

ORIGINAL



0000167222

1 Timothy M. Hogan (004567)  
2 ARIZONA CENTER FOR LAW  
3 IN THE PUBLIC INTEREST  
4 202 E. McDowell Rd., Suite 153  
5 Phoenix, Arizona 85004  
6 (602) 258-8850

7 *Attorneys for Southwest Energy*  
8 *Efficiency Project*

RECEIVED

2015 DEC -9 P 2:24

AZ CORP COMMISSION  
DOCKET CONTROL

9 **BEFORE THE ARIZONA CORPORATION COMMISSION** Commission

10 SUSAN BITTER SMITH, Chairman  
11 BOB STUMP  
12 BOB BURNS  
13 DOUG LITTLE  
14 TOM FORESE

DOCKETED

DEC 09 2015

DOCKETED BY 

15 IN THE MATTER OF THE APPLICATION  
16 OF UNS ELECTRIC, INC. FOR THE  
17 ESTABLISHMENT OF JUST AND  
18 REASONABLE RATES AND CHARGES  
19 DESIGNED TO REALIZE A REASONABLE  
20 RATE OF RETURN ON THE FAIR VALUE  
21 OF THE PROPERTIES OF UNS ELECTRIC,  
22 INC. DEVOTED TO ITS OPERATIONS  
23 THROUGHOUT THE STATE OF  
24 ARIZONA, AND FOR RELATED  
25 APPROVALS.

Docket No. E-04204A-15-0142

**NOTICE OF FILING DIRECT  
TESTIMONY OF JEFF  
SCHLEGEL ON BEHALF OF  
SOUTHWEST ENERGY  
EFFICIENCY PROJECT**

Southwest Energy Efficiency Project ("SWEEP"), through its undersigned counsel,  
hereby provides notice that it has this day filed the attached direct testimony of Jeff Schlegel.

///

///

///

1 DATED this 9<sup>th</sup> day of December, 2015.

2 ARIZONA CENTER FOR LAW IN  
3 THE PUBLIC INTEREST

4 By   
5 Timothy M. Hogan  
6 202 E. McDowell Rd., Suite 153  
7 Phoenix, Arizona 85004  
8 *Attorneys for Southwest Energy Efficiency*  
9 *Project*

10 ORIGINAL and 13 COPIES of  
11 the foregoing filed this 9<sup>th</sup> day  
12 of December, 2015, with:

13 Docketing Supervisor  
14 Docket Control  
15 Arizona Corporation Commission  
16 1200 W. Washington  
17 Phoenix, AZ 85007

18 COPIES of the foregoing  
19 electronically mailed this  
20 9<sup>th</sup> day of December, 2015 to:

21 All Parties of Record

22   
23  
24  
25

**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

SUSAN BITTER SMITH, CHAIRMAN  
BOB STUMP  
BOB BURNS  
DOUG LITTLE  
TOM FORESE

IN THE MATTER OF THE APPLICATION OF  
UNS ELECTRIC, INC. FOR THE  
ESTABLISHMENT OF JUST AND  
REASONABLE RATES AND CHARGES  
DESIGNED TO REALIZE A REASONABLE  
RATE OF RETURN ON THE FAIR VALUE OF  
THE PROPERTIES OF UNS ELECTRIC, INC.  
DEVOTED TO ITS OPERATIONS THROUGHOUT  
THE STATE OF ARIZONA, AND FOR  
RELATED APPROVALS.

Docket No. E-04204A-15-0142

Rate Design Direct Testimony of

**Jeff Schlegel**

**Southwest Energy Efficiency Project (SWEEP)**

December 9, 2015

**Rate Design Direct Testimony of Jeff Schlegel, SWEEP  
Docket No. E-04204A-15-0142**

**Table of Contents**

Introduction.....	3
UNS Electric’s Proposal to Increase the Basic Service Charge is Not in the Interest of Customers and Should be Rejected.....	4
UNS Electric’s Proposal to Eliminate the Third Residential Usage Tier is Not in the Interest of Customers and Should be Rejected .....	9
UNS Electric Should Expand Demand Side Management Offerings to Help Customers Alleviate the Impact of Optional Demand Charges.....	10
UNS Electric Should Demonstrate that the Economic Development Rider Will be Net Beneficial; and Participants Should be Required to Deploy Demand Side Management	11
UNS Electric’s Proposed Changes to its Lost Fixed Cost Revenue Recovery Mechanism .....	12
Decoupling to Reduce the Financial Disincentive to Electric Utility Support of Energy Efficiency .....	12
Ensuring Adequate Funding and Stability for Energy Efficiency by Expensing Energy Efficiency Program Funding in Base Rates .....	14
Providing Customers with Useful Information about Utility Costs and Resources .....	15
Conclusion .....	16

**Introduction**

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  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42

Q. Please state your name and business address.

A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive, Tucson, Arizona 85704-3224.

