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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

DOUG LITTLE - Chairman
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

AZ CORP COMMISSION
DOCKET CONTROL

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

**WAL-MART STORES, INC.'S
NOTICE OF FILING SURREBUTTAL
TESTIMONY OF CHRIS HENDRIX
AND GREGORY W. TILLMAN**

Wal-Mart Stores, Inc. ("Walmart"), herby provides notice of the filing of Chris Hendrix's
and Gregory W. Tillman's surrebuttal testimony in the above-referenced matter.

Dated this 19th day of February, 2016.

Arizona Corporation Commission

DOCKETED

FEB 19 2016

DOCKETED BY

HIENTON & CURRY, P.L.L.C.

By

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1 **ORIGINAL and 13 copies filed**
2 **this 19th day of February, 2016, with:**

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

7 **COPY of the foregoing HAND-**
8 **DELIVERED this 19th day of**
9 **February, 2016, to:**

10 Dwight Nodes
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12 Hearing Division
13 Arizona Corporation Commission
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22 Director Utilities Division
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2 **and/or EMAILED this 19th day of**
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

**DOUG LITTLE, CHAIRMAN
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN**

**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

SURREBUTTAL TESTIMONY OF

CHRIS HENDRIX

ON BEHALF OF

WAL-MART STORES, INC.

February 19, 2016

1 **Contents**

2 Introduction..... 2
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7
8 **Introduction**

9
10 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

11 A. My name is Chris Hendrix. My business address is 2001 SE 10th St.,
12 Bentonville, AR 72716-0550. I am employed by Wal-Mart Stores, Inc. as
13 Director of Markets and Compliance.

14 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?**

15 A. Yes.

16 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?**

17 A. My Surrebuttal Testimony is filed on behalf of Wal-Mart Stores, Inc. (“Walmart”).
18

19 **Purpose of Testimony**

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 A. The purpose of my testimony is to respond to the Rebuttal Testimony of Craig A.
22 Jones in regards to Experimental Rider 14, Alternative Generation Service (“AGS”)
23 proposed by UNS Electric, Inc. (“UNSE” or “the Company”).
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Summary of Recommendations

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION TO THE COMMISSION.

A. My recommendation to the Commission is to reject the Company's responses in the Rebuttal Testimony of Craig A. Jones and approve AGS with the following modifications that were detailed in my Direct Testimony:

- 1) The Commission should reject the management fee as proposed by the Company and require the Company to file a cost-justified management fee proposal.
- 2) The Commission should reduce the minimum participation size to 1,000 KW and specify that a Customer can aggregate utility accounts within its corporate family to meet the participation limit.
- 3) The Commission should allow all rate classes to participate based on Recommendation 2 above.
- 4) The Commission should raise the cap to 150 MW of peak load based on the amount of wholesale market purchases currently undertaken by the Company.
- 5) The Commission should not make an AGS Customer responsible for any of the Company's generation related charges or any "lost revenues" since the AGS program is simply replacing wholesale market purchases that the Company would in the absence of AGS have to make.

The fact that an issue is not addressed herein or in related filings should not be construed as an endorsement of any filed position.

1 proceeding, they are proposing to change the definition of LPS; moving ten (10)
2 customers, including Walmart, from LPS to Large General Service (“LGS”) and
3 leaving four (4) customers in the LPS class. Walmart has three (3) stores, the entirety
4 of our portfolio in the UNS service territory, that are currently on LPS that will be
5 switched to the LGS schedule as part of this proceeding which would make them
6 ineligible for AGS if the Company’s proposal is approved. The operational
7 characteristics of these Walmart locations have not changed, only the definition by
8 the Company of a LPS customer after the Fortis Acquisition Settlement was agreed
9 upon. Given these circumstances, at the very least, AGS should be available to all
10 LPS and LGS customers.

11 **Q. DID THE COMPANY UNDERSTAND YOUR RATIONALE REGARDING**
12 **RAISING THE CAP TO 150 MW AND SUPPLANTING THE COMPANY’S**
13 **MARKET POWER PURCHASES?**

14 A. No. The Company does not seem to understand that my increased cap proposal is to
15 supplant the market power purchases in the future. Since the Company is buying
16 power on the open market, the AGS Program with my increased cap of 150 MW is
17 replacing the Company’s own wholesale market purchases with those of the
18 Customers participating in AGS.

