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May 29, 2009

RE: Trico Electric Cooperative, Inc.
Docket No. E-01461A-08-0430

Jane Rodda
Administrative Law Judge
Arizona Corporation Commission
400 W. Congress, Ste. 218
Tucson, AZ 85701

Arizona Corporation Commission
DOCKETED

DOCKETED BY

Dear Judge Rodda,

I attended the May 20th hearing over which you presided, principally in consideration of certain unresolved issues in Trico's rate application under Docket No. E-01461A-08-0430. I understand that the Arizona Corporation Commission's (ACC) consideration of this matter is well advanced, but critical steps remain: (1) your Recommended Opinion, and ultimately, (2) the Commission's final rate decision.

My motivation in attending the May 20th hearing was to gain a broader perspective on the mounting challenges facing Trico as it services its growing clientele. While this objective was accomplished, the hearing, and my subsequent review of selected eDocket materials filed under the above-noted docket number, revealed an issue that gives me serious concern.

Specifically, I strongly object to the ACC Utilities Division Staff recommendation regarding Time-Of-Use (TOU) Residential Rates as presented in both the pre-filed and sworn testimony of Mr. Steve Irvine. Alternatively, I urge that the ACC approve Trico's compromise position on this issue. My reasoning is set forth below. I take no position on the other open issues.

MY BACKGROUND

My wife and I moved to Arizona 11 years ago, and by virtue of our Saddlebrooke residency, we have been Trico (residential class) customers throughout this period. Prior to retiring in 1998, the majority of my career was spent at the Office of Management and Budget in Washington, D.C., where I served in the Legislative Reference Division as the Branch Chief for Resources, Defense, and International Programs.

In that capacity, my staff and I worked to ensure that Presidential policies were reflected correctly on legislative matters before the Congress. My portfolio included legislative issues affecting the land management agencies, the Environmental Protection Agency, the Department of Energy, and the Federal Energy Regulatory Commission.

IN CONSIDERATION OF TIME-OF-USE METERING

Until the spring of 2007, we used a traditional meter to record our kWh usage for Trico billing purposes. Following the significant mid-decade rate increases granted to Trico, and its exclusive power provider, the Arizona Electric Power Cooperative (AEPCO), I analyzed switching to a TOU meter.

My fact gathering included two telephone conversations with Mr. Mark Schwartz, Trico's General Manager and CEO at the time. His message then, as reinforced repeatedly in Trico's monthly newsletter, "The Livewire", was unambiguous -- relentless inflationary pressures will substantially increase electricity generating and distribution costs throughout the United States in the coming decade and beyond.

Mr. Schwartz also advised that power inflation would be especially burdensome for Trico given AEPCO's reliance on coal. That reality and the related energy ramifications of global warming, the virtual impossibility of Trico accessing nuclear or hydropower resources, and the low customer density in the Cooperative's service area all conspire to ensure above average power inflation. Mr. Schwartz further advised that TOU metering could ameliorate this wave of escalating power costs.

MY ADOPTION OF TIME-OF-USE METERING

The TOU suggestion made sense to me. I made two quick comparisons. First, I examined my power bills for the prior year. I then observed my meter kWh draw for two days -- one with air conditioning and one without. After doing the math, it was immediately clear that I could save over 20% by switching to TOU. These calculations did not assume any shift from on-peak to off-peak usage. Based on this crude analysis, the decision was a "no brainer"! My TOU meter was installed May 1, 2007, and I have been enjoying a form of "free lunch" ever since.

Subsequently, as a growing, but small minority of the Cooperative's members learned of this TOU metering advantage, their ranks started to grow and Trico's losses under this program accelerated. The May 2008 edition of "The Livewire" announced that, with ACC approval, Trico had frozen the TOU rate pending development of a revised tariff. Trico terminated entry into the "free lunch" club because "the existing TOU tariff doesn't effectively encourage Members to shift their energy usage to off-peak hours."

I gave it no thought at the time, but now I have to wonder, in perpetuating such an obvious rate disparity for over a decade, "What were Trico and the ACC thinking?" In retrospect, for years there was an inconsequential number of residential TOU consumers. The problem only became apparent after snowballing TOU usage led to serious hemorrhaging of Trico's bottom line.

I should note for the record that the power cost disparity data are even more compelling today. Comparing my TOU usage to standard residential service, whether during summer (August 2008) or spring (March 2009), the residential service consumer was consistently paying over 25% more than was I for power. [Over this period, my on-peak use approximated 32%, somewhat higher than Trico's typical TOU member's 28.7%.] And yet, in Trico's own words, TOU users "contribute just as much or more to Trico's monthly on-peak demand as standard residential customers."

MY PV SOLAR SYSTEM

In the interest of full disclosure, I note that in late April, participating in Trico's "SunWatts Program", I had GeoInnovation install a 3.8KW photovoltaic system for my residence. I believe my solar PV system will provide multiple benefits for my family and our community. In fact, depending on the details of how "net metering" will be administered, I may supplement my system with additional PV panels.