Q. For whom are you testifying?

A. I am testifying on behalf of the Southwest Energy Efficiency Project (SWEEP).

Q. Have you filed direct testimony in this docket previously?

A. Yes. I filed direct testimony on behalf of SWEEP on November 6, 2015, and errata on November 9, 2015.

Q. What is the purpose of your rate design direct testimony?

A. In my rate design testimony, I will address:

1. Why UNS Electric's proposal to increase the Basic Service Charge is not in the interest of customers and should be rejected.
2. Why UNS Electric's proposal to eliminate the third residential usage tier is not in the interest of customers and should be rejected.
3. Why UNS Electric should expand its Demand Side Management (DSM) offerings to help customers alleviate the impact of optional demand charges.
4. SWEEP's recommendations for the proposed Economic Development Rider.
5. SWEEP's recommendations on the Lost Fixed Cost Revenue Recovery (LFCR) Mechanism and why full revenue per customer decoupling is a superior option for addressing the broader set of issues that UNS Electric has raised in its rate case application.
6. Why energy efficiency as a core, fundamental resource meeting the real energy needs of customers at lowest cost should be afforded stability by expensing program funding in base rates. And
7. How UNS Electric customers can be provided with more useful information about utility costs and resources.

**UNS Electric's Proposal to Increase the Basic Service Charge is Not in the Interest of Customers and Should be Rejected**

Q. Please describe the UNS Electric, Inc., ("UNS Electric" or "Company") proposal to increase the customer basic service charge.

A. To recover a large portion of its proposed rate increase, UNS Electric proposes to increase mandatory fixed charges for several customer classes. Table 1 details the Company-proposed increases to the residential customer fixed charges.

**Table 1. UNS Electric Proposed Increases to Customer Fixed Charges<sup>1</sup>**

Customer Class	Current Customer Fixed Charge (\$/month)	Proposed Customer Fixed Charge (\$/month)	Proposed Increase (%)
Residential Service (RES-01)	\$10.00	\$20.00	100%
Residential Time of Use (RES-01 TOU)	\$11.50	\$20.00	74%
Residential Time of Use Super Peak (RES-01 TOU SP)	\$11.50	\$20.00	74%
Residential CARES (CARES-F)	\$4.90	\$9.00	84%

Q. Please describe the changes UNS Electric proposed for residential customers.

A. The Company proposes to increase the monthly fixed charge from \$10.00 to \$20.00 for Residential Service customers. This represents a 100% increase in the monthly fixed charge. The Company also proposes to increase the monthly fixed charge for Residential Time of Use and Residential Time of Use Super Peak customers by 74% — from \$11.50 to \$20.00. Finally, the Company proposes to increase the monthly fixed charge for Residential CARES customers by 84% — from \$4.90 to \$9.00.

Q. Does SWEEP support these proposed increases?

A. No, SWEEP does not. These increases are very significant, and SWEEP opposes them because the Company's proposal:

1. Would significantly reduce the amount of control residential customers have over their bills.

<sup>1</sup> These numbers were calculated using data provided by the Company in Revised Schedule H-3.

- 1 2. Includes costs that are not appropriate for inclusion in a customer fixed charge.
- 2
- 3 3. Would disproportionately impact low-use customers, many of whom are low-
- 4 income customers.
- 5
- 6 4. Would mute the price signal to customers to conserve energy and become more
- 7 energy efficient. And,
- 8
- 9 5. Would make UNS Electric's fixed customer charge one of the highest in the
- 10 western United States.

11  
12 Q. Please explain how the Company's proposal would reduce the amount of control  
13 residential customers have over their bills.

14  
15 A. Customers have no ability to decrease mandatory fixed charges on their energy bills.  
16 However, they can control and mitigate costs recovered volumetrically by reducing  
17 their energy use. For this reason, a 100% increase in the fixed customer charge has a  
18 very significant impact on the portion of the bill that residential customers can  
19 control.