19 **Q. WOULD REPLACING THE COMPANY’S MARKET POWER PURCHASES**
20 **WITH PURCHASES MADE BY AGS CUSTOMERS INCREASE THE COST**
21 **OR HARM OTHER NON-AGS CUSTOMERS?**

22 A. No. The AGS Program is replacing the Company’s own wholesale market purchases
23 with those of the Customers participating in AGS, thus shifting all of the risk of the

1 Company's wholesale market purchases from the the non-AGS Customers to the
2 AGS Customers.

3 **Q. COULD YOU CLARIFY YOUR PROPOSAL IN DIRECT TESTIMONY**
4 **THAT THE AGS PROGRAM SHOULD NOT BE LIMITED TO FOUR**
5 **YEARS?**

6 A. Yes. To be clear, the proposal in my Direct Testimony is that the AGS program term
7 should not be tagged with an "Experimental" or "Pilot" program determination. The
8 Company relies upon the argument that a buy-through program needs to be tested and
9 evaluated and that the Fortis Acquisition Settlement specified that the program be a
10 pilot.³ There is ample evidence in Arizona from the APS AG-1 program and in
11 various other jurisdictions around the country (including Central Hudson in New
12 York which is also owned by Fortis) and the world (including the provinces of
13 Alberta and Ontario in Canada where Fortis operates Distribution Utilities) that
14 electric competition is an effective way for a customer to manage their electricity
15 needs to better suit their business needs. Furthermore, limiting the program to a set
16 term of four years precludes a Customer from the ability to purchase long-term
17 contracts especially for off-site renewable contracts like solar and wind, due to the
18 length of contract term needed by renewable developers to build new projects. These
19 purchases of an additional renewable amount than the Company would otherwise
20 provide ratepayers would be at the AGS customer's own choosing and cost and
21 would not harm any other UNSE customers. This would have the added benefit of

³ See Rebuttal Testimony of Craig A. Jones, Page 54 Lines 12-15.

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increasing the renewable fuel mix for all of Arizona with no risk to any other non-AGS ratepayers.

Conclusion

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

Schedule G-2 Proposed Rates

Original - Direct Case

LINE NO.	DESCRIPTION	TOTAL	RESIDENTIAL SERVICE	SMALL GENERAL SERVICE	MEDIUM/ LARGE GENERAL SERVICE	LARGE POWER SERVICE	LIGHTING
		(A)	(B)	(C)	(E)	(G)	(H)
1	DEVELOPMENT OF RATE BASE						
2	Electric Plant in Service	\$569,545,363	\$355,060,733	\$54,862,175	\$146,410,407	\$7,997,295	\$5,214,752
3	Depreciation & Amort. Reserve	260,863,085	166,228,675	22,396,618	66,848,412	1,868,317	3,521,063
4	Net Plant in Service	\$308,682,277	\$188,832,058	\$32,465,557	\$79,561,995	\$6,128,978	\$1,693,689
5	ADDITIONS & DEDUCTIONS						
6	Cash Working Capital	(\$5,198,426)	(\$3,240,755)	(\$500,745)	(\$1,336,336)	(\$72,994)	(\$47,597)
7	Fuel Inventory	276,430	167,165	23,780	73,336	11,700	450
8	Materials & Supplies	11,353,152	7,077,677	1,093,607	2,918,503	159,416	103,949
9	Prepayments	743,554	463,540	71,624	191,142	10,441	6,808
10	Customer Advances for Construction	(3,833,219)	(2,446,421)	(378,008)	(1,008,789)	0	0
11	Customer Deposits	(4,427,886)	(2,188,260)	(1,933,430)	(306,196)	0	0
12	Deferred Credits - Asset Retirement	(421,645)	(262,858)	(40,615)	(108,390)	(5,921)	(3,861)
13	Plant Held for Future Use	0	0	0	0	0	0
14	Regulatory Assets	0	0	0	0	0	0
15	Accum Deferred Income Taxes	(35,161,108)	(21,919,815)	(3,386,938)	(9,038,704)	(493,716)	(321,935)
16	Total Additions & Deductions	(\$36,669,148)	(\$22,349,727)	(\$5,050,726)	(\$8,615,436)	(\$391,075)	(\$262,185)
17	TOTAL RATE BASE	\$272,013,129	\$166,482,331	\$27,414,831	\$70,946,559	\$5,737,904	\$1,431,504
18	CLAIMED RATE OF RETURN	7.67%	7.67%	7.67%	7.67%	7.67%	7.67%
19	RETURN ON RATE BASE	\$20,852,600	\$12,762,580	\$2,101,628	\$5,438,782	\$439,869	\$109,739
20	PROPOSED SALES REVENUE	\$169,727,738	94,209,675	14,569,488	53,726,298	6,603,676	618,601
21	OTHER OPERATING REVENUES						
22	Miscellaneous Service Revenue	\$1,386,204	\$1,100,159	\$172,379	\$113,665	\$0	\$0
23	Other Revenue	442,874	212,523	39,018	167,822	20,294	3,217
24	TOTAL OTHER OPERATING REVENUE	\$1,829,078	\$1,312,682	\$211,397	\$281,487	\$20,294	\$3,217
25	TOTAL OPERATING REVENUE	\$171,556,815	\$95,522,357	\$14,780,884	\$54,007,786	\$6,623,970	\$621,818
26	OPERATING EXPENSES						
27	Operation & Maintenance	\$120,384,494	\$67,436,416	\$10,160,314	\$37,045,863	\$5,428,011	\$313,890
28	Depreciation & Amortization	13,059,523	8,029,429	1,297,813	3,377,283	254,484	100,515
29	Interest on Customer Deposits	7,440	3,677	3,249	514	0	0
30	Taxes Other Than Income	6,149,421	3,843,749	597,937	1,576,340	71,007	60,388
31	Tax Expense	8,556,716	4,910,251	755,179	2,529,831	330,282	31,172
32	TOTAL OPERATING EXPENSES	\$148,157,593	\$84,223,522	\$12,814,492	\$44,529,831	\$6,083,785	\$505,964
33							
34	OPERATING INCOME	\$23,399,222	\$11,298,835	\$1,966,393	\$9,477,955	\$540,186	\$115,854
35	RATE OF RETURN ON RATE BASE	8.60%	6.79%	7.17%	13.36%	9.41%	8.09%
36	RETURN AT PROPOSED RATES	\$21,570,144	\$9,986,153	\$1,754,996	\$9,196,467	\$519,892	\$112,637
37	RETURN ON RATE BASE	7.93%	6.00%	6.40%	12.96%	9.06%	7.87%
38	INPUTS						
39	TEST YEAR ADJUSTED SALES (kWh)	1,600,809,167	823,953,185	118,683,796	562,579,661	92,765,274	2,827,250
40	TEST YEAR PROPOSED MARGIN REVENUES	\$92,205,352	\$3,981,835	\$8,800,930	\$26,421,040	\$2,420,010	\$81,536
41	TEST YEAR PROPOSED FUEL REVENUES	\$77,522,386	\$40,227,839	\$5,768,557	\$27,305,258	\$4,183,666	\$37,065
42	TEST YEAR ADJUSTED CUSTOMERS	95,144	82,607	8,758	1,387	4	2,388

