

ORIGINAL

OPEN MEETING



0000155312

MEMORANDUM

RECEIVED

TO: THE COMMISSION

Arizona Corporation Commission

DOCKETED

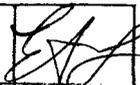
2014 AUG 12 P 3:52

FROM: Utilities Division

AUG 12 2014

AZ CORP COMMISSION
DOCKET CONTROL

DATE: August 12, 2014

DOCKETED BY 

RE: SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC. - APPLICATION FOR APPROVAL OF THE 2014 NET METERING TARIFF WITH THE UPDATED AVOIDED COST AND PROPOSED TARIFF MODIFICATIONS (DOCKET NO. E-01575A-14-0232)

Background

On July 1, 2014, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") filed an application for approval to (1) update the avoided cost that is contained in its Net Metering Tariff; (2) add a Fixed Cost Recovery Fee; and (3) designate September as the only True-Up month.

Net Metering Avoided Cost Update

SSVEC's Net Metering Tariff was approved by the Commission in Decision No. 71463 (January 26, 2010) and most recently revised with updated avoided costs in Decision No. 74038 (August 16, 2013).

Net Metering allows electric utility customers to be compensated for generating their own energy from renewable resources, fuel cells, or Combined Heat and Power. If the customer's energy production exceeds the energy supplied by SSVEC during a billing period, the customer's bill for subsequent billing periods is credited for the excess generation. That is, the excess kWh generated during the billing period is used to reduce the kWh billed by SSVEC during subsequent billing periods.

Each September or March¹ (or for a customer's final bill upon discontinuance of service), SSVEC credits the customer for the balance of any remaining excess kWh. The payment for the purchase of these excess kWh is at SSVEC's annual average avoided cost, which is specified in the Net Metering Tariff. Arizona Administrative Code R14-2-2302(1) defines avoided cost as "the incremental cost to an Electric Utility for electric energy or capacity or both which, but for the purchase from the Net Metering facility, such utility would generate itself or purchase from another source."

¹ Each September or March per each Net Metering customer's selection.

SSVEC's Net Metering Tariff provides for the annual average avoided cost to be determined by the average wholesale fuel and energy cost per kWh charged by SSVEC's wholesale power suppliers during the previous 12 months calculated with the receipt of the May wholesale power bills. SSVEC is required to file its updated avoided cost calculations with the Commission no later than July 1 of each year. This updated avoided cost, after approval by the Commission, would become effective on September 1.

SSVEC's current approved avoided cost rate is \$0.0364 per kWh. SSVEC proposes that the rate be lowered to \$0.0307 per kWh. SSVEC states that the decrease in the avoided cost is due to SSVEC's change from using Western Area Power Authority as its balancing agent to Arizona Electric Power Cooperative ("AEPSCO"). AEPSCO implemented new rates that raised monthly fixed service charges and lowered kWh energy charges. In addition, SSVEC was able to purchase some energy at below market rates which also reduced SSVEC's avoided cost. Staff has reviewed SSVEC's purchased power costs that resulted in the \$0.0307 per kWh rate and confirms that the proposed rate reflects SSVEC's avoided cost.

Therefore, Staff recommends that SSVEC's proposed annual average avoided cost for its Net Metering Tariff of \$0.0307 per kWh be approved, and become effective September 1, 2014.

Fixed Cost Recovery Fee

The second part of SSVEC's application requests approval of a monthly Fixed Cost Recovery Fee ("FCRF"). The FCRF would be a new customer charge to recover a portion of the fixed costs embedded in SSVEC's volumetric energy rates that are lost because of customers' self-generation under SSVEC's Net Metering program. In other words, SSVEC seeks to place a new charge on all existing and future Net Metering customers to partially offset the revenues lost because of Net Metering customers' reduced purchases of electric energy from SSVEC.

Under SSVEC's proposed FCRF, all solar photovoltaic ("PV") customers will be subject to the new charge based on the date of installation of the customer's PV system. For PV systems installed prior to January 1, 2015, the charge would be \$0.50 per kW of DC panel rating. For systems installed after January 1, 2015, the charge would be \$1.00 per kW of DC panel rating.

SSVEC states that the additional monthly charge to residential customers would be within the range of \$0.18 to \$12.50 for systems installed prior to January 1, 2015, with an average charge of \$2.95 for a 5.9 kW average sized system. For customers installing PV systems after January 1, 2015, the charge would range from \$3.00 and \$24.96, with the average charge being \$6.00. The monthly FCRF charge for commercial customers would range from \$0.16 to \$42.00, with an average charge of \$7.37.

