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BEFORE THE ARIZONA CORPORATION COMMISSION
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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
UNS ELECTRIC, INC. THE
ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE
OF THE PROPERTIES OF UNS ELECTRIC,
INC. DEVOTED TO ITS OPERATIONS
THROUGHOUT THE STATE OF ARIZONA
AND REQUEST FOR APPROVAL OF
RELATED FINANCING.

Docket No. E-04204A-06-0783

Arizona Corporation Commission
DOCKETED

JUL 12 2007

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NOTICE OF FILING
DIRECT RATE DESIGN TESTIMONY

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Direct Rate Design Testimony of Marylee Diaz, Cortez, CPA, and Rodney L. Moore, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 12th day of July 2007.

Daniel W. Pozefsky
Attorney

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 12th day
3 of July 2007 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/
6 mailed this 12th day of July 2007 to:

7 Teena Wolfe
8 Administrative Law Judge
9 Hearing Division
10 Arizona Corporation Commission
11 1200 West Washington
12 Phoenix, Arizona 85007

Thomas L. Mumaw
Deborah A. Scott
Pinnacle West Capital Corp.
P.O. Box 53999, Mail Station 8695
Phoenix, AZ 85072-3999

10 Christopher Kempley, Chief Counsel
11 Legal Division
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

Robert J. Metli
Snell & Wilmer, L.L.P.
One Arizona Center
400 East Van Buren Street
Phoenix, AZ 85004-2202

13 Ernest Johnson, Director
14 Utilities Division
15 Arizona Corporation Commission
16 1200 West Washington
17 Phoenix, Arizona 85007

Barbara A. Klemstine
Arizona Public Service Company
P.O. Box 53999, Mail Station 9708
Phoenix, AZ 85072-3999

16 Michael W. Patten
17 Roshka, DeWulf & Patten, PLC
18 One Arizona Center
19 400 E. Van Buren, Suite 800
20 Phoenix, AZ 85004

By 
Ernestine Gamble
Secretary to Daniel Pozefsky

19 Raymond S. Heyman, Esq.
20 Michelle Livengood, Esq.
21 UniSource Energy Corporation
22 One South Church, Suite 200
23 Tucson, Arizona 85701

22 Marshall Magruder
23 P. O. Box 1267
24 Tubac, Arizona 85646

UNS ELECTRIC, INC.

DOCKET NO. E-04204A-06-0783

DIRECT RATE DESIGN TESTIMONY

OF

MARYLEE DIAZ CORTEZ, CPA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JULY 12, 2007

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1 **INTRODUCTION**

2 Q. Please state your name, occupation, and business address.

3 A. My name is Marylee Diaz Cortez. I am a Certified Public Account. I am
4 the Chief of Accounting and Rates for the Residential Utility Consumer
5 Office (RUCO) located at 1110 W. Washington, Phoenix, Arizona 85007.

6

7 Q. Have you previously filed testimony in this docket?

8 A. Yes. On June 28, 2007 I filed direct testimony pertaining to revenue
9 requirements in this docket.

10

11 Q. What is the purpose of your additional direct testimony?

12 A. The purpose of this additional testimony is to address RUCO's
13 recommended rate design.

14

15 Q. What areas will you address in this testimony?

16 A. I will comment on the Company's proposed rate design and discuss the
17 merits of RUCO's proposed rate design. RUCO witness Rodney L. Moore
18 will sponsor RUCO's rate schedules as well as provide a typical bill
19 analysis of RUCO's proposed residential rates.

20

1 **COMPANY PROPOSED RATE DESIGN**

2 Q. What modifications is the Company proposing to its current rate design?

3 A. The Company is proposing the following modifications to its current rate
4 design:

5 1) Implementation of mandatory Time of Use (TOU) rates for all
6 new residential customers;

7 2) Fuel and purchased power adjustor (PPFAC);

8 3) Shift a portion of the commodity charges to the fixed charge;

9 4) Implementation of a surcharge to recover Demand Side
10 Management (DSM) costs;

11 5) Step rate increase for June 2008;

12 6) Inverted block (tier) rate structure;

13 7) Elimination of separate rate structures for Mohave and Santa
14 Cruz counties; and

15 8) Restructuring of the Cares discount.

16

17 Q. Do you agree with all of these proposed rate design modifications?

18 A. No, not in their entirety.

19

20 Q. Please explain.

21 A. I have already addressed RUCO's position regarding modifications to the
22 PPFAC, DSM, and the proposed step increase in my June 28, 2007

1 testimony, and will not repeat those positions here. The remaining
2 proposed modifications are addressed below.