20  
21 For example, consider an average residential customer using ~826 kWh per month.<sup>2</sup>  
22 Under the current rate structure for RES-01, this customer would pay \$10.00 in  
23 customer fixed charges per month. Fixed charges would constitute 12% of the  
24 monthly bill; and volumetric charges would comprise 88%. Under the new proposed  
25 rate structure, this customer would pay \$20 in fixed charges per month. Fixed charges  
26 would constitute 21% of the bill, while volumetric charges would comprise 79%.

27  
28 By increasing the portion of the bill recovered by fixed charges while reducing the  
29 portion of the bill recovered volumetrically, the Company's proposal would  
30 significantly reduce the portion of the bill over which residential customers have  
31 control. Specifically, the residential customer under the proposed rate design would  
32 be able to control and mitigate 88% of the bill, but under the new rate design only  
33 79% of the bill could be controlled by a customer.

34  
35 See Table 2 for my calculations for a typical residential customer (RES-01).

36  
37  

---

<sup>2</sup> The average monthly usage amount was calculated from Schedule E-7 using the Company reported  
"Average Annual kWh Use" for the residential sector for the Test Year Ending on December 31, 2014.

1 **Table 2: Impact of Customer Fixed Charges on Average Residential Customer**  
2 **Using 826 kWh (Rate RES-01) Under the Current and Proposed Rates<sup>3</sup>**

Bill Component	Current Rate	Proposed Rate	Bill for Average Residential Customer Using 826 kWh/month Under Current Rate	Bill for Average Residential Customer Using 826 kWh/month Under Proposed Rate
Basic Service Charge	\$10.00	\$20.00	\$10.00	\$20.00
Energy Charge 1st 400kWh	\$0.019300	\$0.030810	\$7.72	\$12.32
Energy Charge 401-1,000kWhs	\$0.034350	\$0.050810	\$14.62	\$21.63
Energy Charge, all additional kWhs	\$0.038499	\$0.050810	\$ -	\$ -
Base Power Supply Charge, all kWhs	\$0.064510	\$0.049260	\$53.27	\$40.68
PPFAC	\$(0.002139)	\$ -	\$(1.77)	\$ -
<b>Total Fixed Charges</b>			<b>\$10.00</b>	<b>\$20.00</b>
<b>Total Volumetric Charges</b>			<b>\$73.85</b>	<b>\$74.63</b>
<b>TOTAL Bill</b>			<b>\$83.85</b>	<b>\$94.63</b>
<b>Fixed Charge as % Total Bill</b>			<b>12%</b>	<b>21%</b>

3  
4 Q. Please explain your second objection.

5  
6 A. UNS Electric's proposal represents a significant departure from previous rate cases  
7 regarding the methodology for allocating distribution system costs. Historically, the  
8 Company acknowledges that the customer fixed charge has been limited to metering,  
9 meter reading, service (service drop) to the specific customer, and customer service  
10 and billing – consistent with the Basis Customer Method (discussed below).<sup>4</sup>  
11 However in this proposal, UNS Electric has reclassified several distribution-related  
12 costs as “customer” costs. Indeed, a comparison between the Company's class of  
13 service allocation factors between this rate case and its last one, reveal that the  
14 Company has newly allocated several distribution-related cost categories to the

<sup>3</sup> These numbers were calculated using data provided by the Company in Revised Schedule H-3.

<sup>4</sup> See Direct Testimony of Craig A. Jones, Page 37, Lines 5-6

1 “customer” category when it has not done so in the past (e.g. zero dollars were  
2 allocated to the customer category in the past).<sup>5</sup>

3  
4 Q. In SWEEP’s view is the Company’s reclassification and addition of other costs to the  
5 basis customer charge appropriate?

6  
7 Q. No. The definition and composition of a customer fixed charge should be consistent  
8 with the definition contained in Bonbright’s *Principals of Utility Rates*. Bonbright  
9 defines basic customer costs as those operating and capital costs found to vary with  
10 the number of customers regardless, or almost regardless, of power consumption.<sup>6</sup>  
11 These costs include only those related to metering, accounting, billing, and other  
12 direct customer service costs.

13  
14 Consistent with Bonbright’s *Principals of Utility Rates*, the Basic Customer Method  
15 should be used to determine the customer fixed charge. This method includes only the  
16 costs for direct basic customer service – e.g., the costs to hook up and maintain a  
17 customer’s account. The basic customer costs should include the costs for the meter and  
18 service drop, meter reading, and billing. The customer fixed charge should not include  
19 grid-related costs of transmission and distribution plant, which are driven largely by the  
20 amount of customer usage and demand.

