Revenue			$ 4,758,472			$ 4,758,472	$ 4,758,472		

EFCA contends that APS's current E-32 L rate structure acts as an impediment to the adoption of energy storage technology by sending poor price signals.[381] EFCA claims that its proposed Optional E-32 Storage rate will incentivize deployment of storage technologies immediately and begin offsetting costly infrastructure investments needed to meet APS's projected 50 percent load growth over the next 15 years by shifting E-32 L customers' demand off-peak.[382] EFCA states that the Commission recently ordered UNSE to consider designing rates that match cost causation with revenue recovery and to evaluate methods of revenue recovery that do not involve ratchets,[383] and ordered TEP to file an Optional Rate tariff without a demand ratchet for its large commercial class customers who elect to adopt storage technology.[384] EFCA disagrees with APS's arguments that the UNSE and TEP rate case Decisions should not be given weight in the Commission's determinations on this disputed issue.[385]

EFCA contends that its proposed Optional E-32 Rate is cost-based, revenue neutral, and contrary to APS's claims, will not cause APS to experience stranded costs.[386] EFCA asserts that its proposed Optional E-32 Rate proposal addresses a real and pressing issue,[387] and will not cause a cost shift.[388] EFCA characterizes APS's comparison of the proposed Optional E-32 Rate to net metering as a "scare tactic" without support,[389] and contends that APS's opposition to it is motivated by its business interests, and not its customers,[390] pointing out that the E-32 customers participating in this proceeding have not opposed adoption of the proposed Optional E-32 Rate.[391]

AIC believes that it would be bad public policy to adopt EFCA's Optional E-32 Rate proposal.[392] AIC warns that removing the ratchet would not only put cost recovery at risk,[393] but if adopted, EFCA's rate proposal would cause the same cost shifting problems that net metering did, by maximizing bill savings for individual customers irrespective of the actual reduction in costs to the

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[381] EFCA Br. at 4-8.
[382] *Id.* at 9-11.
[383] *Id.* at 12, citing to Decision No. 75697 at 86.
[384] EFCA Br. at 12, citing to Decision No. 75975 at 188, 193.
[385] EFCA Reply Br. at 16.
[386] EFCA Br. at 13-18.
[387] EFCA Reply Br. at 5.
[388] *Id.* at 13.
[389] EFCA Reply Br. at 4.
[390] *Id.* at 14.
[391] *Id.* at 17.
[392] AIC Br. at 10.
[393] *Id.*, citing to Tr. at 1239 (EFCA witness Mark E. Garrett), 141 (APS witness Lockwood).

utility to serve that customer, and shifting those unrecovered costs to non-storage customers.[394] AIC urges the Commission to instead approve cost-based rates that are technologically neutral, and not vote to eliminate cost-based rates in favor of rates that include an incentive for a particular technology.[395]

AIC argues that EFCA's proposal only addresses third-party interests, in contrast to APS's proposal, which is balanced and takes into account the utility and its customers.[396] AIC states that "EFCA represents 'businesses that develop, provide, and research customers' adoption of residential and commercial distributed energy resources'"[397] and asserts that "EFCA's advocacy on the E-32 demand ratchet issue is intended to directly benefit third-party businesses, not the utility's customers."[398] AIC states that approximately 960 customers take service on the E-32 L rate; they are typically a very sophisticated class of customers; a number of intervenors in this case are members of this class of customers; that none of the intervenors supports EFCA's proposal or objects to APS's proposal; and that EFCA does not represent any of the customers in the class.[399]

AIC is dismissive of EFCA's claim that demand ratchets discourage the adoption of energy storage.[400] AIC argues that a ratchet does not eliminate any potential for first year demand savings from storage, if the storage is installed at the appropriate time; that the sophisticated energy customers in this rate class don't make energy decisions based on first year savings, but over the life of the investment; and that one of the goals of a ratchet is to reduce summer month loads, and using storage to reduce summer load would not reduce demand savings on an annual basis whenever winter loads are lower than summer loads.[401]

AIC argues that although TEP was ordered to implement an optional non-ratcheted rate for its Large General Service ("LGS") customers in future rate cases, that the Commission is not bound to

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[394] AIC Br. at 10, citing to Hearing Exhibit APS-6 (Direct Testimony of Charles Miessner on the Settlement Agreement) at 16.
[395] AIC Br. at 10, citing to Tr. at 140 (APS witness Lockwood).
[396] AIC Br. at 8; AIC Reply Br. at 5.
[397] AIC Br. at 8, citing to Tr. at 1234-35 (EFCA witness Mark E. Garrett).
[398] AIC Br. at 8, citing to Tr. at 1234 (EFCA witness Mark E. Garrett); AIC Reply Br. at 5.
[399] AIC Br. at 8; AIC Reply Br. at 5.
[400] AIC Br. at 9-10.
[401] *Id.*, citing to Hearing Exhibit APS-6 (Direct Testimony of Charles Miessner on the Settlement Agreement) at 16 and Tr. at 346 (APS witness Miessner).

require APS to do so, and that because TEP's and APS's ratchets are not substantially similar, the concerns the Commission may have had in the TEP case are not present in APS's E-32 L rates.[402]

APS recommends that the existing E-32 L and E-32 L TOU rate design be adopted, and that EFCA's proposed Optional E-32 Rate be rejected. APS asserts that EFCA's proposal would "over reward load reduction in the winter months when load reduction is not generally needed."[403] APS asserts that EFCA has failed to explain how battery storage that is dispersed dependent upon sales by EFCA's members could supplant APS's need to plan for and build infrastructure based on system needs.[404] APS states that battery storage is an unproven technology that does not supplant APS's responsibility to plan for and meet peak demand, and APS must stand ready to serve the entire load during peak in the event a battery fails to discharge a customer's needed power for the entire length of its peak period. APS states that being ready to supply 100 percent of a battery customer's peak load is a standby service that requires the same amount of fixed infrastructure needed if the customer never installed battery storage.[405] APS states that the record is bereft of specific evidence regarding the capabilities of behind-the-meter battery storage such as consistent dispatch capability and longevity, when installations would occur, what size the installations would be, and how much system peak load battery customers would actually mitigate, if any.[406] APS states that for system peak to be mitigated, E-32 customers would have to discharge their batteries reliably, every day, and that whether the technology is reliable in this regard is currently unknown.[407]

In response to EFCA's statement that adoption of the Optional E-32 Storage rate will begin offsetting costly infrastructure investments needed to meet APS's projected 50 percent load growth over the next 15 years by shifting E-32 L commercial customers' demand off-peak, APS states that while its 2017 IRP forecasts a 50% increase in residential load, this forecast is a conservative planning estimate, and does not translate into actual system costs; and that EFCA's use of the entire 15 years

[402] AIC Reply Br. at 7.
[403] APS Reply Br. at 17, citing to Tr. at 345-346 (APS witness Miessner).
[404] APS Reply Br. at 17.
[405] *Id.*
[406] APS Reply Br. at 14.
[407] *Id.* at 15.

instead of the compound annual growth rate in residential customers of 2.5 percent to support its optional commercial rate design is misleading and speculative.[408]

APS contends that EFCA's request for special rate treatment for prospective battery energy storage customers is not in the public interest, and can be granted only at the expense of other APS customers, similar to the cost shift caused by the net energy metering ("NEM") structure for existing rooftop solar customers.[409] APS states that EFCA's proposal would remove the basic safeguards from the E-32 L and E-32 L TOU rates that ensure that E-32 L customers pay their proper amount of grid costs, and that the resulting unrecovered costs would be shifted from E-32 L customers who install battery storage to E-32 L customers who have no battery storage.[410] APS points out that no member of the E-32 L customer class, several of whom are active participants in this proceeding, is requesting the change to E-32 L rates, and APS argues that it is likely due to the cost shift that would result from EFCA's proposal that this is the case.[411] APS argues that EFCA is proposing the promotion of a specific technology through rate subsidies that lacks any support from potentially affected customers, and that while it is understandable that EFCA is promoting the installation of a product by one of its members, there is no need to create new problems by disturbing a functioning rate structure that has the broad support of those taking service under it.[412]

APS contends that EFCA's witness acknowledged that EFCA's Optional E-32 Rate proposal would cause a cost shift when he testified that it might be appropriate for customers on that proposed rate to be included in the LFCR to minimize the loss of revenue, and that the LFCR would only spread to all other customers the cost shift responsibility that would rightfully be borne by large commercial customers with battery storage installed.[413] APS asserts that its E-32 L class is particularly vulnerable to cost shifts, because these customers account for 10 percent of APS's total revenues, but constitute

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[408] *Id.* at 16.
[409] APS Br. at 32-33.
[410] *Id.* at 33, 34.
[411] *Id.*
[412] APS Br. at 37.
[413] *Id.* at 35, citing to Tr. at 1249-50 (EFCA witness Mark E. Garrett). EFCA argued on brief that Mr. Garrett also testified that "there is no cost shift emanating from the ratchets." EFCA Reply Br. at 2-3, citing to Tr. at 1215 (EFCA witness Mark E. Garrett). EFCA argues that "Mr. Garrett was clear that he believes it is unnecessary to subject the Optional Rate to the LFCR but that he suggested it was an option for the Commission to consider if it was concerned about this issue in spite of the lack of evidence supporting the lost fixed cost claim." EFCA Reply Br. at 3.

less than 0.1 percent of APS customers.[414] APS states that because each individual E-32 L customer contributes a substantial amount to the grid's fixed costs, the cost shift risk for each battery storage installation is heightened, and due to the fact that there are only a small number of other E-32 L customers onto which unpaid fixed costs are shifted, the consequences of the cost shift are higher for each affected customer.[415] APS asserts that eliminating the ratchet would require that demand rates be increased by $7 million,[416] and making the ratchet optional would require an even larger increase.[417] APS states that because the off-peak demand revenue for the E-32 L class is 22 percent of the total demand revenue, its elimination could be even more significant.[418] APS states that while the cost shifts would not occur immediately, they would begin as soon as the first customer began installing storage and avoiding contributions, under EFCA's Optional E-32 Rate, to the fixed costs necessary to serve them.[419]

APS contends that the LGS ratchets discussed in the recent UNSE and TEP rate Decisions do not offer a useful comparison to the APS's E-32 L ratchets, because they do not function in the same way APS's E-32 L ratchets function.[420] Unlike APS's E-32 L ratchets, both TEP and UNSE's LGS ratchets are based on the highest demands during the preceding 11 months, which includes all the non-summer months, and also apply to non-peak hours of the day.[421] In the UNSE case, affected LGS customers with off-peak loads intervened and registered their complaints about the UNSE LGS ratchet,[422] and the Decision in that case responded to their concerns.[423] APS points out that in the TEP case, TEP sought to create a new medium general service class of service for customers with average demand of 20 kW to 300 kW per month, and to use a ratchet in the rate design for the new class,[424]

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[414] APS Br. at 35.
[415] *Id.*
[416] APS Br. at 36, citing to Hearing Exhibit EFCA-14 (Rebuttal Testimony of Mark E. Garrett on the Settlement Agreement) at 15-16, Tables 1 and 2, referring to APS Response to Data Request EFCA 31.5 (c) in which APS provided the $7 million calculation.
[417] APS Br. at 36, citing to Tr. at 465 (APS witness Miessner); APS Reply Br. at 30.
[418] APS Br. at 36, referring to Hearing Exhibit EFCA-14 (Rebuttal Testimony of Mark E. Garrett on the Settlement Agreement) at 1, Table 2, showing in the APS Proposed Revenue column that the off-peak charges are designed to generate $2,171,728 of the total E-32 L TOU class revenue of $9,843,465.
[419] APS Br. at 36.
[420] *Id.* at 41-43.
[421] *Id.* at 41, citing to Tr. at 350 (Miessner).
[422] APS Br. at 41.
[423] *See* Decision No. 75697 at 86.
[424] APS Br. at 41, citing to Decision No. 75975 at 72-73.

whereas APS's E-32 L rates with ratchets apply to larger customers, with average demand of 401 to 3,000 kW.[425] APS contends that the TEP rate case Decision, which ordered TEP to create an optional non-ratchet rate for TEP's LGS class included no discussion of the cost-shift ramifications of removing ratchets from rate design for larger customers, and does not establish a strong policy disfavoring ratchets, but states that ratchets may "make sense for large customers which tend to have high load factors."[426]

APS argues that the modifications EFCA proposes in this proceeding to the E-32 L ratcheted rate designs, which specifically remove not only the ratchets, but also the declining block rate structure and off-peak demand rate structures, were neither proposed nor considered in the UNSE and TEP rate cases, and that the Commission's direction to TEP to propose a non-ratcheted rate design is far different from EFCA's detailed and broad-sweeping proposal in this proceeding.[427] APS states that EFCA has not explained its contention that tiered demand rates or off-peak demand charges impede adoption of storage technology.[428] APS responds to EFCA's criticisms of the first tier charge as constituting a "fixed" charge as without merit, stating that customers are billed for their usage, and that requiring customers to pay for their usage does not make a charge "fixed."[429] APS asserts that EFCA has also failed to explain how the existence of two demand tiers would impede the development of battery storage, or to prove its contention that it would.[430]

APS contends that EFCA's primary concern, regarding the lack of "first year savings" by customers installing storage is really a business model problem, which could be addressed by timing battery installations to go online prior to the summer billing period, or by structuring contract payments to better match payments with savings.[431] APS suggests that other contractual options could mitigate battery vendors' first year savings issue, such as 1) reducing or eliminating charges in the first year; 2) reducing prices in the off-season; and 3) staging installations so that the first year installation is smaller

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[425] APS Br. at 42.
[426] *Id.*, citing to Decision No. 75975 at 94.
[427] APS Br. at 43.
[428] APS Reply Br. at 28-29.
[429] *Id.* at 29.
[430] *Id.*
[431] APS Br. at 39, citing to Hearing Exhibit APS-6 (Direct Testimony of Charles Miessner on the Settlement Agreement) at 19-22 and referring to Tr. at 459-460 (APS witness Miessner); APS Reply Br. at 20.

and only reduces demand by the 20 percent ratchet amount, with the second-year installation being larger.[432]

APS asserts that it is better for E-32 L customers to understand how ratchets work in conjunction with battery storage, than for incentives that are not tied to reducible costs to be buried in rate design.[433] APS states that the issue here is not whether to incentivize battery storage, but how to do it. APS is opposed to rates that are intentionally designed to help the business model of some intervenors at the expense of APS's customers.[434] APS urges the Commission to take a balanced approach to protect the interests of all customers in the E-32 L class, and not just those who purchase battery storage from EFCA's members.[435]

APS states that customers pay for incentives, and because they will be held responsible financially through rates for any battery storage subsidy, its cost-effectiveness must be quantifiable and reviewable.[436] APS asserts that EFCA's proposal lacks any explanation of how it will achieve meaningful load reduction.[437] APS characterizes EFCA's proposal as the opposite of utility planning – "an unquantified incentive, embedded in rates, funded by customers, and designed to spur the installation of batteries without regard to (i) system location or need; (ii) cost-effectiveness; or (iii) the possibility of more-targeted alternatives."[438]

c. APS's Alternative Proposal for an Up-Front Incentive ("E-32 UFI") Pilot Program

APS contends that if the Commission wishes to incentivize customer-installed batteries beyond the current E-32 L rate design, a transparent incentive mechanism such as its proposed E-32 UFI program, as set forth in Hearing Exhibit APS-33, is a better policy alternative than EFCA's proposed Optional E-32 L Rate. Hearing Exhibit APS-33 is reproduced here for reference:

[432] APS Br. at 39.
[433] *Id.*; APS Reply Br. at 21.
[434] APS Reply Br. at 21.
[435] *Id.*
[436] APS Reply Br. at 26.
[437] *Id.* at 24.
[438] *Id.* at 25, 26.

APS Proposed Pilot for E-32L TOU Customers Installing Storage

1. $2M annual program cap for each year for the period of 2017-2019 funded through the DSMAC adjustor.
    - Eligibility is limited to E-32L customers and must be on a TOU rate
    - Cash incentive amounts would be limited to 50% of individual system cost and would not exceed $100,000 per installation
    - Incentive payments would be paid commensurate with the duration of storage (at the rated continuous power) technology aligned with system benefits as follows:

Storage Duration	Amount of Incentive Paid
5 hours	100%
4 hours	80%
3 hours	60%
2 hours	40%
1 hour	20%

    - All kWh stored and discharged through participating systems would be credited towards APS annual DSM compliance requirements
    - Participating systems must complete all required interconnection approvals prior to operation and include all required metering and communication infrastructure
2. Participating customers are eligible for a one-time demand forgiveness once per year where a single 15-minute demand interval would be omitted. The customer must initiate the request for this adjustment within 30 days of receiving their bill.
3. Upon approval of the storage system interconnection, the existing billing basis for the ratchet value will be reset to reflect the anticipated kW demand reduction from the storage system.

