

NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

AZ CORP COMMISSION

DOCKET CONTROL

COMMISSIONERS

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DOUG LITTLE

TOM FORESE

2015 MAR 25 AM 9 23

ORIGINAL

IN THE MATTER OF THE APPLICATION OF)
UNS ELECTRIC, INC. FOR (1) APPROVAL OF)
A NET METERING TARIFF AND (2) PARTIAL)
WAIVER OF THE NET METERING RULES.)

DOCKET NO. E-04204A-15-0099

APPLICATION

Arizona Corporation Commission

DOCKETED

MAR 25 2015

DOCKETED BY

UNS Electric, Inc., ("UNSE" or "the Company"), through undersigned counsel, hereby submits its application to the Arizona Corporation Commission ("Commission") for: (1) approval of a new net-metering tariff for future net metered customers that provides monthly bill credits for any excess energy produced from an eligible net metering facility at a "Renewable Credit Rate"¹ and (2) approval of a partial waiver of the Commission's Net Metering Rules (A.A.C. R14-2-2301 *et seq.*).

I. INTRODUCTION.

UNSE is experiencing exponential growth in the number of distributed solar rooftop systems in its service territory due to recent reductions in solar system costs and significant subsidies that users of these distributed generation systems ("DG Customers") receive through the combination of volumetric rate design and net metering.

¹ The proposed "Renewable Credit Rate" is the rate equivalent to the most recent utility scale renewable energy purchased power agreement connected to the distribution system of UNSE's affiliate, Tucson Electric Power Company. The current Renewable Credit Rate would be 5.84 cents per kWh. The rate would apply to future DG Customers that qualify for the Commission's Net Metering Rules.

1 Although UNSE's DG Customers remain connected to the grid and benefit from that
2 connection, they avoid paying much of the fixed costs of operating and maintaining the grid. This
3 results in an increasing amount of utility costs that are ultimately shifted to other customers. This
4 cost shift will continue to rise for the foreseeable future absent some fundamental change in
5 UNSE's rate design, its net-metering tariff or both. Through this application, UNSE proposes to
6 *partially* address this issue by adopting a restructured net metering tariff for customers that install
7 distributed generation ("DG") in the future.

8
9 **II. BACKGROUND.**

10 **UNSE's Net Metering Tariff Does Not Reflect the Realities of Today's DG Market.**

11 The DG landscape has changed significantly since the Commission's Renewable Energy
12 Standard ("RES") rules were adopted in 2006.² Net Metering rules were adopted in 2008³ and
13 UNSE's initial net metering tariff was approved in 2009⁴. The RES rules provided significant
14 customer-funded upfront incentives for installation of DG systems. The net metering tariffs
15 adopted under the Commission's Net Metering Rules have resulted in substantial ongoing
16 subsidies for DG Customers. DG installations have been and are further supported by tax credits.

17 Over this same period of time, through the evolution of photovoltaic ("PV") technology
18 and manufacturing efficiencies, the price of rooftop solar systems has declined by approximately
19 60%. In 2008, the average price of a rooftop solar system exceeded \$8 per watt. Today, the price
20 has fallen below \$3 per watt.

