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MEMORANDUM

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Arizona Corporation Commission

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AZ CORP COMMISSION
DOCKET CONTROL

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TO: THE COMMISSION

FROM: Utilities Division

DATE: March 16, 2010

RE: NAVOPACHE ELECTRIC COOPERATIVE, INC. - APPLICATION FOR APPROVAL OF A NET METERING TARIFF (DOCKET NO. E-01787A-09-0443)

Background

On September 17, 2009, Navopache Electric Cooperative, Inc. ("Navopache" or "Co-op") filed an application for approval of a Net Metering Tariff, Schedule NMS. As indicated in R14-2-2307 of the Net Metering Rules ("Rules"), "Each Electric Utility shall file, for approval by the Commission, a Net Metering tariff within 120 days from the effective date of these rules" and "The Net Metering tariff shall specify standard rates for annual purchases of remaining credits from Net Metering Facilities." Navopache's proposed Schedule NMS is meant to comply with the Rules, which became effective May 23, 2009.

The purpose of Net Metering is to allow electric utility consumers to be compensated for generating their own energy from renewable resources, fuel cells, or Combined Heat and Power (i.e., co-generation).

Proposed Tariff

The Schedule NMS that Navopache is proposing would apply to customers with any type of on-site generation using the resources allowed by the Net Metering Rules, and would work in conjunction with the rate schedule from which the customer currently takes service. The proposed Schedule NMS follows the Net Metering Rules with respect to eligibility, metering, billing, and disposition of excess customer generation.

Partial requirements service is necessary for customers, such as Net Metering customers, who provide either all or a portion of their own generation. If the customer's self-generation supplies less than 100 percent of the customer's load, the customer must purchase utility generation for the remainder of the load. However, even if the customer's generation is sufficient to serve the full load, the customer is required to have utility service as back-up during maintenance or other outage circumstances relating to the customer's generation.

Schedule NMS would provide for power sales beyond what the customer's on-site facilities provide, as well as replacement power if the customer's facilities are not generating. Charges under Schedule NMS would be priced pursuant to the customer's standard rate schedule

otherwise applicable under full requirements service. The monthly Customer Charge, however, would be the approved Customer Charge for time-of-use service. The monthly Customer Charge for residential net metering customers would be \$25.25 compared to the standard Customer Charge of \$18.30. This allows for the non-standard metering, billing, and pricing that Net Metering customers require.

In addition, as the Rules require, if the customer's generation facility produces energy in excess of the energy supplied by the Co-op during a billing period, the customer's bills for subsequent billing periods would be credited for the excess generation. That is, the excess kWh during the billing period would be used to reduce the kWh (not kW or kVA demand, or customer/facilities charges) billed by the Co-op during the subsequent billing periods. Customers taking service under a time-of-use rate would receive such credit in the subsequent billing periods for the on-peak, shoulder, or off-peak periods in which the kWh were generated by the customer.

For the last billing period of each calendar year (i.e., the year ending December 31), or for a customer's final bill upon discontinuance of service, Navopache would credit the customer for the balance of excess kWh remaining. Since Navopache is a winter-peaking utility, Staff recommends that the date of this annual true-up be in April (March usage) so that excess kWh generated in the summer and fall would be available to apply to bills when demand is highest in the winter.

The payment for the purchase of these excess kWh would be at the Co-op's annual average avoided cost. Navopache's proposed tariff defines Annual Average Avoided Cost as the annual average wholesale fuel and energy costs per kWh charged by Navopache's wholesale power suppliers during the calendar year. The annual avoided cost will be determined every July and applied to excess generation during that calendar year. The current avoided cost is 2.38¢/kWh. Since R14-2-2306(F) requires the avoided cost to be specified on the net metering tariff, Staff recommends that Navopache specify this avoided cost rate of 2.38¢/kWh in its tariff.