APS states that its proposed E-32 UFI program would address EFCA's first-year savings concern by "(i) offering an up-front cash incentive; (ii) resetting a customer's demand that would be used to establish the ratchet when the customer installs storage based on the design criteria of the

storage technology; and (iii) providing a demand forgiveness once per year to address a circumstance where the equipment does not function as intended."[439]

APS asserts that its proposed E-32 UFI program, added to the existing E-32 L and E-32 L TOU rates, would provide additional incentives for the installation of battery storage while protecting other customers from undue cost shifts, and would avoid creating the same challenges for battery storage that net metering created for rooftop solar.[440] APS states that its proposal places only $2 million at risk, while maintaining the revenue recovery safeguards built into the existing E-32 L rates, to which no E-32 L customer has objected.[441] APS states that the E-32 UFI program would "test whether battery storage technology consistently and reliably reduces peak demand," and would also "provide a means to assess the overall economics of the technology."[442] APS states that the assessments would occur under controlled circumstances, similar to the Settlement Agreement proposed R-Tech program for residential customers.[443]

APS asserts that if the Commission wishes to achieve certain policy objectives related to customer-sited technology, the best course of action is to do so in a transparent manner, which can be tapered as technology costs decline.[444] APS contends that the ability to taper incentives is critical, because without declining incentives, technologies are not forced to improve; technology tends to mature to meet marketplace needs, but the presence of incentives tends to retard the growth and maturity of a technology.[445] APS states that an advantage to incentivizing the installation of battery storage through its proposed E-32 UFI program is that the Commission retains control to increase the amount of the incentives, if $2 million each year does not result in enough battery installations to meet the Commission's policy objectives, and also to reduce the incentives as market costs decline.[446] APS contrasts this with EFCA's proposal, which lacks this flexibility,[447] and asserts that only APS's

[439] APS Br. at 39-40, citing to Tr. at 458 (APS witness Miessner) and 814-816 (APS witness Snook).
[440] APS Br. at 33.
[441] *Id.* at 37.
[442] *Id.*, citing to Tr. at 802-803 (APS witness Snook).
[443] APS Br. at 37, citing to Tr. at 802-803 (APS witness Snook).
[444] APS Reply Br. at 22.
[445] *Id.*, citing to Tr. at 590 (APS witness Bordenkircher).
[446] APS Br. at 37; APS Reply Br. at 24.
[447] APS Reply Br. at 24.

proposal offers the Commission control over a targeted, transparent tool to protect against the risk that incentives will create a "new runaway NEM."[448]

AIC states that if the Commission wants to offer large commercial and industrial customers an option in addition to the currently structured E-32 L rate design, AIC supports APS's proposed E-32 UFI demand side management program as a compromise, where customers would be eligible for an up-front incentive of up to 50 percent of the total system costs or $100,000 depending on the storage duration, the design point, and the number of storage hours.[449] AIC contends that up-front incentives would prevent future controversy regarding the embedded subsidies in EFCA's Optional E-32 Rate proposal.[450] AIC recommends approval of the E-32 UFI program as a sound regulatory policy decision, as opposed to imbedding an incentive in rate design.[451]

EFCA argues that APS's proffered alternative to the Optional E-32 Rate proposal is inadequate, and urges the Commission not to adopt it.[452] EFCA asserts that "the preferred approach to encouraging energy efficiency development is not through incentives designed to overcome barriers, but instead to simply remove the barrier itself."[453] EFCA is critical of APS's E-32 UFI proposal because it retains the ratchet mechanism, the declining block demand charge, and the off-peak demand charge for TOU customers. EFCA characterizes the E-32 UFI proposal as retaining all the impediments to deploying storage that are inherent to the existing rates, but providing subsidies from other ratepayers to overcome those impediments.[454] EFCA asserts that APS presented no evidence to support adoption of the E-32 UFI program,[455] performed no comparative analysis of the E-32 UFI program and the Optional E-32 Rates, and did not determine if any peak reduction would result from its implementation.[456] EFCA charges that the E-32 UFI program is "not a serious attempt at proposing an alternative to a non-ratcheted rate design or addressing peak reduction and should be disregarded."[457] EFCA contends that

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[448] *Id.* at 26.
[449] AIC Br. at 11, citing to Tr. at 812-813 (APS witness Snook).
[450] AIC Br. at 10.
[451] *Id.* at 10, 11.
[452] EFCA Br. at 19-20.
[453] *Id.* at 19, citing to Tr. at 1156-57 (SWEEP witness Schlegel); EFCA Reply Br. at 7.
[454] EFCA Br. at 19.
[455] *Id.*
[456] *Id.*, citing to Tr. at 1187 (APS witness Snook).
[457] EFCA Br. at 19-20.

"even if subsidizing storage was appropriate,"[458] the proposed $2 million annual E-32 UFI subsidy would be inadequate to generate meaningful storage deployment and peak reduction.[459]

APS asserts that EFCA's criticism of the magnitude of the $2 million annual UFI proposal ignores the Commission's ability to increase incentives to achieve its desired objectives.[460] APS contends that the magnitude of the incentives embedded in EFCA's proposal aren't known, but calculates that they "far exceed $2 million annually;"[461] that eliminating the ratchet would require that demand rates be increased by $7 million;[462] and that making the ratchet optional would require an even larger increase.[463]

APS cautions that if customers install batteries as a result of the rate design incentives EFCA proposes, the Commission will never know how much of the value of the incentives has gone to third-party sellers of the technology – whether the price customers paid for the subsidy was too high for the benefit customers received from the subsidy.[464] In addition, the Commission would have no means to scale back the rate design incentive, as it would have with a direct up front incentive.[465] APS also points out that customers, along with EFCA, would very likely want to be grandfathered on the rate design incentive in the future.[466]

d. EFCA's Proposed Modifications to its Optional E-32 Rate Proposal

While asserting that there is no evidentiary support for modifying its proposed Optional E-32 Rate, EFCA asserts that it could easily be modified in order to address APS's criticisms, and EFCA is not opposed to its adoption with modifications set forth in its Initial Closing Brief and again in its Reply Closing Brief.[467] In response to criticisms that its Optional E-32 Rate proposal is too narrowly tailored to benefit only customers utilizing energy storage technology, EFCA states that it is not opposed to

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[458] *Id.* at 19.
[459] *Id.*, citing to Tr. at 1225 ((EFCA witness Mark E. Garrett).
[460] APS Reply Br. at 24.
[461] *Id.* at 23.
[462] APS Br. at 36, citing to Hearing Exhibit EFCA-14 (Rebuttal Testimony of Mark E. Garrett on the Settlement Agreement) at 15-16, Tables 1 and 2, referring to APS Response to Data Request EFCA 31.5 (c) in which APS provided the $7 million calculation.
[463] APS Br. at 36, citing to Tr. at 465 (APS witness Miessner); APS Reply Br. at 30.
[464] APS Reply Br. at 24.
[465] *Id.*
[466] APS Reply Br. at 22-23.
[467] EFCA Br. at 20-21, 23; EFCA Reply Br. at 18-19.

allowing customers adopting other energy efficiency mechanisms, and not only storage, that would meet a minimum kilowatt reduction with their technology to qualify for enrollment.[468] In response to criticisms that its Optional E-32 Rate Proposal is too broad, in that it would allow any size storage battery to qualify, EFCA states that it is not opposed to the Commission setting a minimum requirement for the size of a storage system to qualify.[469] EFCA suggests that an appropriate threshold would be for a customer's storage system to serve, at a minimum, 10 percent of the customer's prior year peak demand.[470] EFCA asserts that this sizing requirement would ensure that participating customers have invested in enough energy storage to provide a meaningful benefit to the grid, but would not "force customers to install too-large of a system that exceeds their needs and would render the investment cost-ineffective."[471] In response to criticisms that its Optional E-32 Rate Proposal would expose APS to under-recovery of its costs, EFCA contends that the only evidence presented in this proceeding demonstrates that before the ratchet was introduced, APS collected all its fixed costs from the E-32 L rate class.[472] EFCA states that in exchange for making its proposed Optional E-32 Rates available, the Commission could make customers on its proposed Optional E-32 Rates again subject to the LFCR.[473]

In its Reply Closing Brief, EFCA offered an additional modification to its proposed Optional E-32 Rates as follows:

> If the Commission wishes to proceed in a very conservative manner one other possibility exists. The Commission could modify the Optional Rates to effectively operate as a pilot program triggering an automatic review to assess its efficacy and impacts. Specifically, EFCA suggests that when and if, prior to the filing of APS' next rate case, the pilot program reaches 15% of existing E-32 L and E-32 L TOU customers by number or when the customers taking service under the Optional Rates have installed battery storage that would be capable [of] reducing peak demand in an amount equal to 15% of total peak demand for the E-32 L and E-32 L TOU classes from the last year before the Optional Rates are put in place, whichever comes first, an automatic Commission review would be triggered. Such a pilot program would give the Commission an opportunity to check in on the progress of the Optional Rate.[474]

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[468] EFCA Br. at 20.
[469] *Id.* at 21.
[470] *Id.*, citing to Tr. at 1223, 1229 (EFCA witness Mark E. Garrett).
[471] *Id.*
[472] EFCA Br. at 21, citing to Hearing Exhibit EFCA-9 (APS Response to EFCA Data Request 33).
[473] EFCA Br. at 21, citing to Tr. at 1228-29 (EFCA witness Mark E. Garrett).
[474] EFCA Reply Br. at 18-19.

The purpose of legal briefs is not to enter new evidence into the record, but to allow parties an opportunity to set forth their legal arguments on evidence presented in a proceeding. Because EFCA waited until the filing of its Reply Closing Brief to make its fourth proffered modification to EFCA's proposed Optional E-32 Rates, the parties had no opportunity to respond to it in any manner. EFCA's Reply Closing Brief proposal does not constitute evidence subject to cross-examination of a sponsoring witness, and no party has had an opportunity to advance legal arguments in response to it.

AIC responded to the three modifications that EFCA proposed to its Optional E-32 Rates as follows:

> Presented for the first time in EFCA's post-hearing brief, no party had an opportunity to cross examine EFCA or APS regarding the impact of those changes on participating and non-participating customers or on any other aspect of the modified rate design. EFCA has the burden of justifying its proposed modifications with record evidence, which – having made the proposals after the hearing in this matter had concluded – it simply cannot do.[475]

AIC also states that the modifications appear to be insufficient to address the concerns APS raised with EFCA's initial proposal.[476] AIC recommends that if the Commission determines that the public interest requires incentives for energy storage for the E-32 customer class, it should adopt APS's proposed E-32 UFI program.[477]

APS asserts that "EFCA would only suggest revisiting the (settlement in the last rate case) decision exempting E-32 L customers from paying the LFCR if lost fixed costs were on the horizon."[478] APS further asserts that applying the LFCR would not avoid a cost shift, but would socialize the lost revenues due to EFCA's proposal by shifting them on to base rates paid by other customers when they are reallocated in the next rate case.[479] APS contends that EFCA's willingness to apply the LFCR to its Optional E-32 Rate Proposal constitutes an admission that it would shift costs.[480]

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[475] AIC Reply Br. at 7. As set forth above in this section, EFCA's witness responded to questions at the hearing regarding potential modifications to its Optional E-32 Rates proposal. *See also* Tr. at 1223, 1228-29, 1246-47, 1249-51, 1256 (EFCA witness Mark Garrett).

[476] *Id.*

[477] *Id.*

[478] APS Reply Br. at 19.

[479] *Id.*

[480] APS Reply Br. at 20.

e. Resolution

While we agree with APS and AIC that the recent UNSE and TEP rate Decisions do not offer a direct comparison to APS's E-32 L ratchets, we also believe that it would be useful to create a new, optional, non-ratcheted, storage-friendly rate. This new, optional rate should eliminate the demand ratchet, off-peak demand charge, and declining block demand charge currently included in APS's E-32L and E-32L TOU rate.

The R-Tech Tariff we approve herein as part of the Settlement and TEP's recently implemented Large General Service Time-of-Use Storage Program (the TEP Tariff) set forth a number of safeguards and restrictions that should be utilized in conjunction with our approval of an optional storage-friendly rate to avoid any negative unintended consequences and ensure a smooth and meaningful implementation of an optional tariff. We find those safeguards and restrictions to be appropriate and necessary and will require that APS adopt them in connection with the new, optional tariff directed in this proceeding. Accordingly, we order that, within 120 days from the date of this order, APS file a new, optional storage-friendly tariff and order that the tariff shall include the following restrictions and safeguards similar to those in both the R-Tech and TEP Tariff:

Program Size

APS's optional Large General Service Time-of-Use Storage Program Tariff (the Optional Tariff) will be capped at a peak demand total of 35,000 kW for installed systems and active interconnection applications, on a first-come first-served basis. Allotments shall be reserved at the time of submittal of a complete interconnection application.

Stakeholder Process

Once 70% of the initial program capacity has been reached, and if such threshold has been reached prior to APS's next general rate case filing, APS will evaluate whether the costs of the program are less than the system benefits it provides. If APS determines that the costs are less than the benefits, APS shall provide notice and promptly convene a meeting of the interested parties to this Docket to discuss the future of the program. If all parties to that discussion agree on a new program size for the Optional Tariff that shall apply until the Commission determines the disposition of the Optional Tariff during APS's next general rate case, APS shall file a notice in this Docket to that effect and the program

shall remain in effect up to the new agreed upon customer participation level, unless the Commission orders otherwise. However, if all parties cannot agree upon a new customer participation level, APS within 90 days of the finalization of the discussions, shall file a request with the Commission to establish the terms and conditions under which the program will continue or terminate. If APS determines that the costs are greater than the system benefits, APS will file a request with the Commission to freeze the program until changes can be made in APS's next general rate case.

Minimum Peak Demand Reduction

To qualify for the Optional Tariff, a customer must install a chemical, mechanical or thermal energy storage system that is capable of allowing the customer to offset a minimum of 20% of their measured peak demand during the On-Peak period. The determination of the measured peak demand for purposes of the calculation will be based on the customer's previous year's measured peak demand during such period prior to installation of storage facilities. If this is a new facility, the calculation of the 20% demand reduction will be determined based on APS's total estimated peak demand designed for the facility.

VAR Support

In order to qualify for the program where a power producing facility is installed, inverters must be capable of and configured to provide VAR support so that a near unity power factor of at least 95% is maintained during operation.

TOU Hours

For purposes of the APS Optional Tariff, the On-Peak period under the program will be determined as the 6 greatest average system demand hours during the previous three years by season. The Off-Peak period will be determined as the 12 lowest average system demand hours during the previous three years by season. All other hours shall be deemed as Remaining Hours.

Annual Reporting

Until such time that a final order is issued in APS's next general rate case, on July 1 of each year APS shall submit an informational filing in the docket, reporting on the status of the APS Optional Tariff. The report will include: (i) the number of customers, both in the current year and cumulatively, that are participating in the program (including the proportion of these customers relative to the entire

large commercial class), (ii) the total peak demand of such customers relative to the initial program allotment of 35,000 kW, (iii) observed peak demand reductions, if any, of customers participating in the program, (iv) recommended changes, if any, to the Time-of Use periods for the program, (v) if available, information regarding the average time to process applications from customers requesting participation in the program, and (vi) current year and cumulative kWh exported to the grid by participating customers.

Rate Design

The APS Optional Tariff shall not include a demand ratchet, Off-Peak demand charge or declining block demand charge. On-Peak billing demand shall be equal to the greatest measured 15 minute interval demand read of the meter during the On-Peak Hours or the Remaining Hours during the billing period. The APS Optional Tariff may include a minimum contract demand provision. The APS Optional Tariff may also include a summer and winter Off-Peak excess demand charge for Off-Peak exceeding 150% of On-Peak billing demand. The customer service charge component of the APS Optional Tariff will be structured to maintain proper price signals to incent peak demand reduction while also ensuring appropriate cost recovery. Storage customers taking service under the APS Optional Tariff that also have distributed generation remain eligible for the EPR-6 net metering rider.

VIII. STORAGE TO BE INCLUDED IN ANALYSES OF NEW RESOURCE OPTIONS

Energy storage is a valuable tool for electric utilities to comply with the state's energy policies. Prioritizing energy storage can likewise help reduce a utility's peak demand and address load and generation challenges while also providing benefits to other parts of the system. All utilities – including APS – should explore these energy storage opportunities on a more regular and specific basis due to the potential to help utilities manage demand while also offering opportunities for new investment and consumer service options.

When acquiring new resources or considering transmission or distribution system upgrades where appropriate, utilities should perform sufficient analyses of resources and transmission and distribution system upgrades that include energy storage such that the full benefits of energy storage are being considered. Energy storage should be compared to baseload resources and non-baseload resources when a utility is considering acquiring a new resource and should be compared to alternative

upgrades when a utility is considering transmission and distribution upgrades. The Commission's definition of "baseload resources" is as follows: resources that provide a continuous supply of electricity and are not used for load-following, which are traditionally operated continuously with high capacity factors. "Non-baseload resources" refer to resources that are used by the utility for load-following, grid support, load reduction, and other services.

IX. WATER ENERGY NEXUS

Water conservation is a key issue facing Arizona, particularly when existing Arizona water utilities are experiencing significant water loss levels. Efforts to reduce water loss levels can also result in benefits from reductions in electric consumption. For example, a reduction in water loss at a water utility could result in a reduction in electricity consumption due to reduced pumping operations. Utilities like APS should explore opportunities to partner with local water utilities in furtherance of reducing both electricity and water consumption.

One such opportunity exists in connection with APS's 2018 Demand Side Management Implementation Plan filing. APS should develop and propose to the Commission, for approval, a program available to water utilities within its service territory that would result in a reduction in water loss, electricity, consumption, or peak demand. APS should evaluate all available opportunities to conserve and more efficiently use water and electricity in tandem and maximize these opportunities in the program it will propose to the Commission. APS should involve the Commission's Water Committee in these efforts. The nexus between electricity consumption and water conservation is an important issue that we anticipate addressing with other electric utilities in future rate cases.