SSVEC believes that the adoption of an FCRF is permitted under section R14-2-2305 of the Net Metering Rules. However, Staff believes that this section of the Net Metering Rules is intended to allow the adoption of relatively minor charges to recover the cost of operational equipment such as special metering or billing software upgrades required by a net metering program. Staff further believes that an FCRF is a rate design mechanism that necessitates the fine-grained documentation

and cost-of-service studies that must be established within the context of a general rate case under A.A.C. R14-2-103. In addition, SSVEC also recently received increased rates as the result of an expedited rate case under A.A.C. R14-2-(Decision No. 74381; March 19, 2014). In addition, it appears that the implementation of this rate design mechanism may result in an increase in rates to a certain class of SSVEC customers, and that SSVEC has not provided notice of this possible increase to its customers. For these reasons Staff concludes that the implementation of the FCRF as proposed by SSVEC is best processed within the context of a general rate case application. Staff recommends that the Commission not approve SSVEC's proposed Fixed Cost Recovery Fee, and that such a fee not be considered outside of a full rate case proceeding.

Elimination of March True-Up

The third part of SSVEC's application requests the elimination of the March True-Up and the designation of September as SSVEC's only annual True-Up. Presently, SSVEC is unique among Arizona electric utilities by having two True-Up periods (i.e. March and September). SSVEC was ordered to offer customers a choice between a winter (March) True-Up and a summer (September) True-Up under Decision No. 71463 (January 26, 2010).

SSVEC states that it is requesting the deletion of the March True-Up "...to eliminate confusion and simplify things for SSVEC, the Solar Installers, and SSVEC customers by having a single "True-Up" like the rest of the electric utilities in Arizona." SSVEC further states that customers that have already selected the March True-Up will be allowed to continue with this selection. However, the single September True-Up would be for all new Net Metering customers.

Staff notes that the two True-Up periods were ordered by the Commission based on customer requests. Therefore, Staff recommends that SSVEC's request to eliminate the March True-Up not be approved because the requirement was set forth in a prior Commission decision and that SSVEC may not have laid the necessary ground work for eliminating this requirement.

Summary of Recommendations

Staff recommends that SSVEC's updated avoided cost for Net Metering of \$0.0307 per kWh be approved, with an effective date of September 1, 2014.

Staff further recommends that the Commission not approve SSVEC's proposed Fixed Cost Recovery Fee, and that such a fee not be considered outside of a full rate case proceeding.

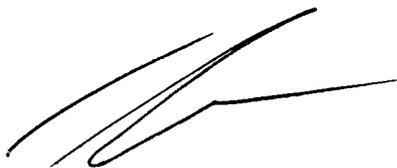
Staff further recommends that the Commission not approve SSVEC's request to eliminate the March "True-Up" option for new Net Metering customers.

THE COMMISSION

August 12, 2014

Page 4

Staff further recommends that SSVEC be required to file, with Docket Control, a revised Net Metering Tariff in compliance with the Decision in this case within 15 days of the effective date of the Decision.

A handwritten signature in black ink, consisting of several fluid, overlapping strokes that form a stylized representation of the name 'Steven M. Olea'.

Steven M. Olea
Director
Utilities Division

SMO:RBL: :

ORIGINATOR: Rick Lloyd

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **BOB STUMP**

Chairman

3 **GARY PIERCE**

Commissioner

4 **BRENDA BURNS**

Commissioner

5 **BOB BURNS**

Commissioner

6 **SUSAN BITTER SMITH**

Commissioner

7

8 IN THE MATTER OF SULPHUR SPRINGS
9 VALLEY ELECTRIC COOPERATIVE,
10 INC.'S APPLICATION FOR APPROVAL OF
11 THE 2014 NET METERING TARIFF WITH
12 THE UPDATED AVOIDED COST AND
13 PROPOSED TARIFF MODIFICATIONS

DOCKET NO. E-01575A-14-0232

DECISION NO. _____

ORDER

14 Open Meeting
15 Date to be Determined
16 Phoenix, Arizona

17 BY THE COMMISSION:

18 FINDINGS OF FACT

19 1. Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") is certified to provide
20 electric service as a public service corporation in the state of Arizona.

21 Background

22 2. On July 1, 2014, SSVEC filed an application for approval to (1) update the avoided
23 cost that is contained in its Net Metering Tariff; (2) add a Fixed Cost Recovery Fee; and (3) designate
24 September as the only True-Up month.