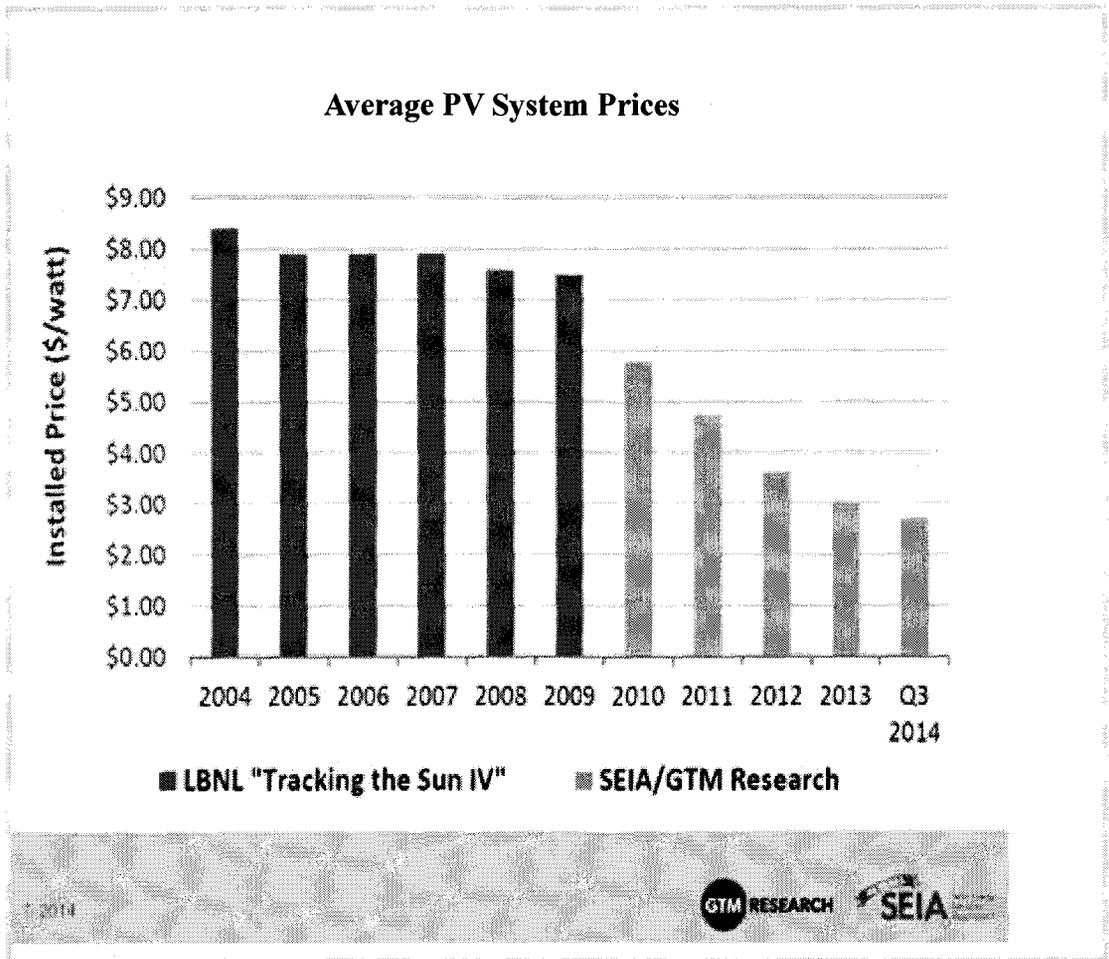
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² Decision No. 69127 (November 14, 2006).

26 ³ Decision No. 70567 (October 23, 2008). In Decision No. 69877 (August 28, 2007), the Commission
27 directed Commission Staff to prepare the Net Metering rules, stating "Net metering provides a financial
incentive to encourage the installation of DG, especially renewable resources."