Fair Value Considerations for Charges to be Contained in Schedule NMS

Staff has recommended that the Co-op should recover from each net metering customer, through the monthly customer service charge (currently \$25.25), the costs of certain equipment related to providing net metering service.

Staff has considered the proposed equipment charge in terms of fair value implications. In Decision No. 64293, issued on December 28, 2001, the Commission determined the fair value of Navopache's property to be \$37,360,051. According to more recent information provided by Navopache, as of December 31, 2008, the estimated value of Navopache's plant is \$62,541,649. Although Staff considered this information, the proposed equipment charge on Schedule NM would have no significant impact on the Company's revenue, fair value rate base, or rate of return, because this charge is cost-based and relatively limited in scope.

THE COMMISSION

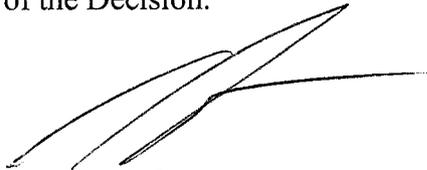
March 16, 2010

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Staff Recommendations

Staff recommends that Navopache's Net Metering Tariff Schedule NMS be approved by the Commission as discussed herein.

Staff also recommends that Navopache be ordered to file a revised Net Metering Tariff Schedule NMS in compliance with the Decision in this case within 15 days of the effective date of the Decision.



Steven M. Olea
Director
Utilities Division

SMO:JJP:lhm\WVC

ORIGINATOR: Jeffrey Pasquinelli

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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF NAVOPACHE
ELECTRIC COOPERATIVE, INC.'S
APPLICATION FOR APPROVAL OF A
NET METERING TARIFF

DOCKET NO. E-01787A-09-0443
DECISION NO. _____
ORDER

Open Meeting
March 31 and April 1, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Navopache Electric Cooperative, Inc. ("Navopache" or "Co-op") is certificated to provide electric service as a public service corporation in the State of Arizona.

Background

2. On September 17, 2009, Navopache filed an application for approval of a Net Metering Tariff, Schedule NMS. As indicated in R14-2-2307 of the Net Metering Rules ("Rules"), "Each Electric Utility shall file, for approval by the Commission, a Net Metering tariff within 120 days from the effective date of these rules" and "The Net Metering tariff shall specify standard rates for annual purchases of remaining credits from Net Metering Facilities." Navopache's proposed Schedule NMS is meant to comply with the Rules, which became effective May 23, 2009.

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1 3. The purpose of Net Metering is to allow electric utility consumers to be
2 compensated for generating their own energy from renewable resources, fuel cells, or Combined
3 Heat and Power (i.e., co-generation).

4 **Proposed Tariff**

5 4. The Schedule NMS that Navopache is proposing would apply to customers with
6 any type of on-site generation using the resources allowed by the Net Metering Rules, and would
7 work in conjunction with the rate schedule from which the customer currently takes service. The
8 proposed Schedule NMS follows the Net Metering Rules with respect to eligibility, metering,
9 billing, and disposition of excess customer generation.

10 5. Partial requirements service is necessary for customers, such as Net Metering
11 customers, who provide either all or a portion of their own generation. If the customer's self-
12 generation supplies less than 100 percent of the customer's load, the customer must purchase
13 utility generation for the remainder of the load. However, even if the customer's generation is
14 sufficient to serve the full load, the customer is required to have utility service as back-up during
15 maintenance or other outage circumstances relating to the customer's generation.

16 6. Schedule NMS would provide for power sales beyond what the customer's on-site
17 facilities provide, as well as replacement power if the customer's facilities are not generating.
18 Charges under Schedule NMS would be priced pursuant to the customer's standard rate schedule
19 otherwise applicable under full requirements service. The monthly Customer Charge, however,
20 would be the approved Customer Charge for time-of-use service. The monthly Customer Charge
21 for residential net metering customers would be \$25.25 compared to the standard Customer Charge
22 of \$18.30. This allows for the non-standard metering, billing, and pricing that Net Metering
23 customers require.