25 Net Metering Avoided Cost Update

26 3. SSVEC's Net Metering Tariff was approved by the Commission in Decision No.
27 71463 (January 26, 2010) and most recently revised with updated avoided costs in Decision No. 74038
28 (August 16, 2013).

...

1 4. Net Metering allows electric utility customers to be compensated for generating their
2 own energy from renewable resources, fuel cells, or Combined Heat and Power. If the customer's
3 energy production exceeds the energy supplied by SSVEC during a billing period, the customer's bill
4 for subsequent billing periods is credited for the excess generation. That is, the excess kWh generated
5 during the billing period is used to reduce the kWh billed by SSVEC during subsequent billing
6 periods.

7 5. Each September or March (or for a customer's final bill upon discontinuance of
8 service), SSVEC credits the customer for the balance of any remaining excess kWh. The payment for
9 the purchase of these excess kWh is at SSVEC's annual average avoided cost, which is specified on the
10 Net Metering Tariff. Arizona Administrative Code R14-2-2302(1) defines avoided cost as "the
11 incremental cost to an Electric Utility for electric energy or capacity or both which, but for the
12 purchase from the Net Metering facility, such utility would generate itself or purchase from another
13 source."

14 6. SSVEC's Net Metering Tariff provides for the annual average avoided cost to be
15 determined by the average wholesale fuel and energy cost per kWh charged by SSVEC's wholesale
16 power suppliers during the previous 12 months calculated with the receipt of the May wholesale
17 power bills. SSVEC is required to file its updated avoided cost calculations with the Commission no
18 later than July 1 of each year. This updated avoided cost, after approval by the Commission, would
19 become effective on September 1.

20 7. SSVEC's current approved avoided cost rate is \$0.0364 per kWh. SSVEC proposes
21 that the rate be lowered to \$0.0307 per kWh. SSVEC states that the decrease in the avoided cost is
22 due to SSVEC's change from using Western Area Power Authority as its balancing agent to Arizona
23 Electric Power Cooperative ("AEPSCO"). AEPSCO implemented new rates that raised monthly fixed
24 service charges and lowered kWh energy charges. In addition, SSVEC was able to purchase some
25 energy at below market rates which also reduced SSVEC's avoided cost. Staff has reviewed SSVEC's
26 purchased power costs that resulted in the \$0.0307 per kWh rate and confirms that the proposed rate
27 reflects SSVEC's avoided cost.

28 ...

1 8. Therefore, Staff has recommended that SSVEC's proposed annual average avoided
2 cost for its Net Metering Tariff of \$0.0307 per kWh be approved, and become effective September 1,
3 2014.

4 **Fixed Cost Recovery Fee**

5 9. The second part of SSVEC's application requests approval of a monthly Fixed Cost
6 Recovery Fee ("FCRF"). The FCRF would be a new customer charge to recover a portion of the
7 fixed costs embedded in SSVEC's volumetric energy rates that are lost because of customers' self-
8 generation under SSVEC's Net Metering program. In other words, SSVEC seeks to place a new
9 charge on all existing and future Net Metering customers to partially offset the revenues lost because
10 of Net Metering customers' reduced purchases of electric energy from SSVEC.

11 10. Under SSVEC's proposed FCRF, all solar photovoltaic ("PV") customers will be
12 subject to the new charge based on the date of installation of the customer's PV system. For PV
13 systems installed prior to January 1, 2015, the charge would be \$0.50 per kW of DC panel rating. For
14 systems installed after January 1, 2015, the charge would be \$1.00 per kW of DC panel rating.

15 11. SSVEC states that the additional monthly charge to residential customers would be
16 within the range of \$0.18 to \$12.50 for systems installed prior to January 1, 2015, with an average
17 charge of \$2.95 for a 5.9 kW average sized system. For customers installing PV systems after January
18 1, 2015, the charge would range from \$3.00 and \$24.96, with the average charge being \$6.00. The
19 monthly FCRF charge for commercial customers would range from \$0.16 to \$42.00, with an average
20 charge of \$7.37.