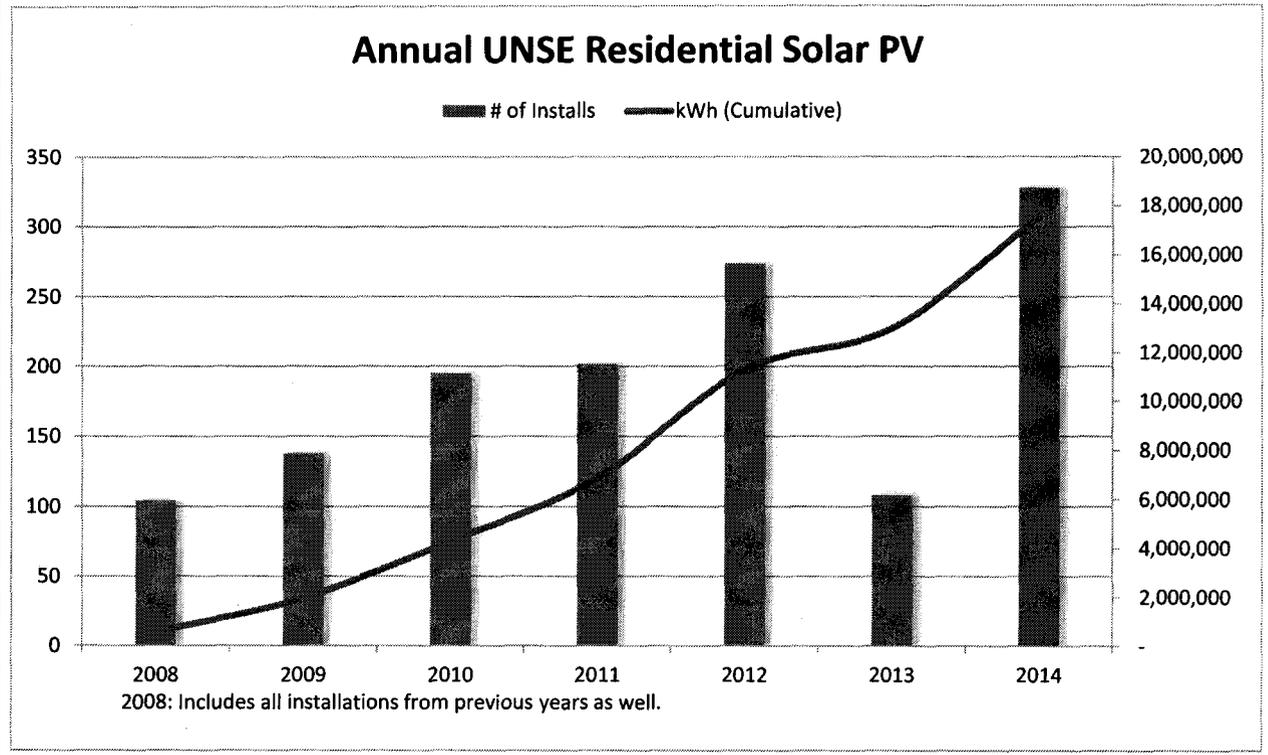
⁴ Decision No. 71412 (December 8, 2009).

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The upfront incentives, net metering subsidies and tax credits have been effective to increase the penetration of solar DG systems, particularly when combined with rapidly declining PV panel prices. In 2008, about 100 of UNSE's residential customers had solar DG systems. From 2008 to 2014, the number of residential solar rooftop installations grew by an average of 21% per year. The significant increase was more pronounced in 2014 when UNSE received 328 applications - nearly 25% of its total residential installations. UNSE has received 72 applications in the first two and a half months of 2015. Today, 1,421 of UNSE's residential customers have rooftop PV systems.

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Most of Arizona’s electric utilities, including UNSE, have now reduced or eliminated upfront incentives for solar DG systems. This first step in reducing subsidies for DG installations helped mitigate the RES surcharges paid by UNSE’s customers. As shown in the chart above, the number of DG installations in UNSE’s service territory continues to increase without upfront incentives. Under its renewable energy strategy, UNSE has established and maintained a robust portfolio, including a strong solar DG component. The output from DG systems in UNSE’s service area already far exceeds the RES requirement for renewable generation. In 2015, the RES residential DG requirement for UNSE is approximately 12,600 MWh.⁵ UNSE projects that in 2015 total generation from residential DG systems will exceed the RES DG requirement by nearly 29%⁶ and will essentially meet the RES DG requirement through 2017.

⁵ Decision No. 74877 (December 23, 2014), page 2, line 12.

⁶ UNSE 2015 REST Implementation Plan (Docket No. E-04204A-14-0249, July 1, 2014), Exhibit 5, page 1 shows UNSE’s projected 2015 DG output of 16,240 MWh.