24 7. In addition, as the Rules require, if the customer's generation facility produce
25 energy in excess of the energy supplied by the Co-op during a billing period, the customer's bills
26 for subsequent billing periods would be credited for the excess generation. That is, the excess
27 kWh during the billing period would be used to reduce the kWh (not kW or kVA demand, or
28 customer/facilities charges) billed by the Co-op during the subsequent billing periods. Customers

1 taking service under a time-of-use rate would receive such credit in the subsequent billing periods
2 for the on-peak, shoulder, or off-peak periods in which the kWh were generated by the customer.

3 8. For the last billing period of each calendar year (i.e., the year ending December 31),
4 or for a customer's final bill upon discontinuance of service, Navopache would credit the customer
5 for the balance of excess kWh remaining. Since Navopache is a winter-peaking utility, Staff
6 recommends that the date of this annual true-up be in April (March usage) so that excess kWh
7 generated in the summer and fall would be available to apply to bills when demand is highest in
8 the winter.

9 9. The payment for the purchase of these excess kWh would be at the Co-op's annual
10 average avoided cost. Navopache's proposed tariff defines Annual Average Avoided Cost as the
11 annual average wholesale fuel and energy costs per kWh charged by Navopache's wholesale power
12 suppliers during the calendar year. The annual avoided cost will be determined every July and
13 applied to excess generation during that calendar year. The current avoided cost is 2.38¢/kWh.
14 Since R14-2-2306(F) requires the avoided cost to be specified on the net metering tariff, Staff
15 recommends that Navopache specify this avoided cost rate of 2.38¢/kWh in its tariff.

16 **Fair Value Considerations for Charges to be Contained in Schedule NMS**

17 10. Staff has recommended that the Co-op should recover from each net metering
18 customer, through the monthly customer service charge (currently \$25.25), the costs of certain
19 equipment related to providing net metering service.

20 11. Staff has considered the proposed equipment charge in terms of fair value
21 implications. In Decision No. 64293, issued on December 28, 2001, the Commission determined
22 the fair value of Navopache's property to be \$37,360,051. According to more recent information
23 provided by Navopache, as of December 31, 2008, the estimated value of Navopache's plant is
24 \$62,541,649. Although Staff considered this information, the proposed equipment charge on
25 Schedule NM would have no significant impact on the Company's revenue, fair value rate base, or
26 rate of return, because this charge is cost-based and relatively limited in scope.

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1 **Staff Recommendations**

2 12. Staff has recommended that Navopache's Net Metering Tariff Schedule NMS be
3 approved by the Commission as discussed herein.

4 13. Staff has also recommended that Navopache be ordered to file a revised Net
5 Metering Tariff Schedule NMS in compliance with the Decision in this case within 15 days of the
6 effective date of the Decision.

7 **CONCLUSIONS OF LAW**

8 1. Navopache is an Arizona public service corporation within the meaning of Article
9 XV, Section 2, of the Arizona Constitution.

10 2. The Commission has jurisdiction over Navopache and over the subject matter of the
11 application.

12 3. Approval of Schedule NMS does not constitute a rate increase as contemplated by
13 A.R.S. Section 40-250.

14 4. The Commission, having reviewed the application and Staff's Memorandum dated
15 March 16, 2010, concludes that Schedule NMS should be approved as discussed herein.

16 **ORDER**

17 IT IS THEREFORE ORDERED that Navopache Electric Cooperative, Inc.'s Net Metering
18 Tariff Schedule NMS be approved by the Commission as discussed herein.

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IT IS FURTHER ORDERED that Navopache Electric Cooperative, Inc. shall file a revised Net Metering Tariff Schedule NMS in compliance with this Decision within 15 days of the effective date of the Decision.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:JJP:lhm\WVC

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SERVICE LIST FOR: Navopache Electric Cooperative, Inc.
DOCKET NO. E-01787A-09-0443

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