From the outset, I must acknowledge that all Trico consumers have contributed to the heavy subsidy I received as an incentive to embrace solar power. However, these solar subsidies are transparent and represent clearly articulated State and Federal policy. In contrast, the ACC Staff position on a TOU tariff (discussed below) continues a "stealth subsidy" that is neither transparent nor ACC policy.

Obviously, my personal power charges will be affected by the final disposition of this rate case, and future rate changes. Unfortunately, notwithstanding the Federal and ACC mandated solar power incentives (tax credits, rebates, and net metering), Trico is no doubt years away from residential solar PV systems acting as any kind of a "driver" or influence on power tariffs and members' power consumption behavior. Accordingly, the views in this letter give my opinion on how the two competing TOU tariffs (the ACC Staff position vs. the Trico compromise) will affect the vast majority of the Cooperative's members.

PROFILE OF TRICO'S TOU CUSTOMER

In examining the equities and balance of Trico's overall rate proposal, it is important to garner a general understanding or profile of the two broad classes of residential customers served by the Cooperative. Fortunately, much insight on this question can be discerned by examining "Exhibit Rebuttal DH-1.0", an addendum to the pre-filed rebuttal testimony of David Hedrick, Trico's expert witness.

Specifically, regarding residential consumers, this exhibit reveals that Trico has 33,498 standard consumers and 2,883 TOU consumers. In other words, within Trico's 36,381 consumer base, 92% are on the standard residential rate while only 8% are on the TOU rate. Interestingly, while the average standard rate consumer uses 917 kWh per month, the TOU consumer uses 23.8% more power or 1135 kWh per month.

In my opinion, these data portray some interesting and indisputable distinctions. Namely, by virtue of their significantly higher power consumption compared to the standard consumers, one can deduce that the TOU class of rate payer lives in a larger house and has more and/or larger electrical appliances, televisions, golf carts, computers, air conditioners and the like to support their consumptive lifestyle. [In making these comparisons, one must remember that we are contrasting "average" households for each rate class, not individuals.]

Although an intuitive conclusion, most analysts would also agree that, within this population of Trico's 36,381 residential households, the "average" TOU consumer has higher income and greater financial resources than the "average" standard consumer. Broadly speaking, Trico's TOU class of consumers enjoys a higher standard of living than the Cooperative's other residential consumers.

The implications of this profile are discussed in more detail below under TOU ISSUE ANALYSIS.

ACC STAFF TOU POSITION

The Staff proposal, as explained by Mr. Steve Irvine, would stipulate an 18.23% rate increase on residential TOU consumers. Thus, it would recover only about 35% of Trico's costs of providing service and a uniform rate of return for this rate class. It would also retain the current "on-peak use" time periods which run Monday through Friday from 1:00 P.M to 9:00 P.M. In Mr. Irvine's Direct Testimony he notes that:

"The reason Staff cannot support weekend on-peak hours is that customers may feel the imposition of weekend on-peak rates *unduly burdensome*."

In addition, Mr. Irvine asserted that Staff could not support Trico's compromise tariff proposal because it violated the principle of "gradualism in change".

The above-noted "unduly burdensome" and "gradualism" rationale appeared to be the sole justification of the Staff position. I could find no justification offered by Staff -- based on quantitative, efficiency, or other analyses -- for their recommendation to effectively continue affording a "stealth subsidy" to the TOU consumers which is paid for by the standard rate consumers.

TRICO TOU PROPOSAL

Trico's compromise TOU rate design seeks to remedy the most serious flaws in its current program. This would be achieved by sending "the proper price signal for reduced demand consumption during peak periods." Moreover, given that Trico has experienced high cost "peaking" charges "routinely" on weekends over the last three years, it is critical that a new TOU tariff recognize this reality by stipulating weekend and holiday rate coverage.

Under the compromise, the TOU rate class would see an increase of 30%, still well under full cost recovery, but high enough to send an adequate signal for reduced demand consumption during peak periods. Total "on-peak" hours per week would be virtually the same as now, but targeted toward the hours each day when there is a high kWh draw (peaking) by the consumer.

In any case, where residential customers believe removal of the long-standing "free lunch" is too burdensome, they have full discretion to join the over 90% of Trico consumers whom pay the standard residential tariff.

ENERGY CRISIS

Before further discussing the rate issues raised in this docket, it is useful to place energy policy in a broader context. There is much evidence that our Nation is beginning to suffer the serious consequences of a "failed" energy policy. A void of leadership at many levels of government, a "bigger is better mentality", globalization, American hegemonic decline, Hubbert's Peak, and global warming are converging to create the perfect storm.

Moreover, the many dimensions of the credit crisis have acted to further complicate energy policy solutions while creating additional fiscal and monetary pressures that virtually threaten society as we know it. To a degree never seen before, no one can reasonably predict how our national or the global economy will perform over the mid-term.

Within this framework, fed by an increasingly mediocre public education system and sound-bite oriented media, the American public in its "dumbed down" culture has become credulous,

disengaged, and fearful, yielding an environment of anti-rationalism. Moreover, much of the substance of energy policy has not registered with the average citizen (voter).

