Grand Canyon State Electric
Cooperative Association, Inc.
Your Touchstone Energy® Cooperatives

October 20, 2014

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Re: *Cooperatives' Comments on the Staff Proposed Rate Design Application Procedures Filed on September 29, 2014; Docket No. AU-00000C-14-0329*

Dear Sir/Madam:

The Grand Canyon State Electric Cooperative Association ("GCSECA"), on behalf of its Arizona cooperative members,[1] submits the attached comments on the Staff Proposed Rate Design Application Procedures filed on September 29, 2014.

RESPECTFULLY SUBMITTED this 20th day of October, 2014.

GRAND CANYON STATE ELECTRIC
COOPERATIVE ASSOCIATION

By ______________________

John Wallace
CEO

[1] The Arizona cooperative members are: Duncan Valley Electric Cooperative, Inc.; Graham County Electric Cooperative, Inc.; Graham County Utilities; Mohave Electric Cooperative, Inc.; Navopache Electric Cooperative, Inc.; Sulphur Springs Electric Cooperative, Inc.; and Trico Electric Cooperative, Inc. (collectively the "Electric Cooperatives").

Original and 13 copies filed with Docket
Control this 20th day of October, 2014, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

ELECTRIC COOPERATIVE COMMENTS ON RATE DESIGN APPLICATION PROCEDURES FOR ELECTRIC AND GAS PUBLIC SERVICE CORPORATIONS

DOCKET NO. AU-00000C-14-0329

Introduction

The following comments on the filing from Arizona Corporation Commission ("ACC" or "Commission") Staff dated September 29, 2014 regarding the optional rate design application process ("RDAP") are provided by Grand Canyon State Electric Cooperative Association, Inc. ("GCSECA") on behalf of Duncan Valley Electric Cooperative, Inc. ("Duncan"), Graham County Electric Cooperative, Inc. and Graham County Utilities ("Graham"), Mohave Electric Cooperative, Inc. ("Mohave"), Navopache Electric Cooperative, Inc. ("Navopache"), Trico Electric Cooperative, Inc. ("Trico") and Sulphur Springs Valley Electric Cooperative, Inc. ("Sulphur") (collectively "Electric Cooperatives" or "ECs").[1]

Cooperatives' General Comments

The customer-elected Boards of member-owned and operated not for profit cooperatives appreciate the Commission's recognition that adoption of net metering, renewable energy ("RE") and energy efficiency ("EE") rules, individually and collectively, are not revenue neutral and their impacts necessitate the evaluation of existing rate designs in order to achieve a fair and equitable balance among electric customers and a financially stable utility. Given each utility's unique cost and rate structure, availability of information and range of benefits and costs associated with RE, EE and net metering, a one-size fits all policy for rate design is not appropriate or reasonable. However, the Staff proposed process is too complex and costly to be

[1] Each EC reserves the right to make comments individually.

of much use to Cooperatives, especially if the costs will not be recoverable. For this reason, it is important that any Commission approved RDAP remain optional and should not be mandated.

The Cooperatives agree with the findings in the APS Decision No. 74202 that there is a cost shift from DG customers to non-DG customers as a result of Net Metering. Net metering creates a subsidy for customers who receive net metering. Each cooperative and its members have incurred the fixed costs of a generation, transmission and distribution system capable of serving all member/customers. Rates have been traditionally designed to include a significant portion of these fixed costs in the energy charge. As a result, a customer that remains dependent on the system, but merely reduces the amount of energy consumed, such as a net metered customer, avoids paying the full cost of those facilities and shifts the costs to the cooperative's other members. To demonstrate the magnitude of net metering cost shift, Sulphur Springs Valley Electric Cooperative, Inc. has estimated at its current rate of DG installations, the cumulative total of the fixed cost that will not be paid by net metered customers and to be shifted to other customers will be approximately $30 million dollars by the year 2025.

The Electric Cooperatives support a Commission policy that mitigates this cost shift by increasing monthly customer charges until they collect a significantly larger portion of the fixed costs incurred to serve the customer and, as an interim measure, collecting a separate charge from customers with net metering.

ELECTRIC COOPERATIVE COMMENTS ON RATE DESIGN APPLICATION PROCEDURES FOR ELECTRIC AND GAS PUBLIC SERVICE CORPORATIONS

DOCKET NO. AU-00000C-14-0329

The Cooperatives have been providing cost of service studies that demonstrate that the fixed costs associated with providing service are not being recovered by their fixed customer or availability charges. The ACC Staff and other parties to the Cooperatives' rates cases, while not disputing this fact, but have opposed increasing them, especially for residential customers. The Electric Cooperatives are sensitive to major increases in the minimums, especially when coupled with a significant overall increase in rates. The ECs anticipate moving toward more realistic minimum charges incrementally under the new streamlined rate process or, possibly more quickly, where a traditional rate case is filed.

The Cooperatives do not believe a separate RDAP is required to achieve fair and equitable rates and address the current subsidization created by the existing net metering rules. Cooperatives believe considering rate design issues during a rate case, or bifurcating them for consideration after the revenue requirement is set, remains the more appropriate way to consider the issue.

