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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission
DOCKETED

AUG 15 2014

ORIGINAL

DOCKETED BY

DOCKET NO. E-01575A-14-0232

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

**COMMENTS ON STAFF'S AUGUST
12, 2014, MEMORANDUM AND
PROPOSED FORM OF ORDER**

On July 1, 2014, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC" or the "Cooperative") filed an application for approval to (i) update the avoided cost that is contained in its net metering tariff; (ii) add a new Fixed Cost Recovery Fee; and (iii) designate September as the only true-up month, eliminating March as an alternative true-up month option. On August 12, 2014, Utilities Division Staff ("Staff") filed a memorandum and proposed form of order recommending approval of SSVEC's updated avoided cost for Net Metering but denial of the Cooperative's request for the new Fixed Cost Recovery Fee and request to eliminate March as an alternative true-up month. For the reasons set forth herein, and in the Cooperative's July 1, 2014 filing, SSVEC urges the Commission to approve the updated avoided cost, the proposed new Fixed Cost Recovery Fee and elimination of the March true-up option.

DISCUSSION

1. Net Metering Avoided Cost Update.

Staff recommends approval of SSVEC's proposed annual average avoided cost for its Net Metering Tariff of \$0.0307 per kWh with an effective date of September 1, 2014. The approval of the new avoided cost rate is the time-sensitive component of SSVEC's filing in this docket and the

1 Cooperative greatly appreciates Staff's expeditious review and processing of its application. There
2 have been no requests for intervention or customer comments filed in this docket. Thus, the
3 Cooperative urges the Commission to adopt Staff's recommendation regarding approval of the
4 new avoided cost.

5 SSVEC further requests that the Commission include Staff's August 12, 2014
6 memorandum and proposed form of order on its agenda for the August 21, 2014 contingency Open
7 Meeting so that the new avoided cost can be approved prior to the September 2014 true-up.
8 However, if the Commission is not prepared to address the Cooperative's other requests regarding
9 the new Fixed Cost Recovery Fee and elimination of the March true-up option at this time, then
10 SSVEC requests that the Commission bifurcate the issues and approve the updated avoided cost at
11 its August 21, 2014 Open Meeting and address the other issues at the September Open Meeting.

12 **2. Fixed Cost Recovery Fee.**

13 The proposed new Fixed Cost Recovery Fee will allow SSVEC to take a small but
14 important first step in beginning to recover a portion of the lost base costs associated with net
15 metering members. As a result of net metering, members with installed rooftop solar systems
16 avoid paying for most of the electric services they use. These avoided costs are then paid by the
17 non-net metering members of the Cooperative through higher rates. This shifting of costs is
18 inequitable and the inequity increases with the installation of each new rooftop solar system. Thus,
19 SSVEC is seeking to address this inequity before it becomes too large a problem to fix with a
20 balanced and incremental solution.

21 Staff has recommended denial of the Cooperative's proposed Fixed Cost Recovery Fee on
22 the basis that such fees are best addressed within a general rate case. In support of its position,
23 Staff lists four points in its August 12, 2014 memorandum and proposed order, each of which are
24 discussed below.

- 1
- 2 • *Staff believes that A.A.C. R14-2-2305 does not permit the proposed new*
 - 3 *fixed cost recovery fee. Rather, Staff believes the rule allows the adoption*
 - 4 *of only “relatively minor charges to recover the cost of operational*
 - 5 *equipment such as special metering or billing software upgrades required*
 - 6 *by a net metering program.”¹*

7 Staff’s interpretation of A.A.C. R14-2-2305 is not supported by the plain language of the
8 rule itself and should be rejected. Arizona Administrative Code R14-2-2305 provides as follows:

9 Net Metering charges shall be assessed on a nondiscriminatory basis. Any
10 proposed charge that would increase a Net Metering Customer’s costs beyond
11 those of other customers with similar load characteristics or customers in the same
12 rate class that the Net Metering Customer would qualify for if not participating in
13 Net Metering shall be filed by the Electric Utility with the Commission for
14 consideration and approval. The charges shall be fully supported with cost of
15 service studies and benefit/cost analyses. The Electric Utility shall have the
16 burden of proof on any proposed charge.