1 **The 2014 Cost Shift Generated by DG Customers was approximately \$0.5 Million.**

2 As with other electric utilities both in Arizona and around the country, UNSE has suffered
3 a substantial rise in unrecovered fixed costs due to net metering. Under the Company's current
4 rate design, DG Customers do not pay for all of the fixed costs that UNSE incurs to serve them
5 because a large portion of those costs are recovered through volumetric kWh charges. According
6 to the cost of service study performed in conjunction with UNSE's 2012 rate case, the fixed costs
7 of providing electric service to a residential customer was \$42 per month. However, the only
8 fixed portion of a residential customer's bill is the \$10 monthly customer charge, which only
9 recovers about 25% of the UNSE's fixed costs to serve residential customers.⁷ As a result, UNSE
10 relies on volumetric sales and its inclining block rate design to recover the remaining 75% of its
11 fixed costs. Although UNSE initially suffers the loss of revenues intended to cover the fixed costs
12 of operating and maintaining its grid, those costs are eventually recovered from non-DG
13 Customers.

14 The Commission has acknowledged that the current Net Metering rules and traditional rate
15 design have resulted in a cost shift from DG Customers to non-DG Customers.⁸ Under UNSE's
16 current rate design and net metering tariff a significant amount of the fixed costs UNSE incurs to
17 serve DG Customers are already being shifted to other customers, while the remaining fixed costs
18 will go unrecovered until future rate cases. For UNSE, a portion of the lost fixed costs are shifted
19 to non-DG Customers through its Lost Fixed Cost Recovery Mechanism ("LFCR"), which was
20 approved in the Company's most recent rate case.⁹ The LFCR charge collects some of UNSE's
21 fixed system costs that go unrecovered when energy usage is reduced by Commission-mandated
22 energy efficiency and DG programs. In 2015, the LFCR is expected to recover approximately
23 \$279,000, or 72%, of fixed system costs that were not recovered from DG Customers in 2014.¹⁰

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25 ⁷ UNSE 2012 Rate Application, Page 29, line 20 of Direct Testimony of Craig Jones (Docket No. 04202A-
12-0504, December, 2012).

26 ⁸ See Decision No. 74202 (December 3, 2013), Findings of Fact 49, 50.

27 ⁹ Decision No. 74235 (December 31, 2013).

¹⁰ The LFCR charge is filed on May 15 of each year and includes the lost kWh sales from the prior 12-
month period.

1 However, DG systems added since UNSE's last test year through the end of 2014 result in
2 approximately \$0.5 million in **annual** subsidies that will ultimately be paid by non-DG customers.
3 Absent any changes to the Commission's current Net Metering Rules, UNSE estimates that the
4 \$0.5 million subsidy would grow by an additional \$100,000 to \$200,000 annually.

5 **Existing Levels of Subsidies are Unnecessary.**

6 Maintaining the existing levels of subsidies is unnecessary and inequitable. The number of
7 DG systems being added to UNSE's system each year is growing exponentially and the increasing
8 amount of fixed costs being shifted to non-DG customers is unfair and is not in the public interest.
9 UNSE believes it is time to make further reductions to the subsidies incentivizing DG installations
10 and thus reducing the burden on its non-DG customers.

11
12 **III. PROPOSED NET METERING TARIFF.**

13 UNSE is proposing changes to its net metering tariff to partially address the cost shift and
14 cost recovery issues described above. UNSE's present net metering tariff was approved outside of
15 a general rate case.¹¹ The current tariff tracks the Net Metering rules that require UNSE to
16 interconnect with customer-owned or leased DG facilities using bi-directional metering, net the
17 energy generated by the facility up to the customer's usage on an annual twelve-month rolling
18 basis and credit or pay the customer for excess energy generated above the customer's usage, on
19 an annual basis, at the utility's avoided cost.