21  
22 Q. UNS Electric argues conceptually that the customer fixed charge should be designed  
23 to recover the average unavoidable fixed costs that utilities incur each month.<sup>7</sup> What  
24 is your view of this argument?

25  
26 A. UNS Electric’s argument is erroneous and should be rejected. It is not required nor  
27 always appropriate for fixed costs to be recovered through fixed charges. Just because  
28 a cost is “fixed” does not make it a basic customer cost that should be included in a  
29 customer fixed charge. There is a big leap between “fixed costs” and “recovery of  
30 fixed costs through fixed charges,” and there are many examples in the commercial  
31 world of fixed costs not being recovered through fixed charges. Oil refineries, hotels,  
32 and supermarkets all have significant fixed costs, but they recover these in volumetric  
33 prices by selling gasoline, hotel rooms, and groceries. Some may argue that fixed  
34 costs of a utility distribution system or larger utility system should be recovered in a  
35 fixed customer charge. This is not the intent of a basic customer charge. The intent of  
36 a basic customer charge is to recover direct customer costs that vary based on the  
37 number of customers, not the fixed or sunk costs of the utility system.

38  
39 Q. Please explain your third objection.

40  
41 A. UNS Electric’s proposal will disproportionately affect low-use customers, many of  
42 whom are low-income customers.<sup>8</sup> Indeed, low-use customers will see a greater

---

<sup>5</sup> See Schedule G-7 from the Company’s current and last general rate case.

<sup>6</sup> See Bonbright, James C. 1961. *Principals of Public Utility Rates*, page 347.

<sup>7</sup> See Direct Testimony of Dallas J. Dukes, Page 17, Lines 17-20

1 proportional increase in bills than high-use customers under increased fixed charges.  
2 For example, a customer using 500kWh per month will experience a 19% increase in  
3 the total bill under the proposed residential rates. A different customer using  
4 1,500kWh will experience a 7% increase. This difference highlights the inequities  
5 inherent in increasing customer fixed charges.  
6

7 Q. Please explain your fourth objection.  
8

9 A. Increasing the basic service charge mutes the price signal to customers by reducing  
10 the amount of utility bill cost savings that customers experience when they conserve  
11 energy or become more energy efficient. As such, a higher basic service charge  
12 reduces the customer incentive to engage in energy efficiency opportunities because  
13 customers can affect only a smaller portion of their total utility bills. As a result,  
14 increasing the fixed charge portion of the customer's bill limits options for investment  
15 in energy efficiency for a customer.  
16

17 Commission policy should encourage and incent (through price signals and other  
18 means) customers to control their utility bills, and should provide opportunities and  
19 encouragement to reduce customer utility bills when lower cost options are available.  
20

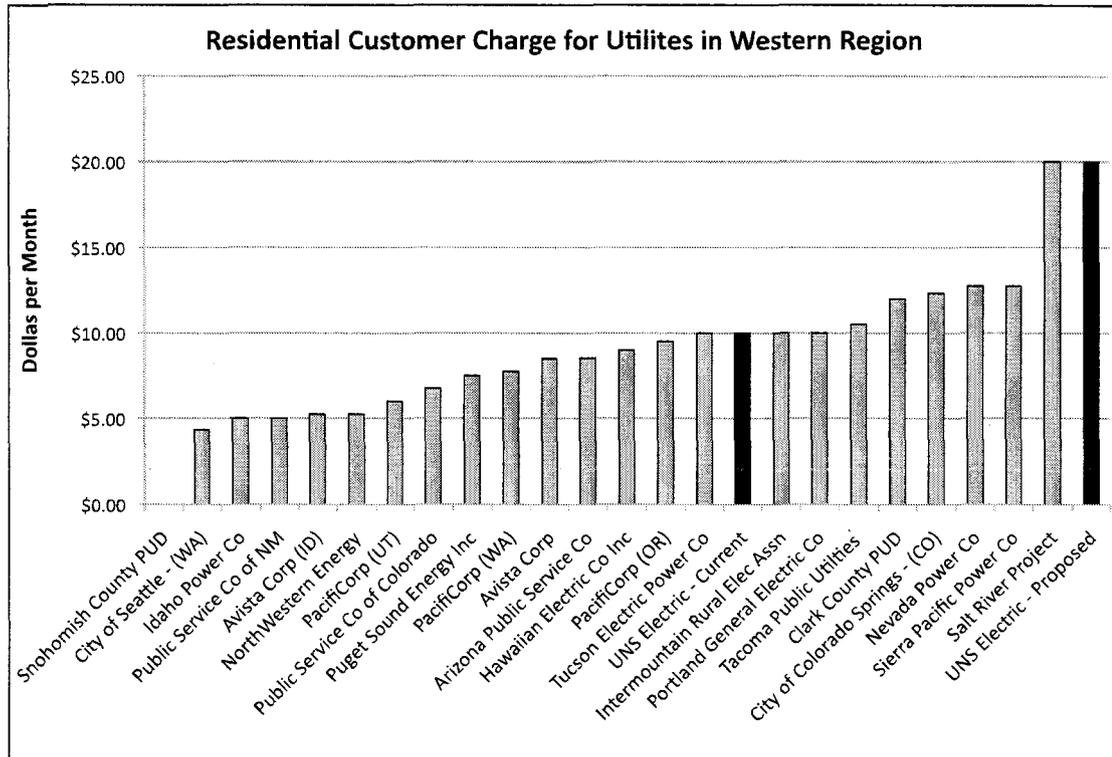
21 Q. Please explain your fifth objection.  
22