Most Americans understand that energy is increasingly expensive and, as a result, a direct threat to their lifestyle. However, too many people cannot cut through the competing political and special interest rhetoric to render an informed judgment regarding reasonable alternatives. Possibly this is why some regulators suggest "gradualism in change" as they tiptoe through the minefield of distorted consumer expectations.

On a broader scale, similar daunting challenges confront the entire fabric of society. In the first decade of the 21st Century, significant deterioration of many facets of the American experience appears to be the "new normal". These changes, which impose harsh new realities and constraints on our daily life, must be acknowledged and reflected in the conduct of our lives. To do otherwise invites negative consequences of increasing severity.

TOU ISSUE ANALYSIS

I support Trico's compromise TOU residential rate proposal. I believe the Cooperative's case is compelling. There are several principles which should be reflected in this case -- they set forth below.

Equity -- All rate classes should pay their fair share of the power costs they incur. Trico's compromise comes the closest to achieving this objective. The Staff proposal clearly fails to equitably share costs and perpetuates a pernicious imbalance.

Peaking Minimization -- A basic component of efficient power generation is to minimize the peaking phenomenon that Trico documents as frequently occurring on weekends. It is absurd for Staff to characterize weekend (and holiday) application of an on-peak tariff as "burdensome" given that the TOU consumer class: (1) has enjoyed a "free lunch" for years; (2) is the wealthiest cohort of Trico's consumers; and (3) can revert to a standard meter anytime.

Under the "new normal" reality of the 21st Century, temporizing is dangerous, self-destructive behavior that should not be tolerated. Effective solutions are needed, not proposals to "kick the can down the road" and thus brew a larger "rate shock" at a later date.

Transparency -- Currently, and to a lesser degree under the Staff proposal, TOU consumers pay less than their fair share and the resulting burden is imposed on the standard rate consumer. Compounding the insult, it is unlikely that many "standard" consumers have a clue that they have been and will continue to be stuck with sharing a financial burden imposed on Trico by the TOU consumers. Although not perfect, Trico's proposal represents much better rate transparency and a fairer allocation of power costs.

Effective Change -- Staff's plea for "gradualism in change" is perplexing. Given (1) the TOU class profile, (2) Trico's need to repair its balance sheet, and (3) the perilous financial and energy environment prevailing throughout the country, an immediate "fix" is the only sensible course of action. So-called "gradualism" on many different societal fronts is precisely what has precipitated the mess we now face. What are these guys thinking? What is the time warp to which they are confined? The Staff construct is irresponsible.

ACC Renewable Mandate -- The ACC's requirement for utilities to produce 15% of their energy by 2025 from renewables is a formidable challenge. Accordingly, it is incumbent on the Commission to consistently act in a manner that promotes its renewable policy. The Trico proposal, by stipulating a weekend and holiday on-peak TOU tariff would do just that. Alternatively, the Staff notion of sticking with the status quo is oblivious to the ACC's renewable mandate.

Based on my solar PV system's performance over the last three weeks during which air conditioning has been in use, I am convinced that Trico's TOU tariff would promote greater interest in solar power. A solar PV system, operating in the May to September time frame, when long days with high sun angles are the rule, will substantially lower a consumers kWh draw from the Trico grid and materially advance the objective of lowering peak power usage. A tariff that includes a daily on-peak design is, in perception and reality, far superior to the Staff's status quo mentality.

Trico's Future Viability -- We all want our electric utility to delivery the reliable and cost-effective power which is so important to our modern lifestyle. We also believe that this mission should reflect balancing of the benefits and impacts on all stakeholders, consistent with the public interest. In these uncertain times, I am convinced that these objectives are best achieved from a position of strength, where visionary leadership and bold action ensure our utilities long-term viability.

In my opinion, the Trico TOU compromise proposal is the most likely to succeed and ensure that Trico grows in the future from a position of financial strength. The Staff proposal is too timid and would likely compromise the viability of our Cooperative over time. As we navigate these "interesting times", the notion of a "free lunch" entitlement must be cast aside forever.

FINAL THOUGHTS

It is my hope that your Recommended Order, and subsequently the Commission, will support Trico's TOU rate proposal. Such action, in my opinion, would:

- be fair to all the parties;
- secure Trico's financial stability;
- continue to advance the cause of solar power;
- end long-standing rate structure inequities;
- improve Trico's status as a reliable and cost-effective power provider;
- create better tools for Trico to minimize the effects of "peaking";
- ensure greater transparency in the Cooperative's operations; and,
- strengthen Trico's ability to respond to unanticipated energy policy consequences that may suddenly be thrust upon it in these chaotic times.

I await you Recommended Order with great anticipation. Thank you for considering my views.

Sincerely yours,

A handwritten signature in black ink that reads "Ron Peterson". The signature is written in a cursive style with a large, prominent initial "R".

Ron Peterson

c: Mr. Vincent Nitido
CEO/General Manager
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