20 This application requests approval of a new net metering tariff that will modify how new
21 DG Customers receive credit for excess energy that is generated by their DG system and delivered
22 to UNSE.¹² The new tariff would apply to DG Customers that submit applications for
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25 ¹¹ Decision No. 71412. The Decision also concluded that it was in the public interest to approve the
26 proposed Pricing Plan Rider-3 (MCCCG) as applicable to determining the avoided cost for purchasing
27 excess energy from net metering facilities. The Commission reset the MCCCG for UNSE in Decision No.
74387 (March 19, 2014) and does this annually outside of a rate case.

¹² The new net metering tariff (showing redline revisions to the existing net metering tariff) will be docketed in the near future.

1 interconnection to UNSE's grid facilities after June 1, 2015.¹³ The proposed tariff will not
2 increase UNSE's revenues above the revenue requirement set forth in its most recent rate case, nor
3 would it act to increase UNSE's rate of return above the authorized rate of return. To the contrary,
4 the proposal will only act to slow the cost shift and the revenue degradation caused by UNSE's
5 current net metering tariff and rate design.

6 Under the new tariff:

- 7 • New DG Customers would continue to receive a full retail rate offset for the energy
8 they consume from their DG system.
- 9 • No new charges would be imposed.
- 10 • New DG Customers would pay the currently approved and applicable retail rate for all
11 energy delivered by UNSE.
- 12 • New DG Customers would be compensated for any excess energy their DG system
13 produces and delivers to UNSE with bill credits calculated using the Renewable Credit
14 Rate. New DG Customers could carry over unused bill credits to future months if they
15 exceed the amount of their current UNSE bill.
- 16 • The Renewable Credit Rate would be reset each calendar year.¹⁴

17
18 This proposal will not fully mitigate the DG cost shift. UNSE and its non-DG Customers
19 will still be subsidizing new DG Customers, but the subsidy will be reduced from the current
20 levels. Overall, UNSE believes this proposal meets the public interest by mitigating the amount of
21 unrecovered fixed costs and the related cost shift from one group of customers to another while
22 still continuing to provide an incentive for all DG Customers.

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25 ¹³ Customers who submit a completed application to UNSE as of 5:00 p.m. Arizona time on June 1, 2015,
26 will be subject to UNSE's existing net metering tariff, even if those systems have not yet been
interconnected to UNSE's distribution grid. A completed application includes a signature acknowledging
the disclaimers attached hereto in **Exhibit 1**.

27 ¹⁴ The Company further proposes that if the Solar Credit Rate falls below UNSE's average system cost of
generation, the minimum credit provided to customers for excess energy produced by their DG system
should be set at the average fuel cost included in UNSE's current base rates.

1 Since February 2014, UNSE's net metering customers have been required to sign a
2 disclaimer acknowledging that the Company's rates and/or Commission rules could change in the
3 future. That disclaimer is attached as **Exhibit 1** and must be signed as part of the current
4 application process through June 1, 2015. After June 1, 2015, potential DG customers will be
5 required to sign new disclaimers that explain the proposed changes in this application. Redlined
6 versions of those disclaimers are attached as **Exhibit 2**.

7
8 **IV. PARTIAL WAIVER OF THE NET METERING RULES.**

9 Because UNSE proposes to provide net metered customers a bill credit equal to the
10 Renewable Credit Rate for the preceding month's excess generation and will no longer be rolling
11 over excess generation to offset future usage – which is different than what is set forth in A.A.C.
12 R14-2-2306 -- UNSE requests a partial waiver of the Net Metering Rules to the extent necessary.
13 UNSE believes such a waiver reflects the realities of the DG market in Arizona and is in the public
14 interest.

15 The linkage between fixed cost recovery and net metering is not a new or unprecedented
16 problem exclusive to UNSE. In Decision No. 74202 (December 3, 2013) involving Arizona
17 Public Service Company ("APS"), the Commission found that the growth of DG systems in APS's
18 service territory "results in a cost shift from APS's DG Customers to APS's non DG residential
19 Customers absent significant changes to APS's rate design."¹⁵

20 In February 2015, Trico Electric Cooperative, a non-profit electric distribution cooperative,
21 filed a similar application with the Commission (Docket No. E-01461A-15-0057) which seeks a
22 modification to its net metering tariff and partial waiver of the Net Metering Rules, in order to
23 partially mitigate the DG cost shift. That application is currently pending.