23 A. Compared with several other utilities in the western region, UNS Electric has an  
24 above-average customer fixed charge. Increasing the residential fixed charge to \$20  
25 per month will make UNS Electric's fixed charge one of the highest in the region.  
26 See Figure 1.  
27

---

<sup>8</sup> Average household electricity usage data by income level from the 2009 U.S. EIA Residential Energy Consumption Survey reveals that households with incomes below 150% of the federal poverty level use less electricity than households above the level. In 2009, Arizona low-income households used 25.1% less electricity than non-low-income households.

1 **Figure 1: Residential Customer Charge for Utilities in the Western Region<sup>9</sup>**



2  
3

4 Q. Given these objections, what does SWEEP recommend?

5

6 A. Based on my review of the Company's testimony and exhibits, it appears that the  
7 customer fixed charge for residential customers (RES-01), based on the inclusion of  
8 only those direct basic customer costs allowable under the Basic Customer Method,  
9 should be about \$9.00. UNS Electric should either reduce the customer fixed charge  
10 or continue with the current \$10.00 monthly customer charge for these customers.

11

12 More specifically, I recommend that UNS Electric should calculate and submit in this  
13 proceeding a schedule of proposed customer fixed charges for all sectors and rate  
14 classes that are derived using the Basic Customer Method with costs limited solely to  
15 direct basic customer costs.

16 **UNS Electric's Proposal to Eliminate the Third Residential Usage Tier is Not in the**  
17 **Interest of Customers and Should be Rejected**

18

19 Q. Please describe UNS Electric's proposal.

20

<sup>9</sup> Customer charge and minimum bill are from utility specific residential single-phase customer active tariff as of October 3, 2015.

1 A. UNS Electric proposes to remove the third and highest volumetric usage tier from the  
2 standard residential rate (RES-01).<sup>10</sup> The Company would eliminate the 1,000+  
3 volumetric usage tier and offer two usage tiers only — one for usage between 0-  
4 400kWh, and one for usage above 400kWh.

5  
6 Q. Does SWEEP support this proposal?

7  
8 A. No. SWEEP does not support this proposal. SWEEP believes it is appropriate to offer  
9 inclining block rates. Inclining block rates provide an important signal to customers  
10 to encourage energy conservation and the efficient use of energy, and discourage  
11 wasteful energy use.

12  
13 Q. What does SWEEP recommend?

14  
15 A. SWEEP recommends that the Commission reject UNS Electric's proposal. SWEEP  
16 supports the continuation of the three tiers.

17 **UNS Electric Should Expand Demand Side Management Offerings to Help**  
18 **Customers Alleviate the Impact of Optional Demand Charges**

19  
20 Q. Is UNS Electric proposing to implement demand charges for residential customers?

21  
22 A. Yes. UNS Electric is proposing to implement *optional* residential tariffs that include  
23 demand charges for residential customers who are not net metering customers. The  
24 proposed three-part rates would also include fixed customer charges and energy  
25 charges. Similar *optional* small business tariffs have also been proposed for small  
26 business for customers who are not taking service under the Net Metering Rider. UNS  
27 Electric is proposing mandatory demand charges for residential and small business  
28 net metering customers.<sup>11</sup>

29  
30 Q. How should UNS Electric help customers – even those who opt-in – to manage and  
31 alleviate the impact of demand charges?