17 The limitation urged by Staff—that the rule permits only relatively minor charges to
18 recover the cost of operational equipment such as special metering or billing software upgrades
19 required by a net metering program—does not appear anywhere in the text of the rule. Contrary to
20 the assertion of Staff, SSVEC believes that approval of the proposed Fixed Cost Recovery Fee is
21 fully consistent with the rule. First, it is clear that the proposed new Fixed Cost Recovery Fee will
22 apply on a non-discriminatory basis, and Staff has provided no evidence or argument to the
23 contrary. Second, the proposed fee has been submitted to the Commission for consideration and
24 approval in this docket, as required by A.A.C. R14-2-2305, and the Commission has ample
25 authority to approve the charge. To this point, the Commission recently approved an interim lost
26 fixed cost recovery charge of \$0.70 per kW per month for APS in Decision 74202 adopted late last
year.² SSVEC would note also that the interim fee was approved outside of a rate case, although

¹ Staff Memorandum dated August 12, 2014, at 2.

² Docket E-01345A-13-0248.

1 the Commission directed that the cost-shift issues raised by net metering should be further
2 considered in the next APS rate case.

3 While SSVEC did not submit a cost of service study in this docket, the Cooperative did file
4 a cost of service study in its most recent rate case which was filed September 30, 2013 and
5 approved by the Commission in Decision 74381 on March 19, 2014 (Docket E-01575A-13-0296).
6 The fixed cost portions of the kWh charges used on the net metering surcharge analysis are still
7 current and SSVEC incorporated the cost of service study by reference in the application filed in
8 this docket at pages 2-3. Thus, the Cooperative believes that it has complied with the requirement
9 of A.A.C. R14-2-2305 that it submit cost of service studies and benefit/cost analyses.

- 10 • *Staff believes that a fixed cost recovery fee "is a rate design mechanism*
11 *that necessitates the fine-grained documentation and cost-of-service*
12 *studies that must be established within the context of a general rate case*
13 *under A.A.C. R14-2-10.3."*³

14 As discussed above, the Commission recently approved an interim fixed cost recovery fee
15 for APS outside of a general rate case in Decision 74202. It is important to note that there were
16 many intervenors in the APS docket, yet no party filed an application for rehearing of Decision
17 74202 on the grounds that the Commission exceeded its authority (or on any other grounds).
18 Clearly, the Commission had authority to approve a fixed cost recovery fee for APS outside of a
19 general rate case and it has the same authority to approve the charge proposed by SSVEC.

20 No one would dispute that the preparation and prosecution of a rate case is expensive, and
21 the costs of the rate case are ultimately borne by the rate payers. While the new alternative
22 streamlined rule for cooperative rate cases codified in A.A.C. R14-2-107 provides a lower-cost
23 option for requesting smaller rate increases, the rule does not permit an applicant to request a
24 change in an existing adjustor or surcharge mechanism or adoption of a new adjustor or surcharge
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26 ³ Staff Memorandum dated August 12, 2014, at 2-3.

1 mechanism.⁴ Thus, Staff's recommended approach would require SSVEC to file a general rate
2 case under A.A.C. R14-2-103 at a cost that could very well top \$300,000. To put this in
3 perspective, SSVEC estimates that revenues generated from the proposed Fixed Cost Recovery
4 Fee would total approximately \$2,500 per month or approximately \$30,000 per year, based upon
5 current net metering member counts. Obviously, it is difficult to make an economic case for filing
6 a general rate case at this time simply to implement the new Fixed Cost Recovery Fee. Moreover,
7 as noted above, SSVEC filed a streamlined rate case in 2013 and the Commission approved a
8 modest rate increase earlier this year. The Cooperative has no plans to file either a streamlined
9 rate case or a general rate case within the foreseeable future.

10 With its proposed Fixed Cost Recovery Fee, SSVEC is seeking to address the existing
11 inequity of net metering before the problem becomes too large to fix in a balanced and gradual
12 way. If the Commission does not approve the proposed fee in this docket, it will likely be a
13 number of years before the Cooperative is able to address the issue in a general rate case. To wait
14 until the next general rate case will do nothing but make the cure worse for the Cooperative's net
15 metering members and further burden the non-net metering members. The Commission has often
16 endorsed the wisdom of gradualism in rate setting. Approving the Fixed Cost Recovery Fee
17 proposed by SSVEC will honor the principal of gradualism and is fully consistent with the public
18 interest.

