



Rachael Leonard
Manager
State Regulatory Strategy

Mail Station 9708
PO Box 53999
Phoenix, Arizona 85072-3999
Tel 602-250-2404
Rachael.Leonard@aps.com

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Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

RE: Comments of Arizona Public Service Company (APS or Company)
In the matter of the Commission's Inquiry and Review of the Existing Rate
Classifications and other Potential Issues relating to Data Centers.
Docket No. E-00000A-25-0069

APS provides the following comments in response to the Arizona Corporation Commission's (Commission) inquiry in the above-captioned docket to review rate classifications and issues related to data centers. As noted in Chairman Thompson's April 3, 2025 letter, unprecedented load growth from data centers poses unique challenges to the grid.¹ APS appreciates the Chairman's attention to this issue, which APS believes is of growing concern to the state and our customers.

APS is experiencing significant load growth, particularly from large, high load-factor customers, like data centers. The Company has committed to serving approximately 3,296 MW of data center load, including 1,215 MW from existing facilities, with interest expressed by prospective customers reaching approximately 17,000 MW. The projected magnitude of increased data center load necessitates investments in new resources and infrastructure.

Data centers require tailored solutions due to their unique scale, high load factors and rapid load growth, which makes them distinct from other large customers. Serving data center load requires vast amounts of power at individual sites concentrated within and around load centers, and the rapid pace at which utilities need to serve the growth of data center electric demand differentiates them from other customers. Given these characteristics, data center customers are driving the need to procure new generation resources specifically to serve them.

¹ Docket No. E-00000A-25-0069,
<https://docket.images.azcc.gov/E000042869.pdf?i=1751306445641>.

To address potential risks introduced by the level of resources and infrastructure that must be established to serve this load, APS has evaluated the line extension policy to ensure that costs associated with transmission and distribution infrastructure build-outs are appropriately recovered from these customers. APS has also developed new contract provisions for these customers to implement strict financial protection terms, minimum bill requirements, load ramp projections, and other measures intended to mitigate risk of potential cost shifts for non-data center customers.

In addition, APS's rate design proposal in the Company's June 13, 2025 rate case application recommends additional solutions while ensuring fairness across our customer base. APS's proposed rate design changes are premised on a revised cost allocation method that helps ensure growth-related costs, in particular generation costs, are directly assigned to the customer classes driving these costs, thus meeting customer needs and preventing cost shifts between customer classes. The proposal revises the Company's extra-high load factor (XHLF) rate schedule to ensure that data center customers can be evaluated in their own cost of service class through modified eligibility criteria that would create a rate schedule specifically aligned with their load attributes. Requiring data center customers to take service under XHLF ensures that the costs incurred to serve that growth are not borne by other customer classes.

There is a growing consensus among other jurisdictions on how data centers' growth should be addressed to ensure that non-data center customers do not subsidize the costs of that rapid growth. While the approaches to achieve this goal vary (such as ensuring there is a direct assignment of costs, treating data centers as a separate customer class, and standardizing contract terms, among others), they all aim to protect non-data center customers from having to pay for the costs associated with large load customer growth.

Through Commission regulatory policy, customer contractual protections, and reforming rates for high-load factor customers, Arizona can ensure that costs are fairly allocated – to ensure growth pays for growth – and large, high-load factor customers do not shift costs to other customers. APS believes there are further opportunities to explore transmission opportunities and looks forward to discussing this as part of this docket. APS appreciates the Chairman opening this docket, and looks forward to engaging with the Commission, Commission Staff, and stakeholders in consideration of these important issues.

Please let me know if you have any questions.

Sincerely,

/s/ Rachael Leonard

Rachael Leonard

RL/me

cc: Barbara Keene
Ranelle Paladino