24 The impact of the partial waiver is likely to be minimal on DG customers that choose to
25 install smaller rooftop solar systems that better match their basic usage pattern over the course of a
26 year. Those customers will likely see a subsidy similar to what they would have enjoyed under

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¹⁵ See Decision No. 74202, Finding of Fact 49.

1 the current net metering tariff. For those DG Customers who install larger systems that generate
2 far more energy than the customer typically uses, UNSE anticipates some reduction in the subsidy
3 over what that customer would realize under the current tariff.¹⁶

4 The proposed tariff will not affect UNSE's most recently approved revenue requirement
5 nor would it act to increase UNSE's rate of return above the authorized fair value rate of return.
6 The proposal will only act to slow the revenue and rate of return degradation that UNSE is
7 suffering by operation of the Net Metering Rules and UNSE's current net metering tariff.

8 UNSE submits that it is in the public interest for the Commission to grant UNSE a waiver
9 from A.A.C. R14-2-2301 *et seq.* and allow it to implement a new net-metering tariff that continues
10 to provide benefits to UNSE's DG Customers while moderating the level of fixed system costs
11 shifted to non-DG customers under the current Net Metering tariff.

12
13 **V. REQUEST FOR HEARING.**

14 UNSE requests that the Commission set this matter for a hearing and issue a procedural
15 schedule that will allow the Commission to consider the matter at an open meeting before
16 December 31, 2015.¹⁷ A prompt resolution of the issues raised by this application is in the public
17 interest.

18 Finally, to the extent that a 30-day time clock may apply to this application, UNSE is
19 willing to waive that time clock.

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24 ¹⁶ The actual impact on the level of subsidy provided by the current net metering tariff is heavily
dependent on the size of the DG system and the usage patterns of the customer.

25 ¹⁷ UNSE's affiliate, Tucson Electric Power Company ("TEP"), is filing an identical application
26 contemporaneously with UNSE's application. UNSE requests that the hearing in this docket be conducted
in conjunction with the TEP hearing as the issues and witnesses will be the same. However, UNSE
27 requests that its docket not be formally consolidated with the TEP docket. UNSE further requests that its
application not be heard or formally consolidated with any other similar application by any other utility.

1 VI. CONCLUSION.

2 WHEREFORE, UNSE requests that the Commission take the following actions:

- 3 • Approve UNSE's proposed new net metering tariff.
- 4 • Approve an effective date for UNSE's new net metering tariff whereby all
- 5 customers that have not submitted a completed application for their DG system to
- 6 UNSE by 5:00 p.m. Arizona time on June 1, 2015 would be subject to the new net
- 7 metering tariff.
- 8 • Grandfather all existing net metered customers and customers that have submitted
- 9 to UNSE a completed application for their DG system by 5:00 p.m. Arizona time
- 10 on June 1, 2015, such that they would continue to be subject to UNSE's existing
- 11 net metering tariff.
- 12 • Grant UNSE a partial waiver of A.A.C. R14-2-2301 *et seq.* as necessary.
- 13 • Issue a procedural order setting a procedural schedule that would allow the
- 14 Commission to consider this matter at open meeting before December 31, 2015.
- 15 • Grant UNSE whatever other relief the Commission deems necessary and
- 16 appropriate.

17 RESPECTFULLY SUBMITTED this 25th day of March, 2015.

18 UNS Electric, Inc.

19 By 
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Original and thirteen copies of the foregoing
filed this 25th day of March, 2015, with:

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

Copy of the foregoing hand-delivered
this 25th day of March, 2015, to:

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Utilities Division
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Phoenix, Arizona 85007

By Jacklyn Howard

Exhibit 1

ATTACHMENT A

DISCLAIMER

POSSIBLE FUTURE RULES and/or RATE CHANGES AFFECTING YOUR PHOTOVOLTAIC (PV) SYSTEM

The following is a supplement to the Grid-Tied Residential Solar Electric PV Application you signed with UniSource Electric, Inc. (UNSE).