- 19 • *Staff asserts that SSVEC recently received increased rates as a result of an*
20 *expedited rate case under A.A.C. R14-2-107 (Decision 74381).⁵*

21 The relevance of this assertion by Staff is not immediately apparent to SSVEC. While it is
22 true that the Commission recently approved new rates for the Cooperative in Decision 74381, the
23 increase was modest. Implementation of the proposed Fixed Cost Recovery Fee is a similarly
24 modest increase that will not adversely impact the Cooperative's net metering members.

25 ⁴ A.A.C. R14-2-107(B)(10).

26 ⁵ Staff Memorandum dated August 12, 2014, at 3.

- 1 • *Staff asserts that SSVEC has not provided notice of the proposed new fixed*
2 *cost recovery fee to its members.*⁶

3 While SSVEC has not provided specific notice of this docket to its members, many of the
4 Cooperative's members have been consulted and have provided input regarding the proposed
5 Fixed Cost Recovery Fee. SSVEC has had numerous meetings with both members who have net
6 metering and those who do not. Based upon those meetings, a substantial number of the members
7 who do not have net metering—representing approximately 98.4% of members—believe they are
8 subsidizing net metering members, and they have expressed their view that something should be
9 done to address the inequity sooner rather than later. Moreover, those members with net metering
10 understand the argument for a fixed cost recovery fee, but they also have expressed concerns that
11 their decision to install rooftop solar was based upon an economic analysis that did not
12 contemplate a Fixed Cost Recovery Fee. Nevertheless, the Cooperative has ascertained that the
13 vast majority of its net metering customers would be willing to pay a reasonable surcharge now to
14 avoid the possibility of facing more draconian surcharges a few years from now. This resolution
15 also satisfies, to a degree, those members who do not have net metering and who believe they are
16 subsidizing net metering customers.

17 As described in SSVEC's application in this docket, an independent survey of members
18 conducted by Severson and Associates from South Dakota confirmed the above-stated
19 observations and conclusions of the Cooperative based upon the member meetings. In fact, to
20 double check that the results of the focus groups were reliable, net metering members were polled
21 on two separate occasions. Each poll sampled 150 net metering members (300 total) out of a total
22 net metering member base of 972, which is statistically accurate to plus or minus 3.3%. In
23 addition, before filing the application in this docket, several additional focus groups were
24 conducted by SSVEC to explain the filing to the net metering members. Thus, a large percentage
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26 ⁶ *Id.*

1 of the Cooperative's current net metering members have been involved in this process, either
2 through one of the two polls or through the focus groups which assisted in the development of the
3 Fixed Cost Recovery Fee proposal.

4 SSVEC would note that it is not seeking to recover from the net metering members
5 anything close to the true lost base costs, but rather a small portion, which will not be an issue with
6 the vast majority of the net metering members that the Cooperative has talked to and polled over
7 the last year. SSVEC would also note that the Board of Directors, democratically elected by the
8 Cooperative's members, unanimously passed a resolution, a copy of which was attached to the
9 application, to move forward with the small net metering surcharges.

10 A decision by the Commission not to act on this request at this time is not what the
11 member-owners of SSVEC want, is not what the Board of Directors wants, and will accomplish
12 nothing more than "kick the can down the road," resulting in the next rate case being filed sooner
13 than planned and the base monthly charge for net metering members higher than the proposal that
14 has been submitted in this docket. SSVEC understands the recommendation by Staff to wait until
15 the Commission, which is in the midst of workshops and discussions, decides how best to handle
16 the issue. However, just as in the adoption of the REST rules years ago, there can be no one-size-
17 fits-all solution to this issue. Because SSVEC did not file for a rate increase from 1993 to 2008,
18 the basic cost of service fixed charge on the bill got out of sync with fixed charges of other electric
19 utilities, resulting in SSVEC still having a lower fixed charge (\$10.25 per month for residential)
20 than the other electric utilities. Simply increasing the base charge for everyone will not solve the
21 issue as everyone would be affected instead of only those who have net metering who are not
22 paying their "fair share" of base system costs.