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Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. On January 29, 2016, APS filed a Notice of Intent to File a Rate Case Application and Request to Open Docket.

2. On February 5, 2016, Richard Gayer, Patricia Ferré and Warren Woodward each filed

a Motion to Intervene.

3. On February 17, 2016, by Procedural Order, Richard Gayer, Patricia Ferré and Warren Woodward were granted intervention.

4. On February 22 and March 7, 2016, Mr. Woodward filed comments in the docket.

5. On February 23, 2016, Mr. Gayer filed a Notice of Consent to Email Service.

6. On February 29, 2016, Mr. Woodward filed a Notice of Consent to Email Service.

7. On February 29, 2016, IO filed a Motion to Intervene.

8. On March 7, 2016, Mr. Woodward filed comments in the docket.

9. On March 21, 2016, a Procedural Order was issued granting intervention to IO and granting requests to receive service by email.

10. On April 4, 2016, Freeport and AECC jointly filed a Motion to Intervene and Consent to Email Service.

11. On April 21, 2016, a Procedural Order was issued granting intervention to Freeport and AECC and granting requests to receive service by email.

12. On May 27, 2016, SCHOA filed a Motion to Intervene and a Consent to Email Service.

13. On June 1, 2016, APS filed the Application.

14. On June 3, 2016, WRA filed a Motion for Leave to Intervene and a Consent to Email Service.

15. On June 7, 2016, AIC filed a Motion for Leave to Intervene and a Consent to Email Service.

16. On June 14, 2016, APS filed a Notice of Errata.

17. On June 14, 2016, AURA filed a Motion for Leave to Intervene and Consent to Email Service.

18. On June 14, 2016, a Procedural Order was issued granting interventions to SCHOA, WRA and AIC and granting requests to receive service by email.

19. On June 15, 2016, PORA filed an Application to Intervene and a Consent to Email Service.

20. On June 16, 2016, AriSEIA filed its Application to Intervene and a Consent to Email

Service.

21. On June 16, 2016, ASBA/AASBO jointly filed a Motion for Leave to Intervene.

22. On June 17, 2016, SCHOA filed a Clarification.

23. On June 17, 2016, Cynthia Zwick, in her individual capacity, and ACAA jointly filed a Motion for Leave to Intervene. ACAA also filed a Consent to Email Service.

24. On June 17, 2016, APS filed its Opposition to AURA's Motion for Leave to Intervene.

25. On June 22, 2016, RUCO filed a Motion for Leave to Intervene.

26. On June 22, 2016, APS docketed copies of its lead/lag study and excerpts from the Handy-Whitman Bulletin No. 182 used to calculate its proposed reconstruction cost new less depreciation ("RCND") rate base.

27. On June 22, 2016, SWEEP filed a Motion for Leave to Intervene and a Consent to Email Service.

28. On June 23, 2016, APS filed its Second Notice of Errata.

29. On June 24, 2016, AURA filed its Response in Support of Motion to Intervene.

30. On June 24, 2016, APS filed a copy of the notice it provided to parties of record of the Rate Case Technical Conferences scheduled for July 20, 2016, August 23, 2016, September 29, 2016, and October 26, 2016.

31. On June 27, 2016, Vote Solar filed a Motion for Leave to Intervene and a Consent to Email Service.

32. On June 28, 2016, APS filed its Reply in Opposition to AURA's Motion to Intervene.

33. On June 29, 2016, the ED8/McMullen jointly filed a Motion for Leave to Intervene and a Consent to Email Service.

34. On July 1, 2016, Staff issued a Letter of Sufficiency pursuant to A.A.C. R14-2-103, classifying APS as a Class A utility.

35. On July 1, 2016, AURA filed a Motion to Strike.

36. On July 5, 2016, Kroger filed a Motion for Leave to Intervene and a Consent to Email Service.

37. On July 5, 2016, John William Moore, Jr., filed with the Commission a Motion to

Associate Counsel *Pro Hac Vice* to associate Kurt J. Boehm and Jody Kyler Cohn as counsel for Kroger in this matter.

38. On July 5, 2016, APS filed its Reply in Opposition to AURA's Motion to Strike.

39. July 6, 2016, AURA filed its Response to APS's Reply in Opposition to AURA's Motion to Strike.

40. On July 7, 2016, TEP filed a Motion for Leave to Intervene and a Consent to Email Service.

41. On July 8, 2016, Pima County filed a Motion for Leave to Intervene and a Consent to Email Service.

42. On July 11, 2016, Staff filed a Request for Procedural Schedule.

43. On July 12, 2016, SEIA filed a Motion for Leave to Intervene and a Consent to Email Service.

44. On July 15, 2016, EFCA filed a Motion to Intervene.

45. On July 18, 2016 Walmart filed an Application for Leave to Intervene and a Consent to Email Service.

46. On July 19, 2016, Staff filed a Motion to Consolidate, requesting that this docket be consolidated with Docket No. E-01345A-16-0123.

47. On July 22, 2017, APS filed a copy of the presentation from its second Rate Case Technical Conference.

48. On July 22, 2016, a Rate Case Procedural Order was issued setting the procedural schedule and associated procedural deadlines for this matter, granting intervention to AURA, PORA, AriSEIA, ASBA/AASBO, Cynthia Zwick (in her personal capacity), ACAA, SWEEP, RUCO, Vote Solar, ED8/McMullen, Kroger, TEP, Pima County and SEIA, and granting several requests to receive service by email.

49. On July 28, 2016, Mr. Woodward filed a Motion for Reconsideration of the July 22, 2016 Procedural Order.

50. On July 29, 2016, the IBEW Locals filed an Application for Leave to Intervene.

51. On August 1, 2016, a Procedural Order was issued granting Staff's request to

consolidate the above-captioned dockets, correcting typographical errors in the July 22, 2016 Rate Case Procedural Order, granting interventions to EFCA and Walmart, and granting requests to receive service by email.

52. On August 1, 2016, Mr. Woodward filed comments.

53. On August 1, 2016, Noble Solutions filed an Application for Leave to Intervene.

54. On August 3, 2016, the Alliance filed an Application for Leave to Intervene.

55. On August 3, 2016, FEA filed a Motion for Leave to Intervene.

56. On August 3, 2016, Karen S. White filed with the Commission a Motion to Associate Counsel *Pro Hac Vice* to associate Thomas A. Jernigan as counsel for FEA in this matter.

57. On August 5, 2016, APS filed a Motion for Clarification and Extension of Time.

58. On August 9, 2016, a Procedural Order was issued granting APS's Motion for Clarification and Extension of Time. The Procedural Order also granted intervention to the IBEW Locals, Noble Solutions and the Alliance, and approved a consent to email service.

59. On August 11, 2016, EFCA filed a Consent to Service by Email.

60. On August 15, 2016, Staff filed a Consent to Email Service.

61. On August 17, 2016, Noble Solutions filed a Consent to Email Service.

62. On August 24, 2016, APS filed a copy of the presentation from its second Rate Case Technical Conference.

63. On August 24, 2016, the Districts jointly filed an Application for Leave to Intervene and a Consent to Email Service.

64. On August 25, 2016, Correspondence from Commissioner Bob Burns was filed in the docket.

65. On September 6, 2016, a Procedural Order was issued granting the Districts' Application for Leave to Intervene, and granting requests for service by email.

66. On September 6, 2016, CNE filed an Application for Leave to Intervene.

67. On September 6, 2016, Mr. Woodward filed two sets of comments.

68. On September 9, 2016, APS filed correspondence regarding subpoenas dated August 25, 2016.

69. On September 9, 2016, APS filed a Motion to Sever.

70. On September 9, 2016, APS filed a Motion to Quash, or in the Alternative, to Decline to Hear.

71. On September 12, 2016, APS filed correspondence regarding subpoenas dated August 25, 2016.

72. On September 13, 2016, APS filed an Affidavit of Publication and Proof of Mailing.

73. On September 13, 2016, Correspondence from Commissioner Bob Burns was filed in the docket.

74. On September 27, 2016, Karen S. White filed a Motion to Associate Counsel *Pro Hac Vice* to associate Thomas A. Jernigan as counsel for FEA in this matter pursuant to Arizona Supreme Court Rule 38(a), to which was attached a certification of service indicating that the Motion was served on all parties.

75. On September 30, 2016, Direct Energy filed an Application for Leave to Intervene.

76. On September 30, 2016, APS filed a copy of the presentation from its third Rate Case Technical Conference.

77. On October 3, 2016, Mr. Woodward filed a Notice of Change of Address.

78. On October 3, 2016, EFCA filed a Notice of Deposition of Barbara D. Lockwood.

79. On October 6, 2016, APS filed a Motion for Procedural Conference and Interim Protective Order.

80. On October 7, 2016, Timothy M. Hogan filed Motions to Associate Counsel *Pro Hac Vice* to associate Chinyere Ashley Osuala and David Bender as counsel for Vote Solar in this matter.

81. On October 11, 2016, counsel for Noble Solutions, CNE, and Direct Energy filed a Notice of Change of Address.

82. On October 12, 2016, AARP filed an Application to Intervene and a Motion to Associate Counsel *Pro Hac Vice* to associate John B. Coffman as counsel for AARP in this matter.

83. On October 12, 2016, EFCA filed its Response to APS's Motion for Procedural Conference and Interim Protective Order.

84. On October 13, 2016, Mr. Woodward filed comments.

85. On October 14, 2016, Mr. Woodward filed a Response to Chairman Little's October 4, 2016 Memorandum and Call for Recusal.

86. On October 14, 2016, a Procedural Order was issued granting APS's request for an interim protective order regarding EFCA's October 3, 2016 Notice of Deposition, and setting a procedural conference to be held on October 20, 2016, for the purpose of discussing discovery issues, including but not limited to the deposition of APS witness Barbara D. Lockwood.

87. On October 17, 2016, APS filed a Consent to Email Service.

88. On October 18, 2016, APS filed its Reply in Support of Motion for Procedural Conference and Interim Protective Order.

89. On October 18, 2016, Correspondence from Commissioner Doug Little was filed in the docket.

90. On October 19, 2016, FEA and Vote Solar each filed a Consent to Email Service.

91. On October 19, 2016, AURA filed its Response in Support of the Notice of Deposition.

92. On October 20, 2016, a procedural conference was held as scheduled by the Procedural Order issued October 14, 2016. APS, EFCA, TEP, Walmart, Freeport Minerals, AECC, Noble Solutions, CNE, Direct Energy, PORA, the Alliance, RUCO, and Staff appeared through counsel or lay representative. APS, Noble Solutions, CNE, Direct Energy, EFCA, and Staff provided comments and arguments regarding discovery issues, and the matter was taken under advisement.

93. On October 21, 2016, a Procedural Order was issued granting intervention to AARP, admitting counsel for AARP *pro hac vice* in this matter, and rescheduling the date of the pre-hearing conference in this matter to March 13, 2017.

94. On October 24, 2016, Sedona filed an Application to Intervene and a Consent to Email Service.

95. On October 26, 2016, Mr. Woodward filed his Reply to Commissioner Little's October 18, 2016 Memorandum, and Call for Recusal.

96. On October 27, November 1, November 8, and November 9, 2016, AARP filed Consents to Email Service.

97. On November 2, 2016, ASDA filed an Application to Intervene and a Consent to Email

Service.

98. On November 4, 2016, EFCA filed a Supplemental Statement of Authority.

99. On November 4, 2016, APS filed a copy of the presentation from its fourth Rate Case Technical Conference.

100. On November 9, 2016, APS filed a Response to EFCA's Supplemental Statement of Authority.

101. On November 9, 2016, Sunrun Inc. filed an Application for Leave to Intervene.

102. On November 10, 2016, Coolidge filed an Application for Leave to Intervene.

103. On November 10, 2016, ConservAmerica filed an Application for Leave to Intervene and Consent to Service by Email.

104. On November 10, 2016, Granite Creek jointly filed an Application for Leave to Intervene and a Consent to Email Service.

105. On November 15, 2016, Mr. Woodward filed comments.

106. On November 15, 2016, Sunrun filed a Consent to Email Service.

107. On November 17, 2016, a Procedural Order was issued granting intervention to AARP, Sedona, and ASDA, granting requests for service by email, and setting procedural deadlines regarding the deposition of APS witness Barbara Lockwood.

108. On November 18, 2016, Granite Creek filed a Notice of Change of Address.

109. On November 18, 2016, APS docketed a letter addressed to the Commissioners to which was attached a copy of materials from the presentation from its third Rate Case Technical Conference.

110. On November 21, 2016, APS docketed a copy of the presentation from its rate case Cost of Service Model Technical Session.

111. On November 23, a Procedural Order was issued granting intervention to Sunrun, Coolidge, ConservAmerica, and Granite Creek.

112. On November 28, 2016, Ms. Ferré filed a Consent to Email Service.

113. On November 30, 2016, EFCA filed a Notice of Deposition of Barbara D. Lockwood. The Notice indicated that EFCA and APS settled upon December 15, 2016, at 9:00 a.m. as the date and time of the deposition.

114. On December 2, 2016, AARP filed a Request to Add Courtesy Email.

115. On December 5, 2016, EFCA filed its Emergency Motion to Compel Production of Barbara Lockwood Calendar in Advance of Lockwood Deposition.

116. On December 5, 2016, EFCA filed its Emergency Motion for Expedited Consideration Regarding Emergency Motion to Compel Production of Barbara Lockwood Calendar in Advance of Lockwood Deposition.

117. On December 5, 2016, EFCA filed its Personal Consultation Certificate.

118. On December 7, 2016, APS filed its Response in Opposition to EFCA's Motion to Compel.

119. On December 7, 2016, APS filed its Motion to Compel.

120. On December 7, 2016, Mr. Gayer filed his Direct Testimony.

121. On December 9, 2016, Coolidge filed a Consent to Email Service.

122. On December 12, 2016, EFCA filed its Reply in Support of Emergency Motion to Compel Production of Barbara Lockwood Calendar in Advance of Lockwood Deposition and its Emergency Motion to Compel Production of Report Regarding Rate Impact.

123. On December 13, 2016, by Procedural Order, EFCA's Motion to Compel Production of Barbara Lockwood's Calendar was denied and Energy Freedom Coalition of America was ordered to file, no later than December 16, 2016, its Response to Arizona Public Service Company's December 7, 2016 Motion to Compel.

124. On December 13, 2016, EFCA filed a Notice of Withdrawal of its Emergency Motion to Compel Production of Report Regarding Rate Impact.

125. On December 14, 2016, Sunrun filed a Notice of Withdrawal as Intervenor.

126. On December 14, 2016, Patricia Lee Refo of Snell & Wilmer LLP filed a Notice of Appearance on behalf of APS.

127. On December 16, 2016, AriSEIA filed a Notice of Consent to Email Service.

128. On December 19, 2016, EFCA filed its Response to the Motion to Compel filed by APS.

129. On December 19, 2016, Staff filed a Request for Extension of Filing Deadline.

130. On December 20, 2016, the IBEW Locals filed the Direct Testimony of G. David

Vandever.

131. On December 21, 2016, the FEA filed the Direct Testimony of its witnesses Brian C. Andrews and Michael P. Gorman.

132. On December 21, 2016, Mr. Woodward filed his Direct Testimony.

133. On December 21, 2016, a Procedural Order was issued extending the deadline for the filing of Intervenor Direct Testimony to December 28, 2016, approving the request of Sunrun, Inc. to withdraw as an intervenor, and approving SEIA's consent to email service request.

134. On December 22, 2016, ConservAmerica filed the Direct Testimony of its witness Paul Walker.

135. On December 22, 2016, RUCO filed the Direct Testimony of its witnesses John Cassidy and Frank Radigan.

136. On December 27, 2016, Mr. Woodward filed his Motion to Compel.

137. On December 27, 2016, APS filed its Reply to EFCA's Response to APS's Motion to Compel.

138. On December 27, 2016, CNE and Direct Energy each filed a Consent to Email Service.

139. On December 28, 2016, AIC filed the Direct Testimony of its witness Branko Terzik.

140. On December 28, 2016, ED8/McMullen filed the Direct Testimony of their witness James D. Downing.

141. On December 28, 2016, AECC filed the Direct Testimony of its witness Kevin Higgins.

142. On December 28, 2016, Walmart filed the Direct Testimony of its witness Gregory W. Tillman.

143. On December 28, 2016, SWEEP filed the Direct Testimony of its witness Jeff Schlegel.

144. On December 28, 2016, EFCA filed the Direct Testimony of its witness Mark E. Garrett.

145. On December 28, 2016, Staff filed the Direct Testimony of its witnesses Ralph Smith, David Parcell, Michael Lewis, and Candrea Allen.

146. On December 29, 2016, APS filed its Notice of Intent of Revenue Requirement Settlement Discussions.

147. On December 30, 2016, APS filed its Notice of Filing Supplemental Testimony, to

which was attached the Supplemental Direct Testimony of Jeffrey M. Burke, setting forth APS's proposed valuation of DG exports using the RCP Methodology.

148. On December 30, 2016, EFCA filed its Sur-Response to APS's Motion to Compel; Motion to Strike Reply Brief; and Notice of Lodging Sur-Response.