32  
33 A. As part of any rate case proceeding, SWEEP believes it is essential to provide  
34 customers with more tools to manage and alleviate increasing energy costs caused by  
35 the rate increase itself and by any new pricing mechanisms that have been introduced.  
36 In this particular instance, SWEEP recommends that UNS Electric expand its  
37 Demand Side Management offerings to help customers alleviate the impact of  
38 optional demand charges.

39  
40 Q. What are some new and expanded offerings that UNS Electric should offer?

41

---

10 See Direct Testimony of Dallas J. Dukes, Page 4, Lines 6-8.

11 See Direct Testimony of Dallas J. Dukes, Page 27, Lines 19-22.

1 A. UNS Electric's existing energy efficiency programs offer a great platform that should  
2 be leveraged to help customers alleviate the impact of demand charges. For example,  
3 UNS Electric's energy efficiency pool pump rebates could be leveraged to deliver a  
4 pool pump demand response program. UNS Electric should also look to programs  
5 implemented by other utilities in the southwest. For example, NV Energy's integrated  
6 energy efficiency and demand response smart thermostat program has delivered air  
7 conditioning savings of 11% while also delivering significant demand response  
8 capacity.<sup>12</sup> Home energy report programs have also successfully delivered demand  
9 savings.<sup>13</sup>

10

11 Q. What does SWEEP recommend?

12

13 A. SWEEP recommends that UNS Electric develop a DSM customer-peak-demand-  
14 reduction proposal as part of this rate case and be required to implement new DSM  
15 offerings prior to the implementation of new demand charges so that customers have  
16 a suite of tools available to them to manage demand charges.

17 **UNS Electric Should Demonstrate that the Economic Development Rider Will be**  
18 **Net Beneficial; and Participants Should be Required to Deploy Demand Side**  
19 **Management**  
20

21

22 Q. Please describe the Economic Development Rider proposed by UNS Electric.

23

24 A. UNS Electric is proposing an Economic Development Rider to "put the UNS Electric  
25 service territory in a better competitive position to attract and expand business  
26 load."<sup>14</sup> The Economic Development Rider would provide a bill discount to  
27 qualifying additional load from new or expanding business over a 5-year period. The  
28 discount would begin at 20% and decline over time for qualifying "Economic  
29 Development" projects; and would begin at 30% and decline over time for qualifying  
30 "Economic Redevelopment" projects.<sup>15</sup>

31

32 Q. Does SWEEP have concerns about the Economic Development Rider?

33

34 A. Yes. It is unclear if the proposed Economic Development Rider will be net beneficial  
35 for all customers. For example if the Economic Development Rider drives new load  
36 during the system peak, it could add significant costs to the utility system.

37

Q. What does SWEEP recommend?

---

12 See presentations in Arizona Corporation Commission Docket No. E-00000J-13-0375, "In the matter of the Commission's Inquiry into Potential Impacts to the Current Utility Model Resulting from Innovation and Technological Developments in Generation and Delivery of Energy,"

<http://edocket.azcc.gov/Docket/DocketDetailSearch?docketId=18185>,

<http://images.edocket.azcc.gov/docketpdf/0000153633.pdf>

13 Ibid.

14 See Direct Testimony of Dallas J. Dukes, Page 31, Lines 18-19.

15 See Direct Testimony of Dallas J. Dukes, Pages 30-32.

1  
2 A. SWEEP recommends that the Company be responsible for demonstrating that the  
3 Economic Development Rider would deliver more benefits than costs to the system.  
4 This demonstration should include the impacts of lost revenue from the proposed  
5 discount. In addition, any new or existing participating customer should be required  
6 to deploy Demand Side Management (DSM) to reduce system impacts and costs, and  
7 to help the customer lower their costs further through cost-effective DSM measures.

8 **UNS Electric's Proposed Changes to its Lost Fixed Cost Revenue Recovery**  
9 **Mechanism**

10  
11 Q. Has UNS Electric proposed changes to its Lost Fixed Cost Revenue Recovery  
12 (LFCR) Mechanism?  
13

14 A. Yes. UNS Electric has proposed several changes to the LFCR mechanism. These  
15 changes include allowing the recovery of lost fixed costs attributable to generation in  
16 the LFCR<sup>16</sup> and increasing the year-over-year cap from 1% to 2%.<sup>17</sup>  
17

18 Q. What does SWEEP think of these proposed changes?  
19

20 A. SWEEP supports the current LFCR mechanism and the costs included in that  
21 mechanism. Specifically, SWEEP does not support the addition of generated-related  
22 costs in the LFCR nor an increase in the year-over-year cap. UNS Electric has other  
23 opportunities to manage the amount and cost of generation resources, including  
24 through planning, market and procurement mechanisms. In addition, as I discuss  
25 further below, SWEEP believes that decoupling is a better and more effective  
26 mechanism than the LFCR to address the broader set of issues that UNS Electric has  
27 described in its rate case application, including the recovery of authorized costs and  
28 the under-recovery of fixed costs.

