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Commissioner Brenda Burns
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007-2927

Re: Arizona Public Service Company Net Metering Application
Docket No. E-01345A-13-0248
Response to November 4, 2013 Letter

Dear Commissioner Burns:

On behalf of Tucson Electric Power ("TEP") and UNS Electric ("UNSE") (collectively, the "Companies"), I respectfully offer the following responses to your questions about the phased-in proposal offered in this docket by the Residential Utility Consumer Office ("RUCO").

As you know, RUCO has proposed charging net metered customers a Lost Fixed Cost Recovery ("LFCR") fee that reflects the capacity of their distributed generation ("DG") system. *If set appropriately*, such a fee could offset the fixed service costs that net metered customers shift to other customers under the current net metering rules. But the fee proposed by RUCO is far too low to cover those costs and is further compromised by a gradual phase-in schedule that would force the majority of the Companies' customers to continue subsidizing net-metered DG users indefinitely.

The scope of that subsidy depends on the average usage and rates at each affected utility. TEP's residential customers use, on average, 819 kilowatt-hours ("kWh") per month and pay an average of $61.10 each month to cover the utility's fixed service costs under rates that took effect July 1, 2013. Although some of those fixed costs are recovered through a $10 monthly service charge, the vast majority – $51.10 – are paid through volumetric charges that can be avoided by net metered customers with DG systems.

To fairly recover those costs, the proposed LFCR fee should be set at a level proportional to the DG system's impact on fixed cost recovery. A system that would allow a TEP residential customer with average usage to fully avoid paying the fixed costs that would have been recovered through volumetric charges should be assessed a fixed LFCR fee of $51.10 that fully recovers those costs.

In TEP's service territory, where DG systems typically generate 1,850 kWh per kilowatt ("kW") of capacity, a 5.312 kW DG system would generate enough power to fully offset average annual usage of 9,828 kWh (819 kWh x 12). In order to recover all of the fixed costs that customer otherwise would have paid through volumetric rates, the fixed monthly LFCR fee should be set at $9.62 per kW ($51.10/5.312 kW). The fee would be slightly lower – $9.25 per kW – if it were calculated based on average monthly usage of 767 kWh and average monthly fixed cost recovery of $56, the amount reflected in TEP's most recent rate case decision (No. 73912 June 27, 2013).

In this light, RUCO's proposal to phase in a fixed monthly LFCR fee beginning at $1/kW is clearly inadequate. If the fee were applied to TEP using current cost and usage data, it would leave $8.62 per kW in fixed costs unrecovered each month. *Consequently, under RUCO's proposal, nearly 90 percent of net metered customers' fixed service costs would continue to be shifted to other TEP customers.*

The total remaining cost shift would depend on how much DG capacity is installed at the time such a fee would take effect for TEP. Based on the current cost and usage data outlined above, RUCO's proposed $1/kW charge would leave $103,440 in unrecovered costs for each MW of DG capacity installed by TEP's residential customers. That amount would be reduced by each $0.50 increase in the fee, as shown below.

Per kW charge	Unrecovered Fixed Costs
$1.00 per watt:	$103,440
$1.50 per watt:	$97,440
$2.00 per watt:	$91,440
$2.50 per watt:	$85,440
$3.00 per watt:	$79,440
$3.50 per watt:	$73,440
$4.00 per watt:	$67,440
$4.50 per watt:	$61,440
$5.00 per watt:	$55,440
$5.50 per watt:	$49,440
$6.00 per watt:	$43,440
$6.50 per watt:	$37,440
$7.00 per watt:	$31,440
$7.50 per watt:	$25,440
$8.00 per watt:	$19,440
$8.50 per watt:	$13,440
$9.00 per watt:	$7,440
$9.50 per watt:	$1,440

Unrecovered costs also would accumulate for UNSE under RUCO's proposal. That company's residential customers use, on average, 869 kWh per month and pay an average of $33.89 in fixed costs each month – including $10 through a fixed customer charge and $23.89 through volumetric charges. Because DG systems in UNSE's territory typically produce 1,750 kWh per kW, a customer would need a 5.96 kW system to fully offset average annual usage of 10,428 kWh (869 kWh x 12). As a result, covering the fixed costs otherwise recoverable through volumetric rates would require that UNSE residential DG users pay a fixed monthly LFCR fee of $4.01 per kW ($23.89/5.96 kW).

For UNSE, RUCO's proposed $1/kW fee would leave $3.01 per kW in monthly fixed costs unrecovered. *In other words, RUCO's proposed fee would allow net metered customers to continue shifting 75 percent of their fixed service costs to other UNSE customers.*

As with TEP, the total remaining cost shift for UNSE would depend on how much DG capacity is installed at the time such a fee takes effect. RUCO's proposed $1/kW charge would leave $36,120 in unrecovered costs for each MW of DG capacity installed by UNSE's residential customers. That amount would be reduced by each $0.50 increase in the fee, as shown below.

Per kW charge	Unrecovered Fixed Costs
$1.00 per watt:	$36,120
$1.50 per watt:	$30,120
$2.00 per watt:	$24,120
$2.50 per watt:	$18,120
$3.00 per watt:	$12,120
$3.50 per watt:	$6,120
$4.00 per watt	$120

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As these numbers clearly demonstrate, RUCO's proposed fee would not protect customers of TEP or UNSE from a "ballooning cost shift" under net metering. TEP customers, for example, have added more than 15 MW of combined DG capacity since the end of 2011, boosting unrecovered costs by nearly $2 million. RUCO's fee would only *modestly* slow the growth of such costs if similar DG additions occur over the next two years. Left unchecked, these costs will drive up the LFCR fees paid by other customers while increasing the size of future rate increases for both Companies.

In conclusion, the fee proposed by RUCO is entirely inadequate to address the acknowledged cost shifting problem under current net metering rules. Such a fee would not serve the public interest unless it were significantly increased to a level that reflects the true costs left unpaid by net metered customers.

Sincerely,

Carmine Tilghman

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Cc: Docket Control
Parties of Record in Docket No. E-01345A-13-0248