149. On December 30, 2016, EFCA filed its Notice of Deposition of Charles A. Miessner.

150. On December 30, 2016, EFCA filed its Notice of Deposition of Leland R. Snook.

151. On December 30, 2016, APS filed its Response to Mr. Woodward's Motion to Compel.

152. On January 3, 2017, Mr. Woodward filed his Reply to APS's Response to his Motion to Compel.

153. On January 4, 2017, APS filed its Response to EFCA's Motion to Strike Reply Brief and Notice of Lodging Sur-Response.

154. On January 5, 2017, APS filed a Motion for Protective Order.

155. On January 6, 2017, EFCA filed its Response to APS's Motion for Protective Order.

156. On January 6, 2017, EFCA filed its Emergency Motion for Expedited Consideration Regarding EFCA's Response to APS's Motion for Protective Order.

157. On January 6, 2017, EFCA filed its Amended Notice of Deposition of Leland R. Snook.

158. On January 6, 2017, Staff filed its Notice of Time and Location for Settlement Discussions.

159. On January 9, 2017, Vote Solar filed its Expedited Motion to Strike and for Procedural Order.

160. On January 9, 2017, a Procedural Order was issued setting a procedural conference for the dual purpose of addressing the issue of incorporating the RCP Methodology into this proceeding, as directed by Decision No. 75859; and for hearing oral argument on APS's Motion for Protective Order and responsive pleadings.

161. On January 10, 2017, Mr. Gayer docketed a supplement to his Direct Testimony.

162. On January 11, 2017, the procedural conference convened as scheduled. Appearances were entered by counsel for APS, AIC, ASDA, Vote Solar, SEIA, EFCA, IO, the Alliance, the FEA, ED8/McMullen, PORA, RUCO, and Staff.

163. On January 13, 2017, a Procedural Order was issued rescheduling the hearing date in this matter, along with associated procedural deadlines, in order to facilitate the incorporation of the RCP Methodology into this proceeding pursuant to Decision No. 75859; extending the timeclock by 33 days accordingly; denying Vote Solar's Motion to Strike; and Granting APS's Motion for Protective Order in regard to EFCA's Notices of Deposition of APS witnesses Leland R. Snook and Charles A. Miessner.

164. On January 13, 2017, EFCA filed its Amended Notice of Deposition of Charles A. Miessner.

165. On January 13, 2017, EFCA filed its second Amended Notice of Deposition of Leland R. Snook.

166. On January 18, 2017, PORA filed a request to allow Mr. Robert Miller, PORA Director and Chair of Utilities Liaison Committee, to appear and represent PORA as an alternative designee to act "with or in the stead or absence of" PORA's representatives Albert Gervenack and Rob Robbins in this proceeding.

167. On January 18, 2017, a Procedural Order was issued clarifying that public comment would be taken commencing at 10:00 a.m. on March 22, 2017, which was the publicly noticed first day of hearing in this matter; that the evidentiary portion of this proceeding would commence at 10:00 a.m. on April 24, 2017; and that parties wishing to participate in the hearing were required to attend the April 20, 2017 pre-hearing conference.

168. On January 18, 2017, EFCA filed its Motion for Reconsideration of the Approval of APS's Motion for Protective Order.

169. On January 19, 2017, Mr. Woodward filed his Motion to Compel APS to Fully Answer Woodward's Data Request 2.19.

170. On January 19, 2017, EFCA filed a Motion to Associate Counsel Pro Hac Vice.

171. On January 19, 2017, Commissioner Burns filed correspondence.

172. On January 20, 2017, APS filed its Response to Mr. Woodward's Second Motion to Compel.

173. On January 25, 2017, Mr. Woodward filed a Reply to APS's January 20, 2017

Response.

174. On January 27, 2017, Coolidge filed the Direct Testimony of its witness Rick Miller.

175. On January 27, 2017, Kroger filed the Direct Testimony of its witness Stephen J. Baron on Cost of Service and Rate Design issues.

176. On January 30, 2017, Calpine filed notice of its name change.

177. On January 31, 2017, Freeport and AECC filed a request to remove C. Webb Crockett from the service list in this matter.

178. On February 3, 2017, PORA filed the Direct Testimony of its witness Al Gervenack.

179. On February 3, 2017, the FEA filed the Direct Testimony of its witness Amanda M. Alderson.

180. On February 3, 2017, Walmart filed the Direct Testimony of its witnesses Gregory W. Tillman and Chris Hendrix.

181. On February 3, 2017, AIC filed the Direct Testimony of its witnesses Gary Yaquinto, Branko Terzik and Daniel G. Hansen.

182. On February 3, 2017, RUCO filed the Direct Testimony of its witnesses Frank Radigan and Lon Huber.

183. On February 3, 2017, Vote Solar filed the Direct Testimony of its witness Briana Kobor.

184. On February 3, 2017, ACAA filed the Direct Testimony of its witness Cynthia Zwick.

185. On February 3, 2017, SWEEP filed the Direct Testimony of its witness Jeff Schlegel.

186. On February 3, 2017, SEIA filed the Direct Testimony of its witness R. Thomas Beach.

187. On February 3, 2017, EFCA filed the Direct Testimony of its witnesses James A. Heidell and Mark E. Garrett.

188. On February 3, 2017, Freeport, AECC, Calpine, CNE, and Direct Energy filed the Direct Testimony of their witness Kevin C. Higgins.

189. On February 3, 2017, AURA filed the Direct Testimony of its witnesses Patrick J. Quinn and Scott Rubin.

190. On February 3, 2017, ConservAmerica filed the Direct Testimony of its witness Paul Walker.

191. On February 3, 2017, Staff filed the Direct Testimony of its witnesses Ralph C. Smith and Matt Connolly.

192. On February 6, 2017, a Procedural Order was issued granting Mr. Woodward's First Motion to Compel, granting PORA's Request for authorization of Robert Miller to represent PORA as an additional lay representative in this matter, and admitting Curt Ledford to appear *pro hac vice* in this matter.

193. On February 6, 2017, the IBEW Locals filed the Direct Testimony of their witness G. David Vandever (Rate Design).

194. On February 7, 2017, Walmart filed a Notice of Errata in filing the Direct Testimony of Gregory W. Tillman and Chris Hendrix (Rate Design).

195. On February 7, 2017, the IBEW Locals filed a Motion for Extension of Time and the Direct Testimony of David Vandever.

196. On February 7, 2017, Commissioner Burns filed correspondence.

197. On February 9, 2017, Mr. Woodward filed a Motion for Clarification.

198. On February 9, 2017, APS filed a Notice of Non-Objection to the IBEW Locals' Motion for Extension of Time.

199. On February 9, 2017, APS filed a Response to Mr. Woodward's Motion for Clarification.

200. On February 16, 2017, Karen White, counsel for the FEA, filed a Motion to Associate Counsel Pro Hac Vice.

201. On February 21, 2017, Commissioner Tobin filed correspondence.

202. On February 22, 2017, Chairman Forese filed correspondence.

203. On February 22, Commissioner Burns filed correspondence.

204. On February 24, 2017, APS filed a Request for Extension of Time, and requested expedited consideration.

205. On February 24, 2017, a Procedural Order was issued granting the Request for Extension of Time.

206. On February 24, 2017, Granite Creek filed its Notice of Direct Filing for a Ruling on

Unattended Matters in the Matter of Fuel and Purchased Power Procurement.

207. On February 27, 2017, Chairman Forese filed Correspondence.

208. On February 28, 2017, Mr. Woodward filed his Motion to Compel Compliance with February 6, 2017 Procedural Order.

209. On March 1, 2017, Staff filed its Notice of Filing Settlement Term Sheet. Exhibit B to the Settlement Term Sheet indicated the following parties' support of the Settlement Agreement outlined in the March 1, 2017 Settlement Term Sheet: APS, AIC, the IBEW Locals, ConservAmerica, ASDA, Vote Solar, EFCA, SEIA, AriSEIA, AURA, Direct Energy, Freeport, AECC, Calpine, CNE, the Alliance, Walmart, Kroger, Granite Creek, FEA, Coolidge, ASBA, AASBO, WRA, SCHOA, PORA, ACAA, RUCO, and Staff.

210. On March 2, 2017, Staff filed its Request for Modification of Procedural Schedule.

211. On March 2, 2017, Mr. Woodward filed his Motion for Reconsideration of February 6, 2017 Procedural Order.

212. On March 3, 2017, APS filed its Response to Mr. Woodward's Third Motion to Compel.

213. On March 3, 2016, a Procedural Order was issued Modifying Filing Deadlines.

214. On March 6, 2017, Mr. Woodward filed his Reply to APS's Response.

215. On March 7, 2017, a Procedural Order was issued regarding Public Comment in Douglas Arizona.

216. On March 10, 2017, a Procedural Order was issued denying Mr. Woodward's Motion to Compel Compliance with February 6, 2017 Procedural Order filed on February 28, 2017.

217. On March 10, 2017, APS and Pinnacle West filed a Renewed Motion to Quash.

218. On March 14, 2017, Commissioner Burns filed a Response and Objection to Motion to Quash, or, in the Alternative, to Decline to Hear.

219. On March 15, 2017, a Procedural Order was issued regarding Public Comment in Yuma, Arizona.

220. On March 21, 2017, APS filed a Certification of Publication.

221. On March 21, 2017, Staff filed Direct Testimony of its witness Dennis J. Shumaker.

222. On March 24, 2017, a Procedural Order was issued regarding Public Comment in

Clarkdale, Arizona.

223. On March 24, 2017, a Procedural Order was issued changing the deadline for Publication of the Clarkdale, Arizona Public Comment Session.

224. On March 24, 2017, Commissioner Forese filed Correspondence.

225. On March 24, 2017, Staff filed a Request for an Extension of Time to docket the Settlement Agreement.

226. On March 27, 2017, Commissioner Little filed Correspondence.

227. On March 27, 2017, Commissioner Tobin filed Correspondence.

228. On March 27, 2017, a Settlement Agreement was filed, signed by APS, AIC, the IBEW Locals, ConservAmerica, ASDA, Vote Solar, EFCA, SEIA, AriSEIA, AURA, Direct Energy, Freeport, AECC, Calpine, CNE, the Alliance, Walmart, Kroger, Granite Creek, FEA, Coolidge, ASBA, AASBO, WRA, SCHOA, PORA, ACAA, RUCO, and Staff.

229. On March 28, 2017, a Procedural Order was issued regarding Public Comment in Flagstaff, Arizona.

230. On March 29, 2017, Commissioner Burns filed Correspondence.

231. On March 29, 2017, a Procedural Order was issued changing the venue of the Flagstaff Public Comment Session.

232. On March 30, 2017, APS filed a Certification of Publication.

233. On March 30, 2017, the IBEW Locals filed Direct Testimony of G. David Vandever in Support of Settlement Agreement.

234. On March 31, 2017, Staff docketed a Notice of Filing stating that the remaining appendices to the Settlement Agreement would be filed on April 3, 2017.

235. On March 31, 2017, AURA filed the Direct Testimony of its witness Patrick J. Quinn on the Settlement Agreement.

236. On April 3, 2017, Mr. Gayer filed his Direct Testimony in Opposition to the Settlement Agreement.

237. On April 3, 2017, AIC filed the Direct Testimony of its witness Gary Yaquinto in Support of Settlement Agreement.

238. On April 3, 2017, FEA filed the Direct Testimony of its witness Amanda M. Alderson in Support of the Settlement Agreement.

239. On April 3, 2017, Patricia Ferré filed her Direct Testimony in Opposition to the Settlement Agreement.

240. On April 3, 2017, Mr. Woodward filed his Direct Testimony in Opposition to the Settlement Agreement.

241. On April 3, 2017, Mr. Woodward filed the Direct Testimony of his witness Erik S. Anderson, P.E. in Opposition to the Settlement Agreement.

242. On April 3, 2017, Mr. Woodward filed the Direct Testimony of his witness Dr. Sam Milham, MD, MPH in Opposition to the Settlement Agreement.

243. On April 3, 2017, RUCO filed the Direct Testimony of its witness David P. Tenney in Support of the Settlement Agreement.

244. On April 3, 2017, ASDA filed the Direct Testimony of its witness Sean Seitz in Support of the Settlement Agreement.

245. On April 3, 2017, Staff filed the Direct Testimony of its witnesses Ralph C. Smith and Elijah O Abinah in Support of the Settlement Agreement.

246. On April 3, 2017, SWEEP filed the Direct Testimony of its witness Jeff Schlegel in Opposition to the Settlement Agreement.

247. On April 3, 2017, ConservAmerica filed the Direct Testimony of its witness Paul Walker in Support of the Settlement Agreement.

248. On April 3, 2017, EFCA filed the Direct Testimony of its witness James A. Heidell in Support of the Settlement Agreement.

249. On April 3, 2017, EFCA filed the Direct Testimony of its witness Mark E. Garrett on Commercial and Industrial Customer Rate Design.

250. On April 3, 2017, AARP filed the Direct Testimony of its witness John B. Coffman in Opposition to the Settlement Agreement.

251. On April 3, 2017, AriSEIA filed the Direct Testimony of its witness Sara Birmingham and R. Thomas Beach in Support of the Settlement Agreement.

252. On April 3, 2017, ACAA filed the Direct Testimony of its witness Cynthia Zwick in Support of the Settlement Agreement.

253. April 3, 2017, APS filed the Direct Testimony of its witnesses Barbara Lockwood, Leland Snook and Charles Miessner in Support of the Settlement Agreement.

254. On April 3, 2017, ED8/McMullen filed the Direct Testimony of their witness James D. Downing in Opposition to Settlement Agreement.

255. On April 3, 2017, Freeport, AECC, Calpine, NewEnergy and Direct filed the Direct Testimony of their witness Kevin C. Higgins in Support of the Settlement Agreement.

256. On April 3, 2017, Vote Solar filed the Direct Testimony of its witness Briana Kobor in Support of the Settlement Agreement.

257. On April 3, 2017, Walmart filed the Direct Testimony of its witness Chris Hendrix in Support of Settlement Agreement.

258. On April 3, 2017, Staff filed a Notice of Filing Remaining Appendices to the Settlement Agreement.

259. On April 5, 2017, APS filed a Certification of Publication.

260. On April 6, 2017, a Stipulated Motion was jointly filed in this docket by Staff, RUCO, APS, and the "Solar Parties" (ASDA, AriSEIA, SEIA, Vote Solar, and EFCA), ("Moving Parties") stipulating to the entry of a Protective Order in this docket to govern the treatment of the Joint Solar Cooperation Agreement ("JSCA")[481] as requested by APS, the Solar Parties, and other entities who are not intervenors in this docket. The Moving Parties requested that a Protective Order to Govern the Treatment of the Joint Solar Cooperation Agreement ("JSCA Protective Order") be entered in the form attached to the Stipulated Motion as Exhibit A.

261. On April 7, 2017, Staff filed a Notice of Errata with a revision to the requested JSCA Protective Order.

262. On April 10, 2017, counsel for Calpine, CNE, and Direct Energy filed a Motion to Participate Telephonically in the Prehearing Conference, or in the Alternative, to be Excused from

[481] The JSCA is an agreement between APS, the Solar Parties, and certain other entities who are not intervenors in this case.

Attendance.

263. On April 11, 2017, APS filed a Certification of Publication.

264. On April 11, 2017, Commissioner Burns filed Correspondence.

265. On April 13, 2017, Vote Solar filed a Motion to Participate Telephonically in Prehearing Conference or, in the Alternative, to be Excused from Attendance.

266. On April 14, 2017, a Protective Order was issued.

267. On April 17, 2017, Mary R. O'Grady filed a Motion to Associate Counsel *Pro Hac Vice* to associate Matthew E. Price as counsel for APS and Pinnacle West.

268. On April 17, 2017, Mr. Woodward, APS, Vote Solar and the IBEW Locals filed Responses to Commissioner Burns' April 11, 2017 Correspondence Request.

269. On April 17, 2017, APS filed the Rebuttal Testimony of its witnesses Barbara Lockwood, Leland Snook, Charles Miessner and Scott Bordenkircher on the Settlement Agreement.

270. On April 17, 2017, ConservAmerica filed the Rebuttal Testimony of its witness Paul Walker in Support of the Settlement Agreement.

271. On April 17, 2017, Staff filed the Rebuttal Testimony of its witness Ralph C. Smith in Support of the Settlement Agreement.

272. On April 17, 2017, SWEEP filed the Rebuttal Testimony of its witness Jeff Schlegel in Opposition to the Settlement Agreement.

273. On April 17, 2017, Mr. Woodward filed his Rebuttal Testimony in Opposition to the Settlement Agreement.

274. On April 17, 2017, APS and Pinnacle West filed a Motion to Associate Counsel *pro hac vice.*

275. On April 17, 2017, EFCA filed a Motion for One Day Extension of Reply Testimony of Mark E. Garrett.

276. On April 18, 2017, ED8/McMullen, AriSEIA, RUCO and EFCA filed Responses to Commissioner Burns' April 11, 2017 Correspondence.

277. On April 18, 2017, a Procedural Order was issued admitting counsel *pro hac vice.*

278. On April 18, 2017, EFCA filed the Rebuttal Testimony of its witness Mark E. Garrett.

279. On April 19, 2017, Commissioner Burns filed Correspondence.

280. On April 19, 2017, Elijah Abinah, Director of the Utilities Division, filed Correspondence.

281. On April 19, 2017, APS filed a Jointly-Developed Proposed Witness and Hearing Schedule.

282. On April 19, 2017, APS filed the Testimony Summaries of Barbara Lockwood, Leland Snook, Charles Miessner and Scott Bordenkircher.