29 **Decoupling to Reduce the Financial Disincentive to**  
30 **Electric Utility Support of Energy Efficiency**

31  
32 Q. Does UNS Electric experience a financial disincentive to its support of energy  
33 efficiency when its customers respond and become more energy efficient?  
34

35 A. Yes. Traditional utility regulation links the utility's financial health to volumetric  
36 sales of electricity, resulting in a utility financial disincentive to support energy  
37 efficiency and other demand-side resources that reduce sales. Energy savings by UNS  
38 Electric customers (which are beneficial for customers, the economy, the utility  
39 system, and the environment) result in lower revenues for the Company and the  
40 under-recovery of Commission-authorized utility fixed costs. In general, this

<sup>16</sup> See Direct Testimony of Craig A. Jones, Page 76, Line 19

<sup>17</sup> See Direct Testimony of Craig A. Jones, Page 76, Line 24

1 financial disincentive can reduce utility support and enthusiasm for cost-effective  
2 resources such as energy efficiency programs that minimize the long-term costs of  
3 providing service. It could also impede potentially crucial utility support for building  
4 energy codes and other policies that reduce utility bills for customers and serve  
5 societal interests.

6  
7 Q. Should a decoupling mechanism for UNS Electric be implemented to reduce the  
8 financial disincentive and encourage UNS Electric to support additional increases in  
9 energy efficiency through programs and other initiatives such as support of building  
10 energy codes?

11  
12 A. Yes. The financial interest of UNS Electric should be better aligned with the interests  
13 of its customers by reducing financial disincentives to utility support of energy  
14 efficiency, thereby resulting in more energy savings and larger reductions in customer  
15 energy bills.

16  
17 SWEEP supports decoupling mechanisms to address issues related to energy  
18 efficiency, e.g., when such mechanisms would be effective in substantially increasing  
19 customer energy efficiency and reducing the financial disincentive to electric utility  
20 support of increased energy efficiency.

21  
22 SWEEP is not in favor of decoupling solely or primarily as a mechanism for the  
23 utility to recover its fixed costs. Therefore, in SWEEP's view the implementation of  
24 decoupling is premised on substantial increases in customer energy efficiency, for  
25 which the decoupling mechanism would reduce the financial disincentive to the  
26 utility of such increased energy efficiency. Because the Electric Energy Efficiency  
27 Resource Standard (EERS) will deliver substantial energy efficiency savings for UNS  
28 Electric customers, decoupling in this situation is justified.

29  
30 Q. Does full decoupling completely and effectively reduce Company disincentives for  
31 the support of activities that eliminate energy waste, including activities not directly  
32 linked to the Company's energy efficiency programs?

33  
34 A. Yes. Full decoupling completely and effectively reduces Company disincentives for  
35 the support of activities that eliminate energy waste. As such, full decoupling is  
36 important not only for full utility support of energy efficiency programs but also for  
37 activities that reduce sales but are not or may not be directly linked to the Company's  
38 portfolio of energy efficiency programs. This could include utility support for  
39 building energy codes; appliance standards; energy education and marketing; state  
40 and local government energy conservation efforts; and federal energy policies.

41  
42 Q. Why is full revenue decoupling a policy option worthy of Commission consideration?

43  
44 A. As I testified above, the financial interest of UNS Electric should be better aligned  
45 with the interests of its customers by reducing financial disincentives to utility  
46 support of energy efficiency, thereby resulting in more energy savings, total lower

1 costs for customers, and larger customer energy bill reductions. Full revenue  
2 decoupling completely and effectively reduces utility company disincentives for the  
3 support of activities that eliminate energy waste. As such, full revenue decoupling is  
4 important not only for full, enthusiastic utility support of energy efficiency programs  
5 but also for activities that reduce sales but are not or may not be directly linked to the  
6 Company's portfolio of energy efficiency programs.

7  
8 Q. Why is full revenue decoupling a superior option for the treatment of utility financial  
9 disincentives to energy efficiency than the Company's Lost Fixed Cost Revenue  
10 Recovery (LFCR) mechanism?