23 For all of the reasons discussed above, SSVEC requests that the Commission approve the
24 proposed Fixed Cost Recovery Fee. For the Commission's convenience, SSVEC has attached
25 hereto as Attachment 1 a Proposed Amendment # 1 that would approve the proposed Fixed Cost
26

1 Recovery Fee. However, if the Commission is not prepared to address the Cooperative's proposal
2 regarding the Fixed Cost Recovery Fee at the August 21, 2014 Open Meeting, then SSVEC
3 requests that the Commission bifurcate the issues and approve the updated avoided cost at the
4 August 21, 2014 Open Meeting and address the proposed Fixed Cost Recovery Fee at the
5 September Open Meeting. For the Commission's convenience, SSVEC has attached hereto as
6 Attachment 2 a Proposed Amendment # 2 that would bifurcate the issues in this docket so that the
7 Commission can approve the updated avoided cost at this time and address the other issues at its
8 September 2014 Open Meeting.

9 **3. Elimination of March True-Up Option.**

10 The third part of SSVEC's filing requests the elimination of the March true-up and the
11 designation of September as the only annual true-up month. As explained in Attachment E
12 (Question #4) to the Cooperative's application in this docket, SSVEC selected September as its
13 preferred month for the annual true-up. However, during the Open Meeting to approve the
14 Cooperative's net metering tariff, one member expressed the desire to true-up in March since the
15 member's higher consumption period was in the winter and not the summer. Thus, based upon
16 this single member, an amendment was offered and approved by the Commission which
17 established two true-up months (September and March) instead of one. As Staff correctly notes,
18 SSVEC is unique among Arizona electric utilities by having two true-up months.

19 In practice, having two true-up months has led to member confusion. Some members
20 forget which month they picked for the true up while others misunderstand and believe that the
21 true-up is performed two times each year. The matter is further complicated by the fact that
22 rooftop solar installers who work with other electric utilities in the State are accustomed to a single
23 true-up per year and they fail to advise the purchaser of that fact or they forget to indicate on the
24 sign-up form which month is to be used for the true-up. For all of these reasons, SSVEC asked
25 permission to eliminate the March true-up option. Members who have already selected March as
26

1 their true-up month may continue to use March. However, new members would be required to use
2 September as their true-up month.

3 Staff opposes eliminating the March true-up on the grounds that: (i) the Commission
4 ordered two true-ups in Decision 71463 and (ii) SSVEC "may not have laid the necessary ground
5 work for eliminating this requirement." While it is not clear to SSVEC what additional
6 groundwork Staff may have in mind, the record in this docket reflects that the requirement for a
7 March true-up was based upon a request by a single member, that two true-up months is causing
8 member confusion, and that SSVEC is unique among Arizona's electric providers in having two
9 true-up months. SSVEC requests that the Commission approve the Cooperative's request to
10 eliminate the March true-up. For the Commission's convenience, SSVEC has attached hereto as
11 Attachment 3 a Proposed Amendment # 3 that would approve the requested elimination of the
12 March true-up option. However, if the Commission is not prepared to address the Cooperative's
13 proposal regarding elimination of the March true-up at this time, then SSVEC requests that the
14 Commission bifurcate the issues and approve the updated avoided cost at the August 21, 2014
15 Open Meeting and address elimination of the March true-up option at the September Open
16 Meeting. For the Commission's convenience, SSVEC has attached hereto as Attachment 2 a
17 Proposed Amendment # 2 that would bifurcate the issues in this docket so that the Commission
18 can approve the updated avoided cost at this time and address the other issues at the September
19 Open Meeting.

20 RESPECTFULLY SUBMITTED this 15th day of August, 2014.

21 Sulphur Springs Valley Electric Cooperative, Inc.

22 By 
23 David Bane
24 SunWatts Program Manager

1 Original and thirteen (13) copies filed this
2 15th day of August, 2014, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 W. Washington,
6 Phoenix, AZ 85007

7 Copies of the foregoing hand-delivered this
8 15th day of August, 2014, to:

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ATTACHMENT 1

PROPOSED AMENDMENT # 1

DATE PREPARED: August 15, 2014

COMPANY: Sulphur Springs Valley Electric Cooperative, Inc.