283. On April 20, 2017, the City of Sedona filed a Notice of Filing of Correspondence

284. On April 20, 2017, EFCA filed a Notice of Errata.

285. On April 21, 2017, Commissioner Burns filed Correspondence.

286. On April 21, 2017, Commissioner Burns docketed court filings from the Maricopa County Superior Court.

287. On April 21, 2017, Staff filed a Notice of Filing Supplemental Responses.

288. On April 24, 2017, Mr. Gayer filed the Summary of his Testimony.

289. On April 25, 2017, SWEEP filed the Testimony Summary of Jeff Schlegel.

290. On April 26, 2017, APS filed an Objection to Commissioner Burns' Demand for Testimony.

291. On April 26, 2017, Commissioner Burns filed his Emergency Motion for Relief (1) Confirming that the Administrative Law Judge will Facilitate Calling and Questioning of Hearing Witnesses; and (2) Approval of His Counsel Participating in Questioning (Expedited Ruling and Suspension and Continuance of Hearing Requested).

292. On April 26, 2017, ED8/McMullen filed the Testimony Summary of James D. Downing.

293. On April 26, 2017, Staff filed the Testimony Summaries of Ralph C. Smith, Elijah O. Abinah and Dennis J. Schumaker.

294. On April 26, 2017, EFCA filed the Testimony Summary for Mark E. Garrett.

295. On April 27, 2017, RUCO filed the Testimony Summary of David P. Tenney.

296. On April 27, 2017, Mr. Woodward filed the Testimony Summary of Dr. Sam Milham,

MD, MPH.

297. On April 27, 2017, Mr. Woodward filed the Testimony Summary of Erik S. Anderson, PE.

298. On April 27, 2017, Mr. Woodward filed his Testimony Summary.

299. On April 27, 2017, Commissioner Burns filed a Motion for Determination of Disqualification and for Stay of Proceedings Pending Full Investigation.

300. On May 1, 2017, Mr. Gayer filed a Motion to Suspend Proceedings Regarding the 90-Day Fair Notice Issue.

301. On May 4, 2017, APS filed the Declaration of Barbara Lockwood.

302. On May 4, 2017, SWEEP filed a Notice of Filing Corrected SWEEP Exhibit 6 and Related Corrections to SWEEP Exhibit 4.

303. On May 9, 2017, SWEEP filed its Notice of Filing Late Filed SWEEP Exhibits 8A and 8B.

304. On May 11, 2017, Mr. Woodward filed Corrections to Hearings Transcript Prepared by Coash & Coash.

305. On May 15, 2017, Mr. Gayer filed his Initial Closing Brief.

306. On May 17, 2017, APS, AIC, the IBEW Locals, ConservAmerica, ASDA, Vote Solar, EFCA, SEIA, AriSEIA, AURA, AECC, Freeport, Calpine, CNE, Direct Energy, Walmart, FEA, ED8/McMullen, the Districts, ACAA, SWEEP, AARP, Mr. Woodward, RUCO, and Staff filed their Initial Closing Briefs.

307. On May 26, 2017, a Special Open Meeting Revised Notice was docketed.

308. On May 30, 2017, Mr. Gayer filed his Reply Closing Brief.

309. On May 30, 2017, Commissioner Dunn filed Correspondence.

310. On June 1, 2017, APS, AIC, the IBEW Locals, ConservAmerica, AECC, Freeport, EFCA, SEIA, Calpine, CNE, Direct Energy, SWEEP, Mr. Woodward, and Staff filed their Reply Closing Briefs.

311. On June 1, 2017, RUCO filed notice that it would not be filing a Reply Closing Brief.

312. On June 2, 2017, Commissioner Burns filed Correspondence, an Emergency Motion to

Compel Compliance with Investigatory Subpoenas (Expedited Ruling and Suspension and Continuance of Rate Case Proceedings Requested) and an Emergency Renewed Motion for Relief Staying These Rate-Making Proceedings (Expedited Ruling Requested).

313. On June 5, 2017, Commissioner Burns filed a Notice of Errata Regarding Certificate of Service for Emergency Motion to Compel Compliance with Investigatory Subpoenas (Expedited Ruling and Suspension and Continuance of Rate Case Proceedings Requested).

314. On June 15, 2017, APS filed its Opposition to the Emergency Renewed Motion of Commissioner Robert Burns for Relief Staying these Rate-Making Proceedings and its Opposition to Emergency Motion of Commissioner Robert Burns to Compel Compliance with Investigatory Subpoenas.

315. On June 20, 2017, Commissioner Little filed Correspondence.

316. On June 20, 2017, Commissioner Dunn filed a Proposed Interlocutory Order (Discovery Motions).

317. On June 20, 2017, Commissioner Burns filed a Response to Commissioner Dunn's Proposed Interlocutory Order.

318. On June 20, 2017, Commissioner Dunn filed a Proposed Amendment to the Proposed Interlocutory Order.

319. On June 20, 2017, Chairman Forese filed a Proposed Amendment to the Proposed Interlocutory Order.

320. On June 26, 2017, Commissioner Burns filed a letter requesting the docketing of the deposition transcripts of APS witnesses Barbara Lockwood, Charles A. Miessner, and Leland R. Snook.

321. On June 27, 2017, the Commission issued Decision No. 76161.

322. On June 28, 2017, Commissioner Burns filed an Application for Rehearing of Decision No. 76161.

323. On June 29, 2017, FEA filed a Notice of Withdrawal of Attorney-of-Record Capt. Natalie A. Cepak.

324. On June 30, 2017, APS filed a response to Commissioner Burns' request for deposition

transcripts.

325. On July 14, 2017, Commissioner Tobin filed Correspondence.

326. On July 21, 2017, EFCA docketed a letter in response to Commissioner Tobin's July 14, 2107 Correspondence.

Determinations

327. The rates, terms and conditions of the Settlement Agreement are just, fair and reasonable and in the public interest, and should be adopted as set forth in the Settlement Agreement, except that the issues surrounding the Settlement Agreement Proposed AMI Opt-Out program, which were heavily litigated in this proceeding, will be bifurcated from this Decision, and will be addressed in a forthcoming Decision.

328. The fair value of APS's jurisdictional rate base for the test year ending December 31, 2015 is $9,990,561,000.

329. APS's total adjusted test year revenue is $2,888,903,000.

330. A capital structure comprised of 44.2 percent debt and 55.8 percent common equity is appropriate for establishing rates in this matter.

331. A return on common equity of 10.0 percent and an embedded cost of debt of 5.13 percent are appropriate estimates of the cost of capital for establishing rates in this matter.

332. A fair value rate of return of 5.59 percent, which includes a 0.8 percent return on the fair value increment, is appropriate for establishing rates in this matter.

333. APS should be authorized a $362.58 million base rate increase comprised of an increase in its non-fuel base rates of $148.250 million, a fuel base rate decrease of $53.63 million and a transfer of cost recovery from adjustor mechanisms to base rates of $267.95 million.

334. Under the terms of the Settlement Agreement, the average bill impact is 4.54 percent for residential customers, and 1.93 percent for general service customers.

335. A base cost of fuel and power of $0.030168 per kWh is appropriate under the terms of the Settlement Agreement.

336. The record in this matter should remain open as described in the Settlement Agreement.

337. The draft plan that APS files according to Section 27 of the Settlement Agreement

should include a form of notice for customers who are on another rate that informs the customers of their rate options after May 1, 2018, accompanied by information on the estimated bill impact of switching to another rate. For customers who are on another rate, the final approved notice must be provided to the existing customer at least 3 billing cycles prior to May 1, 2018, or the date on which APS's new rate plans commence, whichever event occurs later. It should also include a form of notice to inform new ratepayers subject to the 90-day trial period of their rate options at the conclusion of the trial period, and address a suitable method for delivery of such notice so that such customers will receive the notice shortly after, or concurrently with, their second bill, in order to provide them with sufficient notice should they wish to begin taking service at that time on the R-Basic rate plan instead of a time- or demand-differentiated rate plan.

338. APS should be required to comply with the Staff recommendations in regard to its power procurement procedures and documentation.

339. Optional rates to encourage the adoption of battery storage among APS E-32L and E-32L TOU customers should be added and approved and the tariff shall include the following restrictions and safeguards similar to those in both the R-Tech and TEP Tariff:

Program Size

APS's optional Large General Service Time-of-Use Storage Program Tariff (the Optional Tariff) will be capped at a peak demand total of 35,000 kW for installed systems and active interconnection applications, on a first-come first-served basis. Allotments shall be reserved at the time of submittal of a complete interconnection application.

Stakeholder Process

Once 70% of the initial program capacity has been reached, and if such threshold has been reached prior to APS's next general rate case filing, APS will evaluate whether the costs of the program are less than the system benefits it provides. If APS determines that the costs are less than the benefits, APS shall provide notice and promptly convene a meeting of the interested parties to this Docket to discuss the future of the program. If all parties to that discussion agree on a new program size for the Optional Tariff that shall apply until the Commission determines the disposition of the Optional Tariff during APS's next general rate case, APS shall file a notice in this Docket to that effect and the

program shall remain in effect up to the new agreed upon customer participation level, unless the Commission orders otherwise. However, if all parties cannot agree upon a new customer participation level, APS within 90 days of the finalization of the discussions, shall file a request with the Commission to establish the terms and conditions under which the program will continue or terminate. If APS determines that the costs are greater than the system benefits, APS will file a request with the Commission to freeze the program until changes can be made in APS's next general rate case.

Minimum Peak Demand Reduction

To qualify for the Optional Tariff, a customer must install a chemical, mechanical or thermal energy storage system that is capable of allowing the customer to offset a minimum of 20% of their measured peak demand during the On-Peak period. The determination of the measured peak demand for purposes of the calculation will be based on the customer's previous year's measured peak demand during such period prior to installation of storage facilities. If this is a new facility, the calculation of the 20% demand reduction will be determined based on APS's total estimated peak demand designed for the facility.

VAR Support

In order to qualify for the program where a power producing facility is installed, inverters must be capable of and configured to provide VAR support so that a near unity power factor of at least 95% is maintained during operation.

TOU Hours

For purposes of the APS Optional Tariff, the On-Peak period under the program will be determined as the 6 greatest average system demand hours during the previous three years by season. The Off-Peak period will be determined as the 12 lowest average system demand hours during the previous three years by season. All other hours shall be deemed as Remaining Hours.

Annual Reporting

Until such time that a final order is issued in APS's next general rate case, on July 1 of each year APS shall submit an informational filing in the docket, reporting on the status of the APS Optional Tariff. The report will include: (i) the number of customers, both in the current year and

cumulatively, that are participating in the program (including the proportion of these customers relative to the entire large commercial class), (ii) the total peak demand of such customers relative to the initial program allotment of 35,000 kW, (iii) observed peak demand reductions, if any, of customers participating in the program, (iv) recommended changes, if any, to the Time-of Use periods for the program, (v) if available, information regarding the average time to process applications from customers requesting participation in the program, and (vi) current year and cumulative kWh exported to the grid by participating customers.

Rate Design

The APS Optional Tariff shall not include a demand ratchet, Off-Peak demand charge or declining block demand charge. On-Peak billing demand shall be equal to the greatest measured 15 minute interval demand read of the meter during the On-Peak Hours or the Remaining Hours during the billing period. The APS Optional Tariff may include a minimum contract demand provision. The APS Optional Tariff may also include a summer and winter Off-Peak excess demand charge for Off-Peak exceeding 150% of On-Peak billing demand. The customer service charge component of the APS Optional Tariff will be structured to maintain proper price signals to incent peak demand reduction while also ensuring appropriate cost recovery. Storage customers taking service under the APS Optional Tariff that also have distributed generation remain eligible for the EPR-6 net metering rider.

340. Forest bioenergy has become an increasingly important energy source in Arizona, for many reasons. Forest bioenergy is a carbon-neutral, renewable energy source. It creates energy for the grid while encouraging responsible forest management and reducing the risk of wildfires. Federal agencies like the U.S. Department of Energy, the U.S. Department of Agriculture, and the Environmental Protection Agency have recently been directed to develop policies which recognize these benefits and encourage the use of forest bioenergy as an energy source. The energy community in Arizona should likewise explore the benefits of this important energy source.

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CONCLUSIONS OF LAW

1. APS is a public service corporation within the meaning of Article XV, Sections 3 and 14 of the Arizona Constitution, A.R.S. §§ 40-203, -204, -221, -250, -251, and -361, and A.A.C. R14-2-801 et. seq.

2. The Commission has jurisdiction over APS and the subject matter of the applications.

3. Notice of the application and hearing was provided in accordance with the law.

4. The rate and charges produced by the Settlement Agreement are just and reasonable.

5. Adoption of the Settlement Agreement as discussed herein is in the public interest.

ORDER

IT IS THEREFORE ORDERED that the Settlement Agreement attached hereto as Exhibit A is adopted, as modified herein, except that the issues surrounding the Settlement Agreement Proposed AMI Opt-Out program, which were heavily litigated in this proceeding, will be bifurcated from this Decision, and will be addressed in a forthcoming Decision.

IT IS FURTHER ORDERED that the Settlement Agreement is hereby modified as follows: After September 1, 2018, R-Basic Large will no longer be available to customers who are on another rate.

IT IS FURTHER ORDERED that Arizona Public Service Company is hereby direct to file with the Commission on or before August 18, 2017, revised schedules of rates and charges and Plans of Administration consistent with Exhibit A and the findings herein.

IT IS FURTHER ORDERED that this rate case shall be held open to allow Arizona Public Service Company to file a request that its rates be adjusted no later than January 1, 2019 to reflect its proposed addition of Selective Catalytic Reduction equipment at the Four Corners Generating Station.

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service rendered on and after August 19, 2017. The grandfathering date for customers submitting interconnection applications for DG systems is extended through August 31, 2017.

IT IS FURTHER ORDERED that Arizona Public Service Company shall notify its affected customers of the revised schedules of rates and charges authorized herein by means of an insert in its next regularly scheduled billing and by posting on its website, in a form acceptable to the Commission's

Utilities Division Staff.

IT IS FURTHER ORDERED that Arizona Public Service Company shall implement and comply with the terms of the Settlement Agreement, including filing all reports, studies, and plans as set forth in the Settlement Agreement.

IT IS FURTHER ORDERED that Arizona Public Service Company shall, in future rate cases, impute net revenue growth for any revenue producing plant included in post-test year plant.

IT IS FURTHER ORDERED that as set forth in the Settlement Agreement, Arizona Public Service Company shall not file its next general rate case before June 1, 2019, with a test year ending no earlier than December 31, 2018.

IT IS FURTHER ORDERED that $1.25 million of the revenue requirement increase approved in this order is dedicated to funding Arizona Public Service Company's crisis bill assistance program.

IT IS FURTHER ORDERED that Arizona Public Service Company is hereby authorized to defer, for possible later recovery through rates, all non-fuel costs (as defined herein to include all O&M, property taxes, depreciation, and a return at APS's embedded cost of debt in this proceeding) of owning, operating, and maintaining the Ocotillo Modernization Project and retiring the existing steam generation at Ocotillo. Nothing in this Ordering Paragraph shall be construed in any way to limit the Commission's authority to review the entirety of the project and to make any disallowances thereof due to imprudence, errors or inappropriate application of the requirements of this Decision. The interest component of the deferral shall be set at the embedded cost of debt established in this Decision.

IT IS FURTHER ORDERED that Arizona Public Service Company is authorized to defer for possible later recovery through rates, all non-fuel costs (as defined herein to include all O&M, property taxes, depreciation, and a return at APS's embedded cost of debt in this proceeding) of owning, operating, and maintaining the Selective Catalytic Reduction environmental controls at the Four Corners Power Plant. Nothing in this Decision shall be construed in any way to limit this Commission's authority to review the entirety of the project and to make any disallowances thereof due to imprudence, errors or inappropriate application of the requirements of this Decision.

IT IS FURTHER ORDERED that Arizona Public Service Company is hereby authorized to defer, for future recovery (or credit to customers), the Arizona property tax expense above or below

the test year caused by changes to the applicable composite property tax rate, subject to the provisions set forth in the Settlement Agreement Section 11.

IT IS FURTHER ORDERED that in the event that significant Federal income tax reform legislation is enacted and becomes effective prior to the conclusion of Arizona Public Service Company's next general rate case, and such legislation materially impacts the Company's annual revenue requirements Arizona Public Service Company is hereby authorized to create a rate adjustment mechanism to enable the pass-through of income tax effects to customers, in accordance with the requirements set forth in Section 16 of the Settlement Agreement.

IT IS FURTHER ORDERED that the disposition of collected but unspent DSMAC funds as set forth in the Settlement Agreement is approved, consistent with the discussion herein.

IT IS FURTHER ORDERED that within 15 business days of a Commission Decision in this matter, APS shall file, with Docket Control, a draft Customer Education and Outreach Program ("CEOP") for the Commission Staff's review and approval. Stakeholders will have 10 calendar days to provide comment and APS will have 10 days thereafter to file a final plan. The Commission Staff shall approve a final CEOP. The draft CEOP shall include a proposed form of notice for both customers who are on another rate and new customers that informs the customers of their rate options after May 1, 2018, accompanied by information on the estimated bill impact of switching to another rate. For customers who are on another rate, the final approved notice must be provided to the existing customer at least 3 billing cycles prior to May 1, 2018, or the date on which APS's new rate plans commence, whichever occurs later.