3

4 Q. Do you agree with the elimination of separate rates for Mohave and Santa
5 Cruz Counties?

6 A. Yes. Under UNS Electric's new ownership, these systems are operated
7 as one entity for which there is one cost of service. Thus, there is no
8 reason for a disparity as there was under Citizens operation and
9 ownership.

10

11 Q. Do you agree that a portion of the current commodity charge should be
12 shifted to the fixed monthly minimum?

13 A. No. The Company has presented no evidence supporting such a shift in
14 revenue recovery, and RUCO believes the strong price signal that the
15 current rates send regarding consumption should be continued.
16 Accordingly, RUCO's recommended rate design maintains the current
17 fixed/variable rate ratio.

18

19 Q. Do you agree with the proposed inverted tier structure?

20 A. Yes. Currently residential customers pay a flat commodity rate,
21 regardless of the level of consumption. The proposed inverted tier
22 structure sends a stronger price signal by charging a higher cost for

1 consumption over 400 kWh. RUCO's recommended rate design includes
2 a two-tier inverted rate structure.

3

4 Q. Do you agree with the Company-proposed TOU rates for residential
5 customers?

6 A. Yes. Currently, TOU rates are not offered for residential customers.
7 Thus, the addition of this rate schedule is a big plus that will allow the
8 Company to further shave peak load, while at the same time providing an
9 incentive for customers to shift load and save money.

10

11 Q. Do you agree that TOU rates should be mandatory for all new customers,
12 as proposed by the Company?

13 A. Yes, in UNS Electric's circumstances I believe this is appropriate.

14

15 Q. Please explain.

16 A. Currently, UNS Electric has no time of use rates for residential customers.
17 APS, and to a lesser extent TEP, have offered TOU rates for residential
18 customers for years. In fact, the majority of APS' residential customers
19 are on TOU rates, which has allowed APS to significantly alter its load
20 curve. UNS Electric however, must start from ground zero; therefore, the
21 mandatory aspect of these new rates for new customers is crucial in
22 jumpstarting a meaningful load shifting program.

23

1 Q. Are you recommending any exceptions to the mandatory TOU rates?

2 A. Yes, but only in limited circumstances. At the time a new customer
3 requests service, UNS Electric's customer service representatives would
4 be required to pose a series of questions to the customer to determine if
5 the customer had special circumstances that would result in TOU rates
6 creating a hardship. Examples of hardship would include persons
7 dependent on life support equipment, or other handicaps that would
8 prevent the customer from shifting load. Also the customer service
9 representatives should determine if the new customer is low-income,
10 thereby qualifying for the CARES TOU rates, and advise qualified
11 customers of the availability of that rate. Lastly, all customers should be
12 fully advised of how the TOU rates work and how they can maximize their
13 savings on TOU rates. Upon connection, the same information should be
14 provided in written format.

15

16 Q. Does RUCO support the Company's proposed changes to the CARES
17 discount?

18 A. Yes. Currently, the CARES discount is applied to customers' volumetric
19 charges on a declining basis. The first 300 kWh is discounted at 30%, the
20 next 300 kWh at 20%, and the next 400 kWh at 10%. The discount is
21 capped at \$8.00 for usage over 1000 kWh. Under this rate structure, only
22 the largest users receive the maximum benefits from the CARES discount.
23 UNS Electric's proposed CARES discount, however, is a flat discount of

1 \$8.00 per bill, which would allow even the lowest users to receive the
2 maximum benefit of the discount.

3

4 **RENEWABLE ENERGY STANDARD AND TARIFF (REST)**

5 Q. Has the Company proposed a new tariff to comply with the REST rules?

6 A. No. The new REST rules were only recently certified by the Attorney
7 General, and thus were not effective at the time UNS Electric filed the
8 instant rate application.

9

10 Q. Does the Company currently have a renewables tariff?

11 A. Yes. The Company currently has in place an Environmentally Friendly
12 Portfolio Surcharge (EFPS) that was put in place August 11, 2003
13 pursuant to R-14-2-1618, the Environmental Portfolio Standard. Since this
14 rule is now outdated by the REST rule, RUCO would expect that the
15 Company in rebuttal testimony would propose a new tariff that would
16 comport with the recently confirmed REST rules, and at that time RUCO
17 will respond.

18

19 Q. Does this conclude your additional direct testimony?

20 A. Yes.

21

22

23

UNS ELECTRIC, INC.