11  
12 A. The Company's LFCR mechanism inadequately reduces utility disincentives to  
13 energy efficiency, and therefore results in fewer opportunities for customers to reduce  
14 their energy bills. Consequently, it discourages Company support of building energy  
15 codes, appliance efficiency standards, and state initiatives and legislation. The LFCR  
16 mechanism also represents an automatic rate increase. In contrast, because full  
17 revenue decoupling allows for rate adjustments in both a positive and negative  
18 direction, decoupling could result in either a credit or a charge on the customer bill.

19  
20 LFCR does nothing to reduce UNS Electric's financial incentive to encourage  
21 customers to use more electricity – and the more customers waste energy, the more  
22 UNS Electric revenues and earnings increase. Also, under the LFCR, as the Arizona  
23 economy recovers and electric demand increases, UNS Electric revenues and  
24 earnings could also increase. Specifically, UNS Electric could retain all revenues  
25 higher than the authorized revenue levels, which would result in higher earnings.  
26 UNS Electric would also retain all revenues higher than the authorized revenue levels  
27 from increased electrification and electric vehicles. In contrast, full decoupling would  
28 provide a credit to customers for any revenues higher than authorized revenues  
29 (determined as authorized revenue per customer multiplied by the number of  
30 customers).

31  
32 Q. What action does SWEEP recommend?

33  
34 A. SWEEP recommends that UNS Electric develop and file a proposal for full revenue  
35 per customer decoupling in this rate case, which the parties and Commission should  
36 consider in this proceeding.

37 **Ensuring Adequate Funding and Stability for Energy Efficiency by Expensing**  
38 **Energy Efficiency Program Funding in Base Rates**

39  
40 Q. Why should energy efficiency be adequately funded in base rates at stable levels?

41  
42 A. As I testified in my direct testimony, energy efficiency is a core resource meeting the  
43 real energy needs of customers at lowest cost. In order to provide adequate and  
44 appropriate treatment for this core, fundamental energy and capacity resource,  
45 SWEEP recommends that a total of \$5 million of energy efficiency program funding

1 be expensed in base rates. As a core resource, it is appropriate for energy efficiency  
2 cost recovery to be in base rates rather than in a separate adjustor mechanism.  
3 Recovery of energy efficiency program costs in base rates will help ensure that the  
4 numerous public interest benefits of this core resource will be fully realized.  
5

6 Q. Should the Demand Side Management (DSM) adjustor still remain intact?  
7

8 A. Yes. As I explained in my direct testimony, the adjustor mechanism should remain  
9 intact and be used as an adjustor to recover or refund any energy efficiency funding  
10 amount above or below the \$5 million in base rates. In this way, the DSM adjustor  
11 would serve as a flexible means of accounting and adjusting for the market realities of  
12 actual energy efficiency spending.

13 **Providing Customers with Useful Information about Utility Costs and Resources**  
14

15 Q. Does SWEEP support providing customers with useful information about utility costs  
16 and resources on the customer bill?  
17

18 A. Yes. Customers should be provided with useful information on utility costs and  
19 resources so that customers can fully understand how their money is being allocated  
20 and spent, and on which resources and costs. The customer bill itself should be  
21 simplified so that information is readily accessible and easy to understand for  
22 customers. There are two objectives here: providing a simple bill to customers, and  
23 providing useful and transparent information to customers.  
24

25 Q. How can these two objectives be achieved without burdening or confusing  
26 customers?  
27

28 A. These two crucial objectives – transparency and simplicity – could be achieved  
29 without burdening customers by:  
30

- 31 1. Simplifying the regular bill by presenting fewer cost categories and treating all  
32 energy resources equally in terms of disclosure (for example, not including the  
33 Demand Side Management adjustor as a line item on the bill, which would be  
34 consistent with the treatment of other energy resources, whose costs are not  
35 expressly identified by the current bill format).  
36

37 AND  
38

- 39 2. Providing supplemental information on utility costs and energy resources to  
40 customers at all times via the web and quarterly or annually via a bill insert,  
41 email, and/or other communication – and not on the customer bill itself. This  
42 information could include a simple graphic that illustrates how each rate dollar is  
43 spent. If such a graphic were included, however, the costs associated with each  
44 and every energy resource would also need to be clearly delineated. In addition,  
45 all regular bills sent to customers would direct customers to the location on the

1 web where utility and energy resource costs, as well as the energy resource mix,  
2 would reside, with a phone number customers could call for specific details.

3 **Conclusion**

4  
5 Q. Does this conclude your rate design testimony?

6  
7 A. Yes.