1. Your PV system is subject to the current rates, rules and regulations established by the Arizona Corporation Commission (Commission). The Commission may alter its rules and regulations and/or change rates in the future. If this occurs, your PV system is subject to those changes and you will be responsible for paying any future increases to electricity rates, charges or service fees from UNSE.
2. UNSE's electricity rates, charges and service fees are determined by the Commission and are subject to change based upon the decision of the Commission. These future adjustments may positively or negatively impact any potential savings or the value of your PV system.
3. Any future electricity rate projections which may be presented to you are not produced, analyzed or approved by UNSE or the Commission. They are based on projections formulated by external third parties not affiliated with UNSE or the Commission.

By signing below, you acknowledge that you have read and understand the above disclaimer. Please return to UNSE.

Customer's Printed Name

Customer's Signature

Installation Address

Date

Project Number

ATTACHMENT B

System Qualifications, Electric Service Requirements and Interconnection Requirements

The installed PV system must at all times meet the system qualification requirements for residential and grid-connected PV systems as set forth in the current "Electric Service Requirements", "Distributed Generation Interconnection Requirements" (DGIRs), and UNSE's "Rules and Regulations", as amended from time to time, the terms of which are fully incorporated herein by reference (PV systems are defined as "Generating Facility" in the DGIRs). Complete copies of the "Electric Service Installation Requirements" and "Distributed Generation Interconnection Requirements" conformed to ACC Docket No. E-00000A-99-0431 are located at <https://www.uesaz.com/customer/construction/electric> under the "Customer Care" - "Construction Services" tab. UNSE's "Rules and Regulations" dated January 1, 2014 are located at <https://www.uesaz.com/customer/rates/electric/> under the "Rules and Regulations" tab. Customer acknowledges that it has adequate notice of and access to these online documents, has read the documentation, and waives any objection thereto. Hard copies will be provided upon request.

Customer's Printed Name

Customer's Signature

Installation Address

Date

Project Number

Exhibit 2

ATTACHMENT A

DISCLAIMER

**POSSIBLE FUTURE RULES and/or RATE CHANGES
AFFECTING YOUR PHOTOVOLTAIC (PV) SYSTEM**

The following is a supplement to the Grid-Tied Residential Solar Electric PV Application you signed with UNS Electric, Inc. (UNSE).

1. Your PV system is subject to the current rates, rules and regulations established by the Arizona Corporation Commission (Commission). The Commission may alter its rules and regulations and/or change rates in the future. If this occurs, your PV system is subject to those changes and you will be responsible for paying any future increases to electricity rates, charges or service fees from UNSE.
2. UNSE's electricity rates, charges and service fees are determined by the Commission and are subject to change based upon the decision of the Commission. These future adjustments may positively or negatively impact any potential savings or the value of your PV system.
3. Any future electricity rate projections which may be presented to you are not produced, analyzed or approved by UNSE or the Commission. They are based on projections formulated by external third parties not affiliated with UNSE or the Commission.

Initials _____

Please be advised that on March 25, 2014, UNSE filed an application with the Commission in Docket No. E-0420A-15-xxxx requesting approval of a new net metering tariff that would be applicable to all customers who submit a completed net metering interconnection application after June 1, 2015. The application requests several changes to the current net metering tariff, including changes to the retail credit customers receive for all excess energy placed on the grid and elimination of the monthly energy carryover (banked credits). For more information, visit uesaz.com.

Initials _____

By signing below, you acknowledge that you have read and understand the above disclaimer. Please return to UNSE.

Customer's Printed Name

Customer's Signature

Installation Address

Date

Project Number