DOCKET NO. E-04204A-06-0783

DIRECT RATE DESIGN TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JULY 12, 2007

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1 **INTRODUCTION**

2 A. Please state your name, position, employer and address.

3 A. Rodney L. Moore, Public Utilities Analyst V

4 Residential Utility Consumer Office ("RUCO")

5 1110 West Washington Street, Suite 220

6 Phoenix, Arizona 85007.

7

8 Q. Have you previously filed testimony regarding this docket?

9 A. Yes, I have. I filed direct testimony in this docket on June 28, 2007.

10

11 Q. What is the purpose of your additional direct testimony?

12 A. My additional direct testimony will address RUCO's rate design and prove
13 that this rate design will produce RUCO's recommended revenue. Also, I
14 have included an analysis of a typical residential bill.

15

16 To support RUCO's position in this additional direct testimony, I have
17 prepared Schedules numbered RLM-16 and RLM-17.

18

19

20

21

22

23

1 **RATE DESIGN**

2 A. Please explain your contribution to RUCO's recommended rate designs.

3 A. As shown on Schedule RLM-16, I was responsible for producing an
4 accurate set of bill determinants (i.e. test-year customer bill counts and
5 energy consumed). After reviewing the Company's workpapers, I
6 accepted UNS bill determinants as adjusted for weather normalization and
7 customer annualization. An in-depth discussion of RUCO's proposed rate
8 design is contained in the testimony of RUCO witness, Marylee Diaz
9 Cortez. In summary, for residential customers, RUCO proposes a monthly
10 basic service charge of \$6.80 and energy charges of: \$0.010731 for the
11 first 400 kWh, \$0.0192350 for all additional kWh and a base power supply
12 charge of \$0.077178.

13

14 Q. Please explain the elements of the rate design.

15 A. Schedule RLM-16 illustrates the elements of RUCO's rate design
16 proposed by Ms. Diaz Cortez in her testimony, which are:

- 17 1. Provides a positive price signal to encourage energy efficient
18 usage;
- 19 2. Is consistent with the Company's Cost of Service Study
20 parameters;
- 21 3. Implements an inverted block (tiered) structure for residential and
22 small commercial rates;

23

- 1 4. Eliminates separate rates for Mohave and Santa Cruz Counties and
2 applies system-wide rates in both counties; and
3 5. Resets the beginning PPFAC to zero, by shifting all existing power
4 supply costs to base rates.

5

6 **PROOF OF RECOMMENDED REVENUE**

7 A. Have you prepared a Schedule presenting proof of your recommended
8 revenue?

9 A. Yes, I have. Proof that RUCO's recommended rate design will produce
10 the recommended required revenue as illustrated is presented on
11 Schedule RLM-16.

12

13 **TYPICAL BILL ANALYSIS**

14 A. Have you prepared a Schedule representing the financial impact of
15 RUCO's recommended rate design on the typical residential customer?

16 A. Yes, I have. A typical bill analysis for residential customers with various
17 levels of usage is presented on Schedule RLM-17.

18

19 Q. Please provide an excerpt of RUCO's rate structure that illustrates
20 RUCO's rate design goals as set forth in the testimony of Ms. Diaz Cortez
21 which captures these fundamental changes in UNS's current rate design.

22 A. Schedule RLM-17 provides an extensive breakdown of the effects of
23 RUCO's proposed rates on the R-01 Residential Customer. Below is a

1 chart gleaned from Schedule RLM-17 comparing UNS' proposed rates to
2 RUCO's proposed annual rates:

3 UNS Proposed Rates and Charges

4	Basic Monthly Service Charge	\$8.00
5	Energy Charge (first 400 kWh)	\$0.012617
6	Energy Charge (all additional kWh)	\$0.022617
7	Base Power Supply Charge (all kWh)	\$0.077178

8

9 RUCO Proposed Rates and Charges

10	Basic Monthly Service Charge	\$6.80
11	Energy Charge (first 400 kWh)	\$0.010731
12	Energy Charge (all additional kWh)	\$0.019235
13	Base Power Supply Charge (all kWh)	\$0.077178

14

15 RUCO's proposed rate design when compared to the Company's
16 proposal:

- 17 1. Provides a clear price signal that increased consumption will
18 increase a ratepayer's monthly bill and reduced consumption will
19 lower a ratepayer's monthly bill in effort to promote conservation;
20 and
- 21 2. Maintains the same historical percentage (51 percent Residential
22 vs. 49 percent Other) of revenue recovery among classes of
23 service in recognition of the Company's Cost of Service Study.