IT IS FURTHER ORDERED that the draft plan that Arizona Public Service Company files according to Section 27 of the Settlement Agreement shall include a form of notice to inform new ratepayers subject to the 90-day trial period of their rate options at the conclusion of the trial period, accompanied by information on the estimated bill impact of switching to another rate, and shall address a suitable method for delivery of such notice so that such customers will receive the notice shortly after, or concurrently with, their second bill, in order to provide them with sufficient notice should they wish to begin taking service at that time on the R-Basic rate plan instead of a time- or demand-differentiated rate plan.

IT IS FURTHER ORDERED that Arizona Public Service Company shall implement the following Staff recommendations within the following timeframes in regard to power procurement procedures and documentation:

Staff Recommendation	Description	Initiation Timeframe
II-1	Perform a study to determine if changes can be made to the coal supply chain to yield some plant efficiencies.	0-6 months
III-1	Improve spreadsheet usage and associated references and cross references on how used.	0-12 months
III-2	Have internal or external auditors audit PSA filings, as they have yet to address PSA filing procedures.	0-18 months
III-3	Incorporate more detailed implementation steps, including sample screen prints, in Monthly PSA Filings documentation, plus risk management documentation, which should be reviewed and modified, as necessary, at least annually.	0-6 months
III-4	Develop formal written documentation for supplemental fuel charges or refunds.	0-6 months

IT IS FURTHER ORDERED that Arizona Public Service Company shall, within 120 days from the date of this order, file a new, optional storage-friendly tariff and that the tariff shall include the following restrictions and safeguards similar to those in both the R-Tech and TEP Tariff:

Program Size

APS's optional Large General Service Time-of-Use Storage Program Tariff (the Optional Tariff) will be capped at a peak demand total of 35,000 kW for installed systems and active interconnection applications, on a first-come first-served basis. Allotments shall be reserved at the time of submittal of a complete interconnection application.

Stakeholder Process

Once 70% of the initial program capacity has been reached, and if such threshold has been reached prior to APS's next general rate case filing, APS will evaluate whether the costs of the program are less than the system benefits it provides. If APS determines that the costs are less than the benefits, APS shall provide notice and promptly convene a meeting of the interested parties to this Docket to discuss the future of the program. If all parties to that discussion agree on a new program size for the Optional Tariff that shall apply until the Commission determines the disposition of the Optional Tariff during APS's next general rate case, APS shall file a notice in this Docket to that effect and the program shall

remain in effect up to the new agreed upon customer participation level, unless the Commission orders otherwise. However, if all parties cannot agree upon a new customer participation level, APS within 120 days of the finalization of the discussions, shall file a request with the Commission to establish the terms and conditions under which the program will continue or terminate. If APS determines that the costs are greater than the system benefits, APS will file a request with the Commission to freeze the program until changes can be made in APS's next general rate case.

Minimum Peak Demand Reduction

To qualify for the Optional Tariff, a customer must install a chemical, mechanical or thermal energy storage system that is capable of allowing the customer to offset a minimum of 20% of their measured peak demand during the On-Peak period. The determination of the measured peak demand for purposes of the calculation will be based on the customer's previous year's measured peak demand during such period prior to installation of storage facilities. If this is a new facility, the calculation of the 20% demand reduction will be determined based on APS's total estimated peak demand designed for the facility.

VAR Support

In order to qualify for the program where a power producing facility is installed, inverters must be capable of and configured to provide VAR support so that a near unity power factor of at least 95% is maintained during operation.

TOU Hours

For purposes of the APS Optional Tariff, the On-Peak period under the program will be determined as the 6 greatest average system demand hours during the previous three years by season. The Off-Peak period will be determined as the 12 lowest average system demand hours during the previous three years by season. All other hours shall be deemed as Remaining Hours.

Annual Reporting

Until such time that a final order is issued in APS's next general rate case, on July 1 of each year APS shall submit an informational filing in the docket, reporting on the status of the APS Optional Tariff. The report will include: (i) the number of customers, both in the current year and cumulatively, that are participating in the program (including the proportion of these customers relative to the entire large

commercial class), (ii) the total peak demand of such customers relative to the initial program allotment of 35,000 kW, (iii) observed peak demand reductions, if any, of customers participating in the program, (iv) recommended changes, if any, to the Time-of Use periods for the program, (v) if available, information regarding the average time to process applications from customers requesting participation in the program, and (vi) current year and cumulative kWh exported to the grid by participating customers.

Rate Design

The APS Optional Tariff shall not include a demand ratchet, Off-Peak demand charge or declining block demand charge. On-Peak billing demand shall be equal to the greatest measured 15 minute interval demand read of the meter during the On-Peak Hours or the Remaining Hours during the billing period. The APS Optional Tariff may include a minimum contract demand provision. The APS Optional Tariff may also include a summer and winter Off-Peak excess demand charge for Off-Peak exceeding 150% of On-Peak billing demand. The customer service charge component of the APS Optional Tariff will be structured to maintain proper price signals to incent peak demand reduction while also ensuring appropriate cost recovery. Storage customers taking service under the APS Optional Tariff that also have distributed generation remain eligible for the EPR-6 net metering rider.

IT IS FURTHER ORDERED that when acquiring any new resource or transmission or distribution upgrade where appropriate, APS shall demonstrate that its analysis of resource and system upgrade options include a storage alternative. In the analysis, APS must demonstrate that it has reasonably considered all of the costs and benefits of each resource or system upgrade option, allowing for comparisons to be made on similar terms and planning assumptions. Energy storage shall also be included as a resource option in any analysis of baseload resources as well as any analysis of non-baseload resources.

IT IS FURTHER ORDERED that APS shall include accurate cost data in its modeling assumptions in connection with the above Ordering Paragraph. APS shall account for the forecasted decline in energy storage costs and ensure that storage resources are modeled in such a way that the Integrated Resource Planning model captures their impact. Costs shall also be transparent by providing

the cost of each technology with and without state and federal tax incentives and/or credits. APS shall also identify and analyze a reasonable, representative range of storage technologies and chemistries.

IT IS FURTHER ORDERED that as part of its 2018 Demand Side Management Implementation Plan filing, APS shall develop and propose to the Commission, for approval, a program available to water utilities within its service territory that would result in a reduction in water loss, electricity, consumption, or peak demand.

IT IS FURTHER ORDERED that APS shall report back to the Commission within 90 calendar days of the docketing of this Order, and provide at least three scenarios for forest bioenergy that examine low-, medium-, and high-use of forest bioenergy. This report shall take into consideration forest thinning activities, and evaluate the costs of said activities, any adjustments that should be made to APS's revenue requirement or power supply adjustor, environmental benefits, and any other relevant information that will help the Commission moving forward. This report shall also include the amount of forest acres affected by each case scenario, as well as projected water savings. In connection with this report, APS is expected to consult with the following parties: Salt River Project; Arizona Department of Water Resources; Arizona State Forester's Office; United States Forest Service; Four Forest Restoration Initiative; and other relevant stakeholders.

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IT IS FURTHER ORDERED that the Commission's Federal Affairs Committee shall review the APS forest bioenergy report and return to the Commission with appropriate recommendations.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN FORESE | COMMISSIONER DUNN

COMMISSIONER TOBIN | COMMISSIONER LITTLE | COMMISSIONER BURNS

DISSENT

IN WITNESS WHEREOF, I, TED VOGT, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 18th day of August 2017.

TED VOGT
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____
TJ/rt

ARIZONA CORPORATION COMMISSION

BOB BURNS
Commissioner

August 16, 2017

RE: Dissenting Opinion in APS Rate Case
Dockets No. E-01345A-16-0036, E-01345A-16-0123

Dear Commissioners, Parties and Stakeholders:

I strongly dissent from this decision, and reiterate the positions I expressed in my earlier motions in this rate case and in my comments raised at relevant Commission Staff and Regular Open Meetings. The analysis I have raised, and the precedent, constitutional and statutory provisions I have cited, all establish that this decision is a violation of my legal rights and obligations to advance the public's interest, and in violation of this Commission's constitutional obligations to the public.

Furthermore, the evidence presented in this case did not justify the rate increase. RUCO, Commission Staff and EFCA all originally testified that the evidence supported a 0% rate increase, or even a rate decrease. This decision takes away customer choice and requires customers to be on time-of-use or demand rates regardless of their needs or desires. Making it more expensive to run air conditioners, do laundry or cook during 3:00-8:00 p.m. on our hot summer days is bad policy.

Fortunately, Arizona law allows the courts to overturn this vote, to require APS to make appropriate refunds to customers, and to eliminate any risks that pro-APS bias or partiality will affect any more rate decisions. I want to assure the Arizona citizens who depend on us daily that I will not succumb to the strategy of APS and the Commissioners, who have accepted their invitation to ignore Arizona customers. I will not allow them to safeguard the improper approval of a rate increase by simply outspending me with the massive amounts of public tax dollars and hard-earned ratepayer monies they have now committed to an army of lawyers. I will continue my struggle to enforce the constitutional rights the framers of our government intended. I will continue my fight to protect the interests of Arizona's utility customers against the unacceptable undue influence by a regulated monopoly that our State's founders expected us to resolutely resist.

The Commission's decision to proceed with a vote approving the APS rate request, especially by a final order that does not remind APS of its potential duty to refund consumer payments should my legal challenges succeed and without imposing a bond requirement to guarantee funding for immediate refunds should they be required, ignores the substantial rate impacts that will detrimentally affect Arizona customers within the next few days. It also violates fundamental constitutional obligations our framers put in place to assure that bias and disqualification issues are fully investigated, disclosed and acted on to protect consumers and parties.

As I stated at the meeting, the citizens who created this Commission and gave it unique powers through our constitution, expected we would consider fully and protect the interests of utility consumers, not our own personal interests. My colleagues' decisions to disregard consumer interests and cast votes approving this rate request fell far short of those expectations, acting outside their legal authority and creating an illegal and unenforceable order and approval.

For these reasons and for all the reasons outlined in my filings in this docket, my comments at Staff and Regular Open Meetings, including the Open Meeting where this decision was approved, I dissent.

Sincerely,

Robert L. Burns
Commissioner

SERVICE LIST FOR: ARIZONA PUBLIC SERVICE COMPANY

DOCKET NO.: E-01345A-16-0036 AND E-01345A-16-0123

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EXHIBIT A

ARIZONA PUBLIC SERVICE COMPANY

DOCKET NOS. E-01345A-16-0036 and E-01345A-16-0123

SETTLEMENT AGREEMENT

MARCH 27 2017

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SETTLEMENT AGREEMENT
ARIZONA PUBLIC SERVICE COMPANY'S REQUEST FOR A RATE INCREASE (DOCKET NO. E-01345-A-0036) AND THE FUEL AND PURCHASED POWER PROCUREMENT AUDIT OF APS (DOCKET NO. E-01345A-16-0123)

The purpose of this Settlement Agreement ("Agreement") is to settle disputed issues related to Arizona Public Service Company's ("APS" or "Company") application to increase its rates (Docket No. E-01345A-16-0036) and the fuel and purchased power procurement audit of APS (Docket No. E-1345A-16-0123). This Agreement is entered into by the following entities:

Arizona Corporation Commission - Utilities Division Staff
Arizona Public Service Company
Residential Utility Consumer Office
Arizona Utility Ratepayer Alliance
Federal Executive Agencies
Arizona Solar Deployment Alliance
Arizona Solar Energy Industries Association
Vote Solar
Solar Energy Industries Association
Arizona School Boards Association and the Arizona Association of School Business Officials
Arizonans for Electric Choice and Competition
Western Resource Advocates
Wal-Mart Stores, Inc. and Sam's West, Inc.
Local Unions 387 and 769 of the International Brotherhood of Electrical Workers, AFL-CIO
Freeport Minerals Corporation
Arizona Community Action Association
The Kroger Co.
Arizona Investment Council
Property Owners & Residents Association, Sun City West
Sun City Home Owners Association
REP America d/b/a ConservAmerica
Constellation New Energy, LLC
Direct Energy Business, LLC
Calpine Energy Solutions, LLC
Arizona Competitive Power Alliance
Energy Freedom Coalition of America
City of Coolidge
Granite Creek Farms, LLC
Granite Creek Power & Gas, LLC

These entities shall be referred to collectively as Signing Parties; a single entity shall be referred to individually as a Signing Party.

I. RECITALS

1.1 APS filed the rate application underlying ACC Docket No. E-01345A-16-0036 on June 1, 2016. On August 6, 2016, the administrative law judge granted a motion to consolidate the Fuel and Purchased Power Procurement Audits, ACC Docket No. E-01345A-16-0123, with APS's rate case. Collectively, these dockets may be referred to herein as the Docket.

1.2 Subsequently, the Commission approved applications to intervene filed by Richard Gayer; Patricia Ferre; Warren Woodward; Arizona Solar Deployment Alliance ("ASDA"); IO Data Centers, LLC ("IO"); Freeport Minerals Corporation (Freeport) and Arizonans for Electric Choice and Competition (collectively, "AECC"); Sun City Home Owners Association ("Sun City HOA"); Western Resource Advocates ("WRA"); Arizona Investment Council ("AIC"); Arizona Utility Ratepayer Alliance ("AURA"), Property Owners and Residents Association, Sun City West ("PORA"); Arizona Solar Energy Industries Association ("AriSEIA"); Arizona School Boards Association ("ASBA") and Arizona Association of School Business Officials ("AASBO") (collectively, "ASBA/AASBO"); Cynthia Zwick, Arizona Community Action Association ("ACAA"); Southwest Energy Efficiency Project ("SWEEP"); the Residential Utility Consumer Office ("RUCO"); Vote Solar; Electrical District Number Eight and McMullen Valley Water Conservation & Drainage District (collectively, "ED8/McMullen"); The Kroger Co. ("Kroger"); Tucson Electric Power Company ("TEP"); Pima County; Solar Energy Industries Association ("SEIA"); the Energy Freedom Coalition of America ("EFCA"); Wal-Mart Stores, Inc. and Sam's West, Inc. (collectively, "Wal-Mart"); Local Unions 387 and 769 of the International Brotherhood of Electrical Workers, AFL-CIO (collectively, "the IBEW Locals"); Noble Americas Energy Solutions LLC ("Noble Solutions"); the Arizona Competitive Power Alliance ("the Alliance"); Electrical District Number Six, Pinal County, Arizona ("ED 6"); Electrical District Number Seven of the County of Maricopa, State of Arizona ("ED "7); Aguila Irrigation District ("AID"); Tonopah Irrigation District ("TID"); Harquahala Valley Power District ("HVPD"); and Maricopa County Municipal Water Conservation District Number One ("MWD") (collectively, Districts); SunRun; the Federal Executive Agencies ("FEA"); Constellation New Energy, Inc. ("CNE"); Direct Energy, Inc. ("Direct Energy"); AARP; the City of Coolidge ("Coolidge"); REP America d/b/a ConservAmerica ("ConservAmerica");

and Granite Creek Power & Gas and Granite Creek Farms LLC (collectively, "Granite Creek"). SunRun subsequently withdrew its intervention.

1.3 APS filed a notice of revenue requirement settlement discussions on December 29, 2016. Revenue requirement settlement discussions began on January 12, 2017; rate design settlement discussions began on February 6, 2017. The settlement discussions were open, transparent, and inclusive of all parties to this Docket who desired to participate. All parties to this Docket were notified of the settlement discussion process, were encouraged to participate in the negotiations, and were provided with an equal opportunity to participate.

1.4 The terms of this Agreement are just, reasonable, fair, and in the public interest in that they, among other things, establish just and reasonable rates for APS customers; promote the reliability of the electric system, as well as the convenience, comfort and safety, and the preservation of health, of the employees and customers of APS consistent with the Commission's obligations under Arizona law; resolve the issues arising from this Docket; and avoid unnecessary litigation expense and delay.

1.5 The Signing Parties believe that this Agreement balances APS's rate increase with benefits for customers. The Signing Parties agree that some of the significant provisions of the Agreement include:

a. A $87.25 million non-fuel, non-depreciation revenue requirement increase, or a reduction of $58.96 million from APS's original application.

b. An average 4.54% bill impact for residential customers compared to an average 7.96% bill impact for residential customers in APS's original application.

c. A refund to customers through the Demand Side Management Adjustor Clause ("DSMAC"), of $15 million in collected, but unspent DSMAC funds to mitigate the first year bill impacts.

d. A rate case stay out, in which APS agrees not to file a new general rate case filing prior to June 1, 2019;

e. A program to expand access to utility owned rooftop solar for low and moderate income Arizonans, Title I Schools, and rural governments;

f. Continuation of a buy-through rate for Industrial and large General Service customers;

g. Continuation of crisis bill assistance for low income customers;

h. More off-peak hours and holidays for time-differentiated rates;

i. A moratorium on new self-build generation until January 1, 2022 and through December 31, 2027 for construction of combined-cycle generating units;

j. An experimental pilot technology rate initially available for up to 10,000 customers;

k. New updated rate designs with rate options for all customers.

l. An educational plan and concerted outreach effort by APS on its various rate plans with transitional rates in place until May 1, 2018 to allow for customer education;

m. Additional discounts for Schools and Military Customers;

n. Resolution of Solar Distributed Generation ("DG") issues for the term of the Settlement Agreement;

o. Agreement by Signing Parties to withdraw any appeals of the Commission's Value of Solar Decisions (Docket Nos. 75859 and 75932).

p. Agreement by Signing Parties to refrain from pursuing actions in any forum that are inconsistent with the provisions of the Settlement Agreement.