If the Commission desires to consider rate design issues generically, then it should do so totally outside of rate cases and provide general guidance to utilities - such as determining what aspects of typical utility system should be considered to serve all customers (i.e., the minimum system) and subject to recovery thorough monthly minimums or surcharges to compensate for low energy usage due to alternative energy sources (e.g., alternative supplier or on-site generation) to the extent recovered in the energy charge. Low income/low energy consumers could be defined as excluding customers receiving an alternative energy supply through third parties or on-site generation.

Finally, it is not clear from the Staff proposal whether or not the RDAP is meant to address all issues associated with a utility's current rate design such as inter and intra rate class subsidies as well as issues created by RE, EE and net metering. Inter and intra customer class subsidies have existed long before the rate design issues created by RE, EE and net metering.

Generic Rate Design Proceeding vs. Staff Proposed RDAP

The Staff proposed process has been designed to address specific rates by each utility through a rate case-like process instead of addressing the broader components of rate design. The proposed process effectively requires the utility to prepare and file two separate rate cases over a two year period. The first is filed mid test year and based upon projections. The second is filed post-test year based upon actual figures. The first filing is used to address rate design issues, but also acts as a cap for the revenue level that can be requested in the second filing. When electing this optional new process, the utility must also waive recovery of all costs associated with the first filing.

The Staff proposal flips the traditional way of handling complex rate design issues - bifurcate and handle after establishing revenue levels. Even where not bifurcated, Staff's rate design testimony is now usually filed after its revenue/rate of return testimony. Under the traditional approach, the Commission could allow new rates to go into effect (e.g., across the board), while rate design issues are debated and resolved. The traditional approach does not require the preparation of two separate rate filings.

This new alternative process would be unavailable to Cooperatives using the new streamlined process under R14-2-107. The streamlined process can be used to incrementally increase the percentage of revenues recovered through monthly minimums. However, where large percentage increases in monthly minimums (or other types of major changes in rate design) are desired, a traditional rate case filing is required.

The Cooperatives also question the value and necessity to go through the complex and expensive process that takes nine months as outlined by Staff to determine broader concepts associated with a utility's rate design.

Perhaps utilities should be presenting the broader components or scope of rate design changes rather than attempt to address individual utility rates as a part of a generic proceeding. For example, a utility may file an outline of the major proposed rate design goals and changes for Staff and other parties to review and provide comments as a part of a generic proceeding. This could be as simple as a utility filing outline of changes that states that the range of increase for all customer classes fixed monthly charges and/or demand charges and any corresponding increases or decreases to kWh rates that are necessary. A utility filing in the generic proceeding could also explain any new rates that will be introduced for rate classes due to cost shifts, lost revenues and margins along with the method of allocation and calculation. All of these rate design changes could provide estimated range of impacts and eliminate the need for the creation of a forecasted 12 month period and all the schedules associated with the Staff proposed RDAP.

This process also has the potential to be more collaborative with Staff and the other parties by determining other parties' positions on rate design concepts before a utility rate specific filing is made. Rate cases are litigated matters that often end up being a like it or leave it proposition. This approach will also allow for range of options and alternatives to be considered because of the limited utility investment in preparing options because the utility will not be calculating specific rates for classes under each alternative. Hopefully this will avoid a situation where the utility spends thousands of dollars developing a rate design proposal only to learn during the RDAP that the other parties are fundamentally opposed to key portions or the whole design.

The Cooperatives have several concerns about specific portions of the RDAP being proposed by Staff. First, forecasts should be permitted, but not required. Some utilities may decide that preparing forecasts are too expensive and time consuming without yielding significant differences in rates from actual information.

Additionally, the Staff Proposed RDAP addresses a major portion of a typical rate case. Therefore, if used, a shorter time clock period than 13 months should apply to subsequent rate cases phase.

Finally, a utility can potentially incur the time and expense of the RDAP and the ACC Hearing Division could ultimately decide to defer a decision on utility rate design proposals to the full rate case. This provision de-values the RDAP and should be eliminated.

The foregoing changes recognize, that when used, the RDAP is an integral part of the rate making process. They should result in a shorter and less expensive rate setting phase. As a result, there is no justification for disallowing recovery of costs incurred during the RDAP.

Conclusions:

Given each utility's cost and rate structure, availability of information and range of benefits and costs associated with net metering, a one-size fits all policy for rate design is not appropriate or reasonable. The cost shift created by having DG and Non-DG customers is a problem that has its roots in historic rate design practice which recovers fixed costs through the variable kWh consumption to keep the monthly service charge as low as possible. Net Metering, EE and a competitive wholesale market all highlight the flaws inherent in the traditional rate designs currently in place. The Staff proposed process is too complex and costly to be much use to the Electric Cooperatives, especially if the costs will not be recoverable. If the Commission desires to consider these rate design issues generically, then it should do so totally outside of rate cases and provide general guidance to utilities. Consequently, if rate design issues are not addressed through a generic proceeding, then the Cooperatives would request any Commission approved RDAP remain optional. The Cooperatives look forward to working with the Commission in this ongoing process.