24

25 Q. Does this conclude your direct testimony?

26 A. Yes, it does.

RATE DESIGN AND PROOF OF RUCO RECOMMENDED REQUIRED REVENUE

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)
		RATE SCH.	RUCO ADJ'D BILL DETERM'TS	RUCO ADJ'D RATES AND CHARGES	RUCO PROPOSED REVENUE CALCULATION	RUCO PROPOSED REVENUE BY CUST. CLASS
<u>Residential Service</u> R-01						
1	Customer Charge per Month		929,088	\$ 6.80	\$ 6,320,991	
2	Energy Charge, First 400 kWhs		320,682,178	\$ 0.01073	3,441,096	
3	Energy Charge, All Additional kWhs		481,023,266	\$ 0.01924	9,252,490	
4	Base Power Supply Charge, All kWhs		801,705,444	\$ 0.07718	61,874,023	
5	SUB-TOTAL RESIDENTIAL SERVICE					\$ 80,888,600
<u>Small General Service</u> GS-10						
6	Customer Charge per Month		89,914	\$ 10.21	\$ 917,586	
7	Energy Charge, First 400 kWhs		36,412,013	\$ 0.02362	859,922	
8	Energy Charge, All Additional kWhs		54,618,021	\$ 0.03212	1,754,463	
9	Base Power Supply Charge, All kWhs		91,030,034	\$ 0.07495	6,822,428	
10	SUB-TOTAL SMALL GENERAL SERVICE					\$ 10,354,399
<u>Large General Service</u> LGS						
11	Customer Charge per Month		24,301	\$ 9.44	\$ 229,396	
12	Demand Charge, Per kW		1,426,880	\$ 8.93	12,741,340	
13	Energy Charge, Per kWh		491,246,281	\$ 0.00638	3,132,024	
14	Base Power Supply Charge, All kWhs		491,246,281	\$ 0.06636	32,600,086	
15	Total Large General Service					\$ 48,702,846
<u>Large General Service - TOU</u> LGS						
16	Customer Charge per Month		120	\$ 13.61	\$ 1,633	
17	Demand Charge, Per kW		11,084	\$ 8.93	98,975	
18	Energy Charge, Per kWh		2,903,715	\$ 0.00638	18,513	
19	Base Power Supply Charge, All kWhs		2,903,715	\$ 0.06636	192,696	
20	Total Large General Service - TOU					\$ 311,817
21	SUB-TOTAL LARGE GENERAL SERVICE					\$ 49,014,663
<u>Large Power Service - < 69KV</u> LPS						
22	Customer Charge per Month		75	\$ 365.00	\$ 27,375	
23	Demand Charge, Per kW		81,047	\$ 24.75	2,005,913	
25	Base Power Supply Charge, All kWhs		41,382,039	\$ 0.05270	2,180,999	
26	Total Large General Service - < 69KV					\$ 4,214,287
<u>Large Power Service - > 69KV</u> LPS						
27	Customer Charge per Month		69	\$ 340.17	\$ 23,472	
28	Demand Charge, Per kW		288,524	\$ 10.66	3,074,478	
30	Base Power Supply Charge, All kWhs		157,244,717	\$ 0.05270	8,287,426	
31	Total Large General Service - > 69KV					\$ 11,385,375
32	SUB-TOTAL LARGE POWER SERVICE					\$ 15,599,662
<u>Interruptible Power Service</u> IPS						
33	Customer Charge per Month		235	\$ 9.44	\$ 2,218	
34	Demand Charge, Per kW		63,585	\$ 2.98	189,261	
35	Energy Charge, Per kWh		17,598,914	\$ 0.01554	273,411	
37	Base Power Supply Charge, All kWhs		17,598,914	\$ 0.05491	966,374	
38	Total Interruptible Service					966,374
39	SUB-TOTAL INTERRUPTIBLE SERVICE					\$ 1,431,264
<u>Lighting Dusk To Dawn Service - O/H Service</u> LTG						
40	Existing Wood Pole		39,277	\$ -	\$ -	
41	New 30' Wood Pole (Class 6)		8,220	\$ 3.83	31,457	
42	New 30' Metal Or Fiberglass		2,385	\$ 7.67	18,295	
<u>Lighting Dusk To Dawn Service - U/G Service</u>						
43	Existing Wood Pole		686	\$ 1.91	1,313	
44	New 30' Wood Pole (Class 6)		347	\$ 5.75	1,995	
45	New 30' Metal Or Fiberglass		7,646	\$ 9.58	73,282	
46	Per Watt		7,866,778	\$ 0.06231	490,163	
48	SUB-TOTAL LIGHTING DUSK TO DAWN SERVICE					\$ 616,505
49	TOTAL REVENUE PER RUCO BILL DETERMINENTS					\$ 157,905,093
50	Sales For Resale					246,016
51	Other Operating Revenue					1,637,662
52	TOTAL PROPOSED REVENUE					\$ 159,788,771
53	Proposed Annual Revenue Requirement					\$ 159,788,771
54	Difference					\$ 0

TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A) PRESENT REVENUE	(B)	(C) COMPANY PROPOSED	(D)	(E) RUCO PROPOSED	(F)
REVENUE ALLOCATION							
1	RESIDENTIAL	\$ 81,247,060	51.48%	\$ 84,232,815	51.02%	\$ 80,888,600	51.23%
2	OTHER	\$ 76,580,097	48.52%	\$ 80,878,384	48.98%	\$ 77,016,493	48.77%
3	TOTAL	\$ 157,827,157	100.00%	\$ 165,111,199	100.00%	\$ 157,905,093	100.00%
ALLOCATION RATIOS							
4	FIX REVENUE	7,403,038	4.69%	8,989,479	5.44%	\$ 7,649,013	4.84%
5	VARIABLE REVENUE	150,424,119	95.31%	156,121,720	94.56%	\$ 150,256,080	95.16%
6	TOTAL	157,827,157	100.00%	165,111,199	100.00%	157,905,093	100.00%
RESIDENTIAL RATE DESIGN							
		PRESENT RATES		COMPANY PROPOSED		RUCO PROPOSED	
Residential Service - Mohave County							
7	Customer Charge per Month	\$ 6.50		\$ 8.00		\$ 6.80	
8	Energy Charge, First 400 kWh	\$ 0.07490		\$ 0.0126178		\$ 0.0107306	
9	Energy Charge, All Additional kWhs	\$ 0.07490		\$ 0.0226180		\$ 0.0192350	
10	PPFAC Charge	\$ 0.018250					
11	Residential Service Base Power Supply Charge, All kWhs			\$ 0.0771780		\$ 0.0771780	
Residential Service - Santa Cruz County							
12	Customer Charge per Month	\$ 6.50		\$ 8.00		\$ 6.80	
13	Energy Charge, First 400 kWhs	\$ 0.07930		\$ 0.0126178		\$ 0.0107306	
14	Energy Charge, All Additional kWhs	\$ 0.07930		\$ 0.0226180		\$ 0.0192350	
15	PPFAC Charge	\$ 0.018250					
16	Residential Service Base Power Supply Charge, All kWhs			\$ 0.0771780		\$ 0.0771780	
RESIDENTIAL BILL COMPARISONS							
MONTHLY ELECTRIC BILLS AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL							
		% OF AVERAGE MONTH USAGE OF 861 kWh	ACTUAL MONTH USAGE	PRESENT MONTHLY COST	RUCO PROP'D MONTHLY COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
Residential Service - Mohave County							
17	Percentage Of Average Monthly Consumption	25.00%	215	\$ 26.55	\$ 25.73	\$ (0.83)	-3.11%
18	Percentage Of Average Monthly Consumption	50.00%	431	\$ 46.61	\$ 44.92	\$ (1.69)	-3.63%
19	Percentage Of Average Monthly Consumption	100.00%	861	\$ 86.72	\$ 86.43	\$ (0.29)	-0.33%
20	Percentage Of Average Monthly Consumption	150.00%	1,292	\$ 126.83	\$ 127.94	\$ 1.12	0.88%
21	Percentage Of Average Monthly Consumption	200.00%	1,722	\$ 166.94	\$ 169.46	\$ 2.52	1.51%
Residential Service - Santa Cruz County							
22	Percentage Of Average Monthly Consumption	25.00%	215	\$ 27.50	\$ 25.73	\$ (1.77)	-6.44%
23	Percentage Of Average Monthly Consumption	50.00%	431	\$ 48.50	\$ 44.92	\$ (3.59)	-7.40%
24	Percentage Of Average Monthly Consumption	100.00%	861	\$ 90.51	\$ 86.43	\$ (4.08)	-4.51%
25	Percentage Of Average Monthly Consumption	150.00%	1,292	\$ 132.51	\$ 127.94	\$ (4.57)	-3.45%
26	Percentage Of Average Monthly Consumption	200.00%	1,722	\$ 174.51	\$ 169.46	\$ (5.06)	-2.90%