21 12. SSVEC believes that the adoption of an FCRF is permitted under section R14-2-2305
22 of the Net Metering Rules. However, Staff believes that this section of the Net Metering Rules is
23 intended to allow the adoption of relatively minor charges to recover the cost of operational
24 equipment such as special metering or billing software upgrades required by a net metering program.
25 Staff further believes that an FCRF is a rate design mechanism that necessitates the fine-grained
26 documentation and cost-of-service studies required in a general rate case. In addition, SSVEC also
27 recently received increased rates as the result of an expedited rate case under A.A.C. R14-2 (Decision
28 ...

1 No. 74381; March 19, 2014). In addition, it appears that the implementation of this rate design
2 mechanism may result in an increase in rates to a certain class of SSVEC customers, and that SSVEC
3 has not provided notice of this possible increase to its customers. For these reasons Staff concludes
4 that the implementation of the FCRF as proposed by SSVEC is best processed within the context of a
5 general rate case application. Therefore, Staff has recommended that the Commission not approve
6 SSVEC's proposed Fixed Cost Recovery Fee, and that such a fee not be considered outside of a full
7 rate case proceeding.

8 Elimination of March True-Up

9 13. The third part of SSVEC's application requests the elimination of the March True-Up
10 and the designation of September as SSVEC's only annual True-Up. Presently, SSVEC is unique
11 among Arizona electric utilities by having two True-Up periods (i.e. March and September). SSVEC
12 was ordered to offer customers a choice between a winter (March) True-Up and a summer
13 (September) True-Up under Decision No. 71463 (January 26, 2010).

14 14. SSVEC states that it is requesting the deletion of the March True-Up "...to eliminate
15 confusion and simplify things for SSVEC, the Solar Installers, and SSVEC customers by having a
16 single "True-Up" like the rest of the electric utilities in Arizona." SSVEC further states that
17 customers that have already selected the March True-Up will be allowed to continue with this
18 selection. However, the single September True-Up would be for all new Net Metering customers.

19 15. Staff notes that the two True-Up periods were ordered by the Commission based on
20 customer requests. Therefore, Staff has recommended that SSVEC's request to eliminate the March
21 True-Up not be approved because the requirement was set forth in a prior Commission decision and
22 that SSVEC may not have laid the necessary ground work for eliminating this requirement.

23 Summary of Recommendations

24 16. Staff has recommended that SSVEC's updated avoided cost for Net Metering of
25 \$0.0307 per kWh be approved, with an effective date of September 1, 2014.

26 17. Staff has further recommended that the Commission not approve SSVEC's proposed
27 Fixed Cost Recovery Fee, and that such a fee not be considered outside of a full rate case proceeding.

28 ...

1 18. Staff has further recommended that the Commission not approve SSVEC's request to
2 eliminate the March "True-Up" option for new Net Metering customers.

3 19. Staff has further recommended that SSVEC be required to file, with Docket Control, a
4 revised Net Metering Tariff in compliance with the Decision in this case within 15 days of the
5 effective date of the Decision.

6 CONCLUSIONS OF LAW

7 1. Sulphur Springs Valley Electric Cooperative, Inc. is an Arizona public service
8 corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

9 2. The Commission has jurisdiction over Sulphur Springs Valley Electric Cooperative,
10 Inc. and over the subject matter of the application.

11 3. The Commission, having reviewed Staff's Memorandum dated August 12, 2014,
12 concludes that it is in the public interest to approve updated avoided costs for Net Metering.

13 ORDER

14 IT IS THEREFORE ORDERED that Sulphur Springs Valley Electric Cooperative, Inc.'s
15 updated avoided cost for Net Metering of \$0.0307 per kWh is hereby approved, and shall become
16 effective September 1, 2014.

17 ...
18 ...
19 ...
20 ...
21 ...
22 ...
23 ...
24 ...
25 ...
26 ...
27 ...
28 ...

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc.'s proposed Fixed Cost Recovery Fee is not approved, and that such a fee shall not be considered outside of a full rate case proceeding.

IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. shall continue to offer two Net Metering True-Up months (i.e. March and September) and Net Metering customers shall continue to be offered a choice of which True-Up month to be used.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, 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 _____, 2014.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:RBL:sms/WVC

1 SERVICE LIST FOR: SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
2 DOCKET NO. E-01575A-14-0232

3 Mr. Jack Blair
4 Mr. David K. Bane
5 Sulphur Springs Valley Electric Cooperative, Inc.
6 311 East Wilcox
7 Sierra Vista, AZ 85635

8 Ms. Janice M. Alward
9 Chief Counsel, Legal Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Mr. Steven M. Olea
14 Director, Utilities Division
15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007

18
19
20
21
22
23
24
25
26
27
28