DOCKET NO.: E-01575A-14-0232

OPEN MEETING DATES: August 21, 2014 AGENDA ITEM: U-

Page 4, line 8,

ADD a new FINDING OF FACT NO. 13, as follows:

13. On August 15, 2014, SSVEC filed comments in this docket addressing Staff's Memorandum dated August 12, 2014, and further supporting its request for the proposed Fixed Cost Recovery Fee. SSVEC asserts that the proposed Fixed Cost Recovery Fee will allow SSVEC to take a small but important first step in beginning to recover a portion of the lost base costs associated with net metering customers. SSVEC asserts that as a result of net metering, customers with installed rooftop solar systems avoid paying for most of the electric services they use. SSVEC asserts that these avoided costs are then paid by the non-net metering customers through higher rates and that this shifting of costs is inequitable. SSVEC asserts that it is seeking to address this inequity before it becomes too large a problem to fix with a balanced, incremental solution. SSVEC notes that the Commission recently approved an interim Fixed Cost Recovery Fee for APS outside of a general rate case in Decision 74202 (December 3, 2013).¹ SSVEC asserts that a large percentage of its current net metering customers are aware of the proposal and have been involved in the process either through one of the two polls commissioned by SSVEC or through focus groups which assisted in the development of the proposed Fixed Cost Recovery Fee.

RENUMBER the remaining Findings of Fact.

Page 5, line13,

ADD a new CONCLUSION OF LAW NO. 4, as follows:

The Commission, having reviewed Staff's Memorandum dated August 12, 2014, and SSVEC's comments dated August 15, 2014, concludes that addressing the net metering cost-shift at this time through adoption of the proposed Fixed Cost Recovery Fee is in the public interest.

¹ Docket No. E-01345A-13-0248.

Page 6, lines 1-3,

DELETE the ORDERING PARAGRAPH and REPLACE it with the following:

IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc.'s proposed Fixed Cost Recovery Fee is approved for all PV customers. For PV systems installed prior to January 1, 2015, the monthly charge will be \$0.50 per kW of DC panel rating and for systems installed on or after January 1, 2015, the monthly charge will be \$1.00 per kW of DC panel rating.

Page 6, line 7,

ADD a new ORDERING PARAGRAPH, as follows:

IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc., shall 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.

Make all other conforming changes.

ATTACHMENT 2

PROPOSED AMENDMENT # 2

DATE PREPARED: August 15, 2014

COMPANY: Sulphur Springs Valley Electric Cooperative, Inc.

DOCKET NO.: E-01575A-14-0232

OPEN MEETING DATES: August 21, 2014 AGENDA ITEM: U-

Page 6, lines 1-3,

DELETE the ORDERING PARAGRAPH and REPLACE it with the following:

IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc.'s request for approval of a new Fixed Cost Recovery Fee will not be approved at this time, but shall be subject to further discussion by the Commission at the September 2014 Open Meeting.

Page 6, lines 4-6,

DELETE the ORDERING PARAGRAPH and REPLACE it with the following:

IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc.'s request to eliminate the March True-Up will not be approved at this time, but shall be subject to further discussion by the Commission at the September 2014 Open Meeting.

Page 6, line 7,

ADD a new ORDERING PARAGRAPH, as follows:

IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc., shall 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.

Make all other conforming changes.

ATTACHMENT 3

PROPOSED AMENDMENT # 3

DATE PREPARED: August 15, 2014

COMPANY: Sulphur Springs Valley Electric Cooperative, Inc.

DOCKET NO.: E-01575A-14-0232

OPEN MEETING DATES: August 21, 2014 AGENDA ITEM: U-

Page 5, line13,

ADD a new CONCLUSION OF LAW NO. 4, as follows:

The Commission, having reviewed Staff's Memorandum dated August 12, 2014, and SSVEC's comments dated August 15, 2014, concludes that eliminating the March True-Up will reduce customer confusion and simplify administration of the Net Metering Tariff for SSVEC, which is in the public interest.

Page 6, lines 4-6,

DELETE the ORDERING PARAGRAPH and REPLACE it with the following:

IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc., shall eliminate the March True-Up as an option for Net Metering customers applying for service after the effective date of this Decision. Customers who have already selected the March True-Up will be allowed to continue that selection.

Page 6, line 7,

ADD a new ORDERING PARAGRAPH, as follows:

IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc., shall 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.

Make all other conforming changes.