1.6 The Signing Parties request that the Commission find that the rates, terms and conditions of this Agreement are just, fair and reasonable and in the public interest in accordance with Article 15, Sections 3 and 14 of the Arizona Constitution and Arizona Revised Statutes Section 40-250 along with any and all other necessary findings, and to approve the Agreement and order that it and the rates contained herein become effective on July 1, 2017.

TERMS AND CONDITIONS

II. RATE CASE STABILITY PROVISION

4.2 APS will not file its next general rate case before June 1, 2019. The test year end date for the base rate increase filing contemplated in this section shall be no earlier than December 31, 2018.

III. RATE INCREASE

3.1. APS shall receive a $87.25 million non-fuel, non-depreciation revenue requirement increase. When the reduction for base fuel of $53.63 million and the increase for depreciation of $61.00 million is taken into account, the result is a net base rate increase of $94.624 million, exclusive of the adjustor transfer described below in Paragraph 3.2.

3.2 APS also requested to transfer amounts collected in adjustor mechanisms to base rates, which is revenue neutral since the adjustor balances will be reduced with the transfer to base rates. After including the transferred adjustor mechanism amount of $267.95 million, the Company's total base rate revenue requirement is $362.58 million ("revenue requirement"). This amount is comprised of: (1) a non-fuel base rate increase of $148.250 million, which includes a return on and of plant that is in service as of December 31, 2016 ("Post-Test Year Plant"), twelve (12) months beyond the test year ending December 31, 2015 (the "2015 Test Year"); (2) a base fuel rate decrease of $53.63 million; and (3) the transfer from adjustor mechanisms of $267.95 million to base rates described in Paragraph VIII herein. When these amounts are netted together, this amounts to a net base rate increase of $94.624 million.

3.3 The Company's jurisdictional fair value rate base used to establish the rates agreed to herein is $9,990,561,000. APS's total adjusted Test Year revenue is $2,888,903,000.

3.4 In future rate cases, APS will agree to impute net revenue growth for any revenue producing plant included in post-test year plant.

IV. BILL IMPACT

4.1 When new rates become effective, customers will have on average a 3.28% bill impact.

a. Residential customers will have on average a 4.54% bill impact.

b. General Service customers will have on average a 1.93% bill impact.

4.2 To mitigate the first year bill impacts, APS will refund to customers through the DSMAC $15 million in collected, but unspent DSMAC funds.

V. COST OF CAPITAL

5.1 An original cost of capital structure comprised of 44.2% debt and 55.8% common equity shall be adopted for ratemaking purposes for this Docket.

5.2 A return on common equity of 10.0% and an embedded cost of debt of 5.13% shall be adopted for ratemaking purposes for this Docket.

5.3 The Signing Parties agree to a fair value rate of return of 5.59% for this Docket, which includes a 0.8% return on the fair value increment.

5.4 The provisions set forth herein regarding the quantification of fair value rate base, fair value rate of return, and the revenue requirement are made for purposes of settlement only and should not be construed as admissions against interest or waivers of litigation positions related to other or future cases.

VI. DEPRECIATION/AMORTIZATION AND DECOMMISSIONING

6.1 APS will lower its proposed annual depreciation expense pro forma on APS's as filed SFR C-2 by $20 million per year, resulting in a $61 million increase in depreciation expense (inclusive of the Cholla 2 Regulatory Asset Amortization), by adjusting its proposed lives/net salvage rates for its distribution accounts and by accelerating the amortization of the present excess depreciation reserves for Palo Verde.

6.2 The annual depreciation expense for the Palo Verde Nuclear Generating Station will be decreased by $21 million.

6.3 The decrease in Palo Verde depreciation not needed to fund the reduction in revenue requirements described in Section 6.1 above ("Excess Amount") will be offset by a more rapid amortization of the Cholla 2 regulatory asset such that there will be no additional impact on APS's revenue requirement in this case.

6.4 Should the Cholla 2 regulatory asset become fully amortized prior to APS's next general rate case, the Excess Amount will be used to accelerate

the recovery of APS's remaining investment in the Navajo Generating Station.

6.5 For purposes of settling this rate case, APS's depreciation rates will be deemed to use the straight-line method, vintage group procedure, and remaining life technique.

6.6 In APS's next rate case, APS will file a depreciation rate study that includes alternative calculations for cost of removal and dismantlement (negative net salvage) using the "FAS 143" discounted net present value method, computed using a discount rate to be agreed upon.

6.7 A copy of APS's agreed upon depreciation rates is attached as Appendix A.

6.8 APS's annual nuclear decommissioning expense proposal will be adopted. A copy of the decommissioning contribution schedule is attached as Appendix B.

6.9 Subject to the discussion herein of Cholla 2, the Company shall use its proposed amortization rates for regulatory assets and liabilities as well as for other intangibles.

VII. FUEL AND POWER SUPPLY ADJUSTMENT PROVISIONS

7.1 The base fuel rate shall be lowered from $0.032071 per kWh as set in the Decision No. 73183 to $0.030168 per kWh. This change shall take effect on the effective date of the new rates contained in this Agreement, in accordance with the Plan of Administration for the Power Supply Adjustor ("PSA") to be approved in this case.

7.2 APS shall be permitted to include chemical costs for lime, ammonia and sulfur that are incurred in the generation process in the PSA.

7.3 APS shall be permitted to include third-party storage expenses in the PSA provided that APS files for approval to include any third-party storage contract with the Commission 90 days before it becomes effective.

7.4 The September 30 Preliminary Annual PSA Rate filing and the December 31 Final Annual PSA Rate calculation filing will be consolidated into one annual reset filing that will occur annually on or before November 30. Unless the Commission otherwise acts on the APS calculation by

February 1, the PSA rate proposed by APS will go into effect with the first billing cycle in February.

7.5 The PSA Plan of Administration shall be amended as necessary to reflect the terms of this Agreement and shall be approved concurrent with the approval of this Agreement. The revised PSA Plan of Administration is attached as Appendix C.

VIII. TRANSFER OF ITEMS FROM ADJUSTMENT MECHANISMS TO BASE RATES

8.1 The Signing Parties agree that certain revenue requirements collected through the Renewable Energy Adjustor Clause ("REAC"), DSMAC Lost Fixed Cost Recovery ("LFCR"), Transmission Cost Adjustor ("TCA"), Environmental Impact Surcharge ("EIS"), Four Corners Rate Rider ("FCRR"), and the System Benefits Charge ("SBC") adjustment mechanisms shall be transferred to base rates and those adjustor rates will be zeroed out or reduced, as proposed by APS herein.

8.2 Adjustor transfers agreed to herein shall include the portion of transmission revenue requirements that was collected in the test year for the TCA, the portion of the lost fixed costs that was collected in the test year for the LFCR; the portion of environmental compliance revenue requirements that was collected in the test year for the EIS; an increase in the portion of energy efficiency expense to be collected in base rates from the DSMAC; the revenue requirement of Arizona Sun related renewable generation, the Schools and Governments Program and the Community Power Project will be transferred from the REAC into base rates; the portion of APS's acquisition of Southern California Edison's share of Four Corners currently collected in the Four Corners Rate Rider; and the portion of the System Benefits reduction that went into effect January 1, 2016 to reflect Palo Verde Unit 2 having been fully funded in the nuclear decommissioning trust. The specific amounts in each adjustor to be transferred to base rates pursuant to this Section are identified in Appendix D. The amounts transferred will be calculated using Staff's revenue conversion factor.

8.3 On the effective date of the new rates contained in this Agreement, the REAC, DSMAC, LFCR, TCA, EIS, FCRR and SBC rates shall be reduced to reflect the removal of the amounts identified in Appendix D.

IX. RATE TREATMENT RELATED TO THE INSTALLATION OF SELECTIVE CATALYTIC REDUCTIONS AT FOUR CORNERS UNITS 4 AND 5

9.1 The parties agree that this Docket shall remain open for the sole purpose of allowing APS to file a request that its rates be adjusted no later than January 1, 2019 to reflect the proposed addition of Selective Catalytic Reduction ("SCR") equipment at Four Corners, as requested in APS's application in this Docket.

9.2 APS shall be authorized by the Commission to defer for possible later recovery through rates, all non-fuel costs (as defined herein to include all O&M, property taxes, depreciation, and a return at APS's embedded cost of debt in this proceeding) of owning, operating and maintaining the Selective Catalytic Reduction environmental controls at the Four Corners Power Plant from the date such controls go into service until the inclusion of such costs into rates. Nothing in this paragraph shall be construed in any way to limit this Commission's authority to review the entirety of the project and to make any disallowances thereof due to imprudence, errors or inappropriate application of the requirements of this Decision. The interest component of the SCR deferral will be set at APS's embedded cost of debt established in this Agreement.

9.3 Any filing seeking a rate adjustment pursuant to Section 9.1 shall include the following schedules: (1) the most current APS balance sheet at the time of filing; (2) the most current APS income statement at the time of filing; (3) an earnings schedule that demonstrates that the operating income resulting from the rate adjustment does not result in a return on rate base in excess of that authorized by this Agreement in the period after the rate adjustment becomes effective; (4) a revenue requirement calculation, including the amortization of any deferred costs; (5) an adjusted rate base schedule; and (6) a typical bill analysis under present and filed rates. The Signing Parties agree to use good faith efforts to process this rate adjustment request such that any resulting rate adjustment becomes effective no later than January 1, 2019, pursuant to Section 9.1.

9.4 The Signing Parties shall not present any issues in the rate adjustment proceeding other than those specifically described in this Section.

9.5 Section 9 is agreed to without prejudice to any position taken by a Signing Party in any other pending proceeding, including ASBA/AASBO v. ACC, 1 CA-CC-15-0001.

X. COST DEFERRAL RELATED TO THE OCOTILLO MODERNIZATION PROJECT

10.1 APS will be authorized to defer for possible later recovery through rates, all non-fuel costs (as defined herein to include all O&M, property taxes, depreciation, and a return at APS's embedded cost of debt in this proceeding) of owning, operating, and maintaining the Ocotillo Modernization Project ("OMP") and retiring the existing steam generation at Ocotillo. Nothing in this paragraph shall be construed in any way to limit the Commission's authority to review the entirety of the project and to make any disallowances thereof due to imprudence, errors or inappropriate application of the requirements of this Decision. The interest component of the Ocotillo deferral will be set at APS's embedded cost of debt established in this Agreement.

10.2 The entire OMP will be in service before the rate effective date of APS's next general rate case, and the entire OMP investment will be addressed and resolved in that proceeding.

10.3 This agreement does not address the prudence of the OMP, and a deferral of the OMP costs does not guarantee recovery of those costs. Consideration of OMP in APS's next general rate case does not create any precedent, guarantee, or certainty regarding the consideration or treatment of post-test year plant.

XI. COST DEFERRAL RELATED TO CHANGES IN ARIZONA PROPERTY TAX RATE

11.1 APS shall be allowed to defer for future recovery (or credit to customers) the Arizona property tax expense above or below the test year caused by changes to the applicable Arizona composite property tax rate.

11.2 The property tax deferral will not accrue interest during the deferral period, unless it is negative, in which case, it will accrue interest in favor of APS's customers at APS's short term debt rate.

11.3 Beginning with the effective date of the Commission decision resulting from APS's next general rate case, any final property tax rate deferral that

has a positive balance will be recovered from customers over 10 years, with a return at APS's short term debt rate, also with a return on any unrefunded negative balance at the same short term debt rate.

11.4 The Signing Parties reserve the right to review APS's property tax deferrals in APS's next general rate case for reasonableness and prudence.

11.5 Prior to the next APS general rate case, APS will meet and confer with Staff, RUCO and other stakeholders regarding the appropriate ratemaking treatment for the two year lag on payment of property taxes for post-test year plant.

XII. COST OF SERVICE STUDY

12.1 APS agrees in its next rate case to make available to parties its cost of service study in an Excel spreadsheet with inputs linked to outputs so that parties can change the inputs as necessary to reflect their position in the case. APS will meet and confer with stakeholders prior to filing to discuss the cost of service format.

12.2 In its next general rate case, APS agrees to perform the Average and Excess methodology to allocate production demand costs to residential and general service classes and then reallocate production demand within the residential sub-classes based on 4CP. This does not preclude APS or other stakeholders from proposing alternative allocation methods.

XIII. NAVAJO GENERATING STATION

13.1 APS will address any potential impacts of the closure of the Navajo Generating Station prior to the filing of APS's next rate case in Docket No. E-00000C-17-0039. To the extent it deems appropriate, APS may request that a separate Docket specific to APS be opened to address any issues pertaining to APS's interest in the Navajo Generating Station.

XIV. ANNUAL WORKFORCE PLANNING REPORT

14.1 APS shall file a workforce planning report with the Commission containing the following information: (i) the identification of each of the specific challenges or issues APS faces regarding workforce planning; (ii) the specific action(s) APS is taking to address each challenge or issue; and (iii) an update of the progress APS has made toward resolving each challenge or issue. The workforce planning report shall be filed on an annual basis, in this Docket, on or before May 31st, until the conclusion

of the next APS general rate case, and shall be limited to the following job classifications: Electrician-Journeyman, Lineman-Journeyman, Technician-E&I, and Operator-Power Plant (a/k/a Auxiliary Operators and Control Operators). At a minimum, the workforce planning report shall set forth: (i) the number of employees then currently holding these positions; (ii) the present mean and median ages of APS's workforce with respect to these job classifications; (iii) the share of retirement-eligible employees, both as a percentage and in absolute terms, in each of these job classifications; and (iv) the anticipated hiring level and attrition level for each of these job classifications.

14.2 The obligation contained in this Section XIV for APS to file a workforce planning report supersedes any prior workforce planning reporting requirement including the requirement in Decision No. 73183.

XV. SELF-BUILD MORATORIUM

15.1 APS will not pursue any new self-build generation option having an in-service date prior to January 1, 2022 unless expressly authorized by the Commission. Such restriction shall extend to December 31, 2027 with regard to the construction of combined-cycle generating units.

15.2 This self-build moratorium does not include any of the following: (1) the OMP; (2) the acquisition of a generating unit or an interest in a generating unit from a non-affiliated merchant or utility generator; (3) the acquisition of generation needed for system reliability when under the circumstances the seeking of prior Commission approval is impossible or impractical; (4) distributed generation or storage of less than 50 MW per location; (5) microgrids irrespective of size; (6) renewable generation; or (7) uprates or repowering of existing APS-owned generation.

15.3 As part of any APS request for Commission authorization to self-build generation, APS will address:

a. The Company's specific unmet needs for additional long-term resources.

b. The Company's efforts to secure adequate and reasonably-priced long-term resources from the competitive wholesale market to meet these needs.

c. The reasons why APS believes those efforts have been unsuccessful, either in whole or in part.

d. The extent to which the request to self-build generation is consistent with any applicable Company resource plans and competitive resource acquisition rules.

e. The anticipated cost of the proposed self-build option in comparison with suitable alternatives available from the competitive market for the relevant analysis period.

15.4 Nothing in this section shall be construed as relieving APS of its obligation to prudently acquire generating resources, including, but not limited to, seeking the above authorization to self-build a generating resource or resources.

15.5 The issuance of any RFP or the conduct of any other competitive solicitation in the future shall not, in and of itself, preclude APS from negotiating bilateral agreements with non-affiliated parties.

XVI. TAX EXPENSE ADJUSTOR MECHANISM

16.1 In the event that significant Federal income tax reform legislation is enacted and becomes effective prior to the conclusion of APS's next general rate case, and such legislation materially impacts the Company's annual revenue requirements, APS will create a rate adjustment mechanism to enable the pass-through of income tax effects to customers.

16.2 This adjustor mechanism has the following elements:

a. The change in revenue requirements due to Federal tax reform will be measured as the change in:

i. The Federal Income Tax Rate (currently 35%) applied to the Company's Adjusted 2015 Test Year;

ii. The annual amortization of any resulting excess deferred income tax regulatory account compared to the Company's Adjusted 2015 Test Year, and;

iii. Permanent income tax adjustments (such as interest expense and/or property tax expense deductibility) compared to those taken in the Company's Adjusted 2015 Test Year.

b. The Company will change retail rates through the Tax Expense Adjustor Mechanism (TEAM).

i. The rate will be computed on a prospective basis each year based on the jurisdictional retail income tax change as compared to the income tax expense used to set rates in this proceeding combined with the Company's projection of jurisdictional retail sales for the coming year. The rate will be filed on December 1st and will become effective with the first billing cycle in March of each year.

ii. The adjustment will be assessed to each customer as an equal per kWh charge.

iii. The adjustor mechanism will include a balancing account such that any under- or over-collected balance will be recovered or refunded in the following year.

iv. Each year's under- or over-collected balance will accrue interest at the Company's applicable cost of short-term debt.

16.3 The TEAM will terminate with the effective date of APS's next general rate case.

16.4 The Plan of Administration for the TEAM is attached as Appendix E.

XVII. RESIDENTIAL RATE DESIGN

17.1 R-XS: Rate Schedule "R-XS" is available to customers without distributed generation using 600 or less kWh per month on average. The Basic Service Charge for R-XS is $10 for the average billing month, calculated at a daily rate of $0.329.

17.2 R-Basic: Rate Schedule "R-Basic" is available to customers without distributed generation using more than 600 kWh but less than 1,000 kWh per month on average. The Basic Service Charge for R-Basic is $15.00 for the average billing month, calculated at a daily rate of $0.493.

17.3 R-Basic Large: Rate Schedule "R-Basic Large" is available to customers without distributed generation using 1,000 kWh per month or more on average. The Basic Service Charge for R-Basic Large is $20.00 for the average billing month, calculated at a daily rate of $0.658.

17.4 TOU-E: Rate Schedule "TOU-E" is available to all customers. The Basic Service Charge for "TOU-E" is $13 for the average billing month, calculated at a daily rate of $0.427. Winter Super Off-peak hours are from 10:00am - 3:00pm. Customers currently on a Time Advantage rate plan will transition to this rate unless they select to voluntarily move to another rate for which they are eligible. For DG customers, the average off-set rate shall be inclusive of the Grid Access Charge described in Section 18.1.

17.5 R-2: Rate Schedule "R-2" is a three-part rate available to all customers. The Basic Service Charge for R-2 is $13 for the average billing month; calculated at a daily rate of $0.427.

17.6 R-3: Rate Schedule R-3 is a three-part rate available to all customers. The Basic Service Charge for R-3 is $13 for the average billing month; calculated at a daily rate of $0.427. Customers currently on the Combined Advantage rate plan will transition to this rate unless they select to voluntarily move to another rate for which they are eligible.

17.7 R-Tech: An Optional R-Tech Pilot Rate Program shall be created that will initially serve up to 10,000 customers. It is a three-part rate that is available to residential customers when the following criteria are met: (1) two or more qualifying primary on-site technologies were purchased within 90 days of the customer enrolling in the rate; or (2) one qualifying primary on-site technology was purchased within 90 days of the customer enrolling in the rate and two or more qualifying secondary on-site technologies. Qualifying technologies are set forth in Rate Schedule R-Tech attached hereto as Appendix F. The Basic Service Charge for R-Tech is $15 for the average billing month, calculated at a daily rate of $0.493.

a. Once 6,000 customers have signed up to take service under this program, and if such threshold has been reached prior to the Company's next general rate case filing, the Company shall provide notice and promptly convene a meeting of the interested parties to this Docket to discuss the future of the Pilot Program. If

each of the parties to that discussion agree on a new customer participation level for the R-Tech Pilot Program that shall apply until the Commission determines the disposition of the R-Tech Pilot Program during the Company's next general rate case the Company shall file a notice in this Docket to that effect and the program shall continue to be offered up to the new agreed upon customer participation level.

b. However, if all parties cannot agree to a new customer participation level, then APS shall file a report on the R-Tech Pilot Program and request that the Commission determine whether to continue, expand, or terminate the program in the Docket within 90 days of the date that 7,000 customers have begun taking service under this program. The Commission will then promptly review the program and determine if it should continue, terminate, or be adjusted.

c. The Signatories have agreed to a rate design for the R-Tech Pilot Rate Program as set forth in Appendix F.

17.8 The on-peak period will be 3:00 pm – 8:00 pm weekdays for TOU-E, R-2, R-3, and R-Tech, excluding holidays specified in Appendix F.

17.9 Attached as Appendix G is the Residential and Commercial rate summary.

XVIII. RESIDENTIAL RATE DESIGN FOR DISTRIBUTED GENERATION CUSTOMERS

18.1 DG customers are eligible for four different rate schedules including all proposed TOU and Demand rates. DG customers that select TOU-E will be subject to a Grid Access Charge as reflected in Appendix F.

18.2 The self-consumption offset rate for TOU-E will be $0.105/kWh, which is inclusive of the Grid Access Charge, but exclusive of taxes and adjustors. This is an approximately $0.120/kWh offset rate after these adjustments. The offset rate is based on the load profile and production profile of APS customers with DG during the test year. Individual customer offset will vary based on individual usage patterns and DG system size, orientation, and production.

18.3 The Resource Comparison Proxy Rate ("RCP") for exported energy established in Decision No. 75859, as amended by Decision No. 75932, will be $0.129/kWh in year one, which is inclusive of undifferentiated

transmission, distribution, and loss components. This export rate was calculated using a 2015 base year with an adjustment to achieve the final export rate. Attached as Appendix H is the RCP Rate Rider, POA and EPR-6 Legacy Rate Rider.

18.4 This first year export rate is the product of settlement negotiations and does not create any precedent, imply any change to the structure of or detail in the Resource Comparison Proxy, or otherwise change any aspect of Decision No. 75859.

18.5 DG customers that file a completed interconnection application before the rate effective date adopted in the Decision in this case shall be grandfathered consistent with Section 18.6 for a period of twenty years, with the twenty year period beginning from the date the system is interconnected with APS.

18.6 As contemplated in Decision No. 75859, grandfathered DG customers will continue to take service under full retail rate net metering and will continue to take service on their current tariff schedule for the length of the grandfathering period, which for APS are rate schedules E-12, ET-1, ET-2, ECT-1, or ECT-2. In its next rate case, APS will propose that the rates on each of these legacy tariffs will be updated with an equal percent increase applied to every rate component equal to the residential average base rate increase approved. In addition, grandfathered DG customers currently served on E-3 or E-4 will continue on the current E-3 or E-4 Rate Riders for as long as they meet the eligibility criteria and/or discontinue participation in the program.

XIX. RESIDENTIAL RATE AVAILABILITY

19.1 All customers may select R-Basic, R-Basic Large, TOU-E, R-2, R-3, R-Tech or R-XS if they qualify until May 1, 2018, except to the extent grandfathered under other sections of this Settlement Agreement. Distributed Generation customers will not be eligible for R-XS, R-Basic or R-Basic Large. After May 1, 2018, R-Basic Large will no longer be available to new customers or customers who are on another rate. New customers after May 1, 2018 may choose TOU-E, R-2, R-3 or if they qualify, R-XS or R-Tech. After 90 days, new customers may opt-out of their current rate and select R-Basic if they qualify. Customers transitioning to R-Basic must stay on that rate for at least 12 months.

XX. COMMERCIAL AND INDUSTRIAL RATE DESIGN

20.1 APS's General Service XS non-demand rate is adopted and attached as Appendix G.

20.2 APS's Aggregation feature and Extra High Load Factor Rate are as proposed by the Company. Copies of these Schedules are attached as Appendix I.

20.3 Economic Development Service Schedule 9 is approved as modified by Staff and is attached as Appendix J.

20.4 There will be no change to the current net metering structure for non-residential solar customers until addressed in a future Value of Solar or other proceeding.

20.5 The Signing Parties agree that issues related to the non-ratchet rate design alternative for C&I remain unresolved by this Agreement, and the Signing Parties agree they may present their respective positions in the hearing scheduled in this proceeding.

20.6 The on-peak period will be 3:00 pm – 8:00 pm weekdays for XS through E32-L, but will remain unchanged for E-35.

XXI. E-32L RATE DESIGN

21.1 APS agrees to redesign E-32 L in a revenue neutral manner to recover an additional amount of $1.36 per kW in the unbundled generation charges.

XXII. SCHOOLS DISCOUNT RATE RIDER

22.1 All public schools and public school districts will be eligible for a new rate rider. If they apply for service under this rate rider they receive a discount of $0.0024/kWh.

XXIII. AG-X

23.1 The capacity reserve charge applicable to AG-X customers will be equal to $5.5398 per kW-month (60% of current FERC demand charge of $9.233 per kW), applied to 100% of the customer's billing demand.

23.2 This charge and other parameters will be re-evaluated in APS's next rate case, including whether AG-X should be evaluated as a separate customer class in the cost of service study.

23.3 AG-X customers must provide 1-year notice to return to APS's cost-of-service rates. At APS's option, customers seeking to return with less notice must pay market-based rates until the 1-year notice period is attained.

23.4 The Administrative Management Fee for the program will be increased to $1.80 per MWh.

23.5 A retail energy imbalance protocol specifically designed to measure how well an AG-X Generation Service Provider ("GSP") is matching its retail buy-through customer load on an hourly basis will replace the FERC energy imbalance protocol. Energy Imbalance will be determined based on each GSP's aggregated hourly customer load.

a. Within the range of +/- 15% each hour or +/- 2 MW, whichever is greater, GSPs would pay based on Schedule 4 of APS's OATT, which now reflects the terms of the CAISO imbalance charges.

b. Greater than 15% each hour or +/- 2 MW, whichever is greater, in addition to the charges in a.above, GSPs would pay a penalty of $3 per MWh.

c. In addition to the imbalance provisions described above, GSPs with 20% of hourly deviations greater than 20% of the scheduled amount occurring in a calendar month will receive a notice of intent to terminate the GSP's eligibility in the program unless remedied. Imbalances of this magnitude and frequency will be deemed "Excessive." Should Excessive imbalances occur again in a subsequent month, within 12 months from the date of the notice, the GSP's eligibility may be terminated. To avoid termination, a GSP must demonstrate to APS that it is operating in good faith to match its resources to its load. In the event of GSP termination, the customer will be required to secure a replacement GSP within 60 days.

23.6 The PSA mitigation will remain in place. However the mitigation is modified such that the resale of capacity and energy displaced by AG-X is established at a flat $1,250,000 per month of off-system sales margins

and excluded from the PSA rather than using a pro-rata share of such margins.

23.7 AG-X will remain at 200 MW but the prior restrictions as to 100 MW from each of the E-32L and E-34/35 rate schedules is eliminated; however, 100 MW would be allocated to 20 MW single-site customers with load factors above 70% unless not fully subscribed during the solicitation process.

23.8 Line losses for scheduling AG-X load will be modified to reflect transmission voltage service when applicable.

23.9 The 10 MW minimum aggregation level will be retained. Current provisions on the size of single site loads eligible for aggregation also will remain in place.

23.10 There will be a new lottery if the service is oversubscribed – otherwise, first come, first served. After the initial re-lottery, if necessary, customers who enter the program will not be required to participate in a subsequent lottery to remain in the program.

23.11 The AG-1 deferral will be recovered over 5 years from all non-residential customer classes, except the street and area lighting customer classes. The amount will be allocated to each class based on adjusted Test Year kWh. APS will not propose a deferral of unmitigated costs resulting from AG-X, if any, nor propose the collection of unmitigated costs resulting from AG-X, if any, before or in its next rate case. Attached as Appendix K is the AG-X rate schedule.

XXIV. MILITARY CUSTOMERS

24.1 The unbundled delivery charge for service at military-primary voltage under rates E-34 and E-35 will be reduced to a level that results in any applicable military customer getting a net impact bill increase equal to the average for all retail customers.

XXV. REVENUE SPREAD

25.1 For the revised revenue requirement, APS will keep the same revenue spread between Residential and General Service classes. However, within General Service, because GS extra small and small customers originally had a near zero net bill impact, the reduction will be spread to all other GS

customers proportionally to the original revenue spread. Attached as Appendix L is the revenue spread/targets summary.

XXVI. EFFECTIVE DATE OF RATE PLANS AND TRANSITION PLAN

26.1 The rate increase will go into effect on the effective date of the Commission's Decision in this case using transition rates which for purposes of this Agreement are defined as existing Residential and extra small General Service rate schedules with updated revenue requirements. Customers will have the opportunity to select any rate which they qualify for, and APS will provide them information on options that would minimize their bill. Customers that do not select a different rate will transition to the updated rate plan most like their existing rate on or before May 1, 2018. At least 90 days before transitioning customers who have not selected a rate, APS will provide a report to the ACC indicating the total number of customers who have not made a selection.

XXVII. FIVE MILLION DSMAC ALLOCATION

27.1 APS will make a one-time allocation of $5 million from over-collected DSMAC funds to DSM programs for education and to help customers manage new rates and rate options including services and tools available to customers to help them manage their utility costs. APS shall file an outreach and education plan and shall provide stakeholders with an opportunity for review and comment on the draft plan prior to completing its final plan.

XXVIII. AZ SUN II

28.1 APS will implement a new program for utility-owned solar distributed generation. The purpose of this program is to expand access to rooftop solar for low and moderate income Arizonans. For this program, distributed generation will be defined as photovoltaic solar generation connected to the distribution system. APS will use third-party solar contractors to install the solar systems. The third-party solar contractors will be competitively selected through an RFP process. APS will own all the generation, renewable energy credits and other attributes from this program.

28.2 All reasonable and prudent costs incurred by APS pursuant to this program will be recoverable through the Renewable Energy Adjustment Clause until the next rate case.

a. Expenses eligible for recovery through the Renewable Energy Adjustment Clause include all O&M expenses, property taxes, marketing and advertising expenses, and the capital carrying costs of any capital investment by APS through this program (depreciation expenses at rates established by the Commission, and return on both debt and equity at the pre-tax weighted average cost of capital).

b. APS may request that the capital costs of the solar systems installed under this program be included in rate base in its next rate case.

c. APS's expenses under this program may be reviewed for prudence in each annual REST docket. Further, if APS includes any of these solar systems in rate base in the next rate case, those systems will be subject to a prudence review in that case.

d. APS will propose a program not less than $10 million per year, and not more than $15 million per year, in direct capital costs for the program. At least 65% of annual program will be dedicated to residential installations as defined in subsection 28.4.b. At the end of nine months of each program year, any unspent funds dedicated to low income residential installations can be used for other eligible customers.

e. Relation to annual REST docket. The program is approved in this Docket, and APS does not need to seek further approval in the REST Docket for the program or the spending authorized herein. However, APS shall report the number of installations, capital costs, and expenses in each annual REST docket. Further, recovery of the expenses through the Renewable Energy Adjustment Clause will be reviewed in the annual REST dockets as described herein.

28.3 This program will be available throughout APS's service area, including in rural Arizona.

28.4 This program is limited to low and moderate income residential APS customers as defined below, as well as non-profits that serve low or moderate income APS residential customers, Title I schools, and rural government customers. Rural government is defined as any state, local or tribal government entity in or serving a rural municipality. Rural Municipality means Arizona incorporated cities and towns with

populations of less than 150,000 (based on U.S. Census Bureau 2010 population data) not contiguous with or situated within a Metro Area. Metro Area means a city with a population of 750,000 or more and its contiguous and surrounding communities.

a. Moderate income is defined as a household earning less than 100% of the median Arizona household income. APS will verify the income of each program participant.

b. Low income is defined as a household with income at or below 200% of the federal poverty level. APS will verify the income of each program participant.

28.5 APS may include any multi-family housing (such as apartment buildings) in the program.

28.6 Each residential APS customer participating in the program, upon installation of the solar system, will receive a bill credit of $10-50 per month applied to their APS bill. APS will work with stakeholders to discuss and determine the reasonable level of bill credit dependent upon type of installation. All other terms and conditions of the customer's rate option will continue to apply.

28.7 This program is approved for a period of three years from and after the date APS files a notice of program commencement in this Docket. APS will file the notice no later than three months after the effective date of the Commission's decision in this Docket. APS agrees to not implement any additional utility-owned residential solar distribution generation programs prior to APS's next general rate case beyond AZ Sun II, as outlined above.

28.8 APS will file a report with the Commission on the status of the program every quarter during the term of the program. The reporting will list the number of installs in each eligible category until the next APS rate case.

XXIX. LIMITED INCOME PROGRAMS

29.1 The E-3 Energy Support Program for limited income customers will be revised to provide eligible customers with a flat 25% bill discount.

29.2 The E-4 Medical Support Program for limited income customers who have life sustaining medical equipment will be revised to provide eligible customers with a flat 35% bill discount.

29.3 APS agrees to fund $1.25 million annually the crisis bill program to assist customers whose incomes are less than or equal to 200% of the Federal Poverty Income Guidelines.

XXX. AMI OPT-OUT/SCHEDULE 1

30.1 The AMI Opt-Out program will be approved as proposed by APS except the fees will be changed to reflect an upfront fee of $50 to change out a standard meter for a non-standard meter and monthly fee of $5. See Service Schedule 1, attached as Appendix M.

30.2 Changes to Schedule 1 are attached in Appendix M.

XXXI. SCHEDULE 3

31.1 APS will create a new classification in Schedule 3: "Rural Municipal Business Developments" which means a tract of land that has (1) been divided into contiguous lots, (2) is owned and developed by a Rural Municipality and, (3) where the Rural Municipality will be the lease-holder for future, permanent lessee applicants.

31.2 Extension Facilities will be installed to Rural Municipal Business Developments on the basis of an Economic Feasibility analysis in advance of an application for service by permanent lessee applicants.

31.3 The refund eligibility period will be seven years (Rather than 5 years that applies to other classifications).

31.4 Advance payment of one-half of the project costs is due before the start of Company construction. The balance of the project cost will be required 7 years from the Execution Date of the agreement if the project has not become economically feasible by the end of the refundable period. Any unrefunded advance balance paid at the start of the project plus the balance of project costs due at the end of the refund period will become a non-refundable contribution in aid of construction 7 years from the Execution Date of the agreement. (Rather than full advance required before start of construction). Changes to Schedule 3 are attached as Appendix N.

XXXII. LOST FIXED COST RECOVERY MECHANISM

32.1 The LFCR opt-out rate option approved in Decision 73183 will be removed.