Schedule G-2 Proposed Rates

Revised - Rebuttal Case

LINE NO.	DESCRIPTION	TOTAL (A)	RESIDENTIAL SERVICE (B)	SMALL GENERAL SERVICE (C)	MEDIUM/ LARGE GENERAL SERVICE (E)	LARGE POWER SERVICE (G)	LIGHTING (H)
1	DEVELOPMENT OF RATE BASE						
2	Electric Plant in Service	\$567,545,363	\$353,854,482	\$54,691,888	\$145,878,406	\$7,907,798	\$5,212,788
3	Depreciation & Amort. Reserve	260,863,085	166,230,083	22,397,394	66,847,792	1,866,186	3,521,630
4	Net Plant in Service	\$306,682,277	\$187,624,399	\$32,294,494	\$79,030,614	\$6,041,612	\$1,691,158
5	ADDITIONS & DEDUCTIONS						
6	Cash Working Capital	(\$5,010,668)	(\$3,124,063)	(\$482,856)	(\$1,287,912)	(\$69,815)	(\$46,022)
7	Fuel Inventory	276,430	167,165	23,780	73,336	11,700	450
8	Materials & Supplies	11,353,152	7,078,489	1,094,054	2,918,145	158,187	104,276
9	Prepayments	726,837	453,170	70,042	186,822	10,127	6,676
10	Customer Advances for Construction	(3,833,219)	(2,446,503)	(378,132)	(1,008,584)	0	0
11	Customer Deposits	(4,427,886)	(2,188,260)	(1,933,430)	(306,196)	0	0
12	Deferred Credits - Asset Retirement	(421,645)	(262,888)	(40,632)	(108,377)	(5,875)	(3,873)
13	Plant Held for Future Use	0	0	0	0	0	0
14	Regulatory Assets	0	0	0	0	0	0
15	Accum Deferred Income Taxes	(35,161,108)	(21,922,328)	(3,388,324)	(9,037,597)	(489,911)	(322,948)
16	Total Additions & Deductions	(\$36,498,108)	(\$22,245,218)	(\$5,035,498)	(\$8,570,364)	(\$385,587)	(\$261,440)
17	TOTAL RATE BASE	\$270,184,170	\$165,379,181	\$27,258,996	\$70,460,250	\$5,656,025	\$1,429,718
18	CLAIMED RATE OF RETURN	7.22%	7.22%	7.22%	7.22%	7.22%	7.22%
19	RETURN ON RATE BASE	\$19,501,053	\$11,936,555	\$1,967,470	\$5,085,602	\$408,234	\$103,193
20	PROPOSED SALES REVENUE	\$173,345,402	94,097,555	14,277,738	57,570,682	6,776,797	622,630
21	OTHER OPERATING REVENUES						
22	Miscellaneous Service Revenue	\$1,386,204	\$1,100,159	\$172,379	\$113,665	\$0	\$0
23	Other Revenue	442,874	212,523	39,018	167,822	20,294	3,217
24	TOTAL OTHER OPERATING REVENUE	\$1,829,078	\$1,312,682	\$211,397	\$281,487	\$20,294	\$3,217
25	TOTAL OPERATING REVENUE	\$175,174,479	\$95,410,237	\$14,489,134	\$57,852,169	\$6,797,092	\$625,847
26	OPERATING EXPENSES						
27	Operation & Maintenance	\$127,527,717	\$71,562,036	\$10,650,914	\$39,521,517	\$5,480,388	\$312,862
28	Depreciation & Amortization	13,059,523	8,029,665	1,297,943	3,377,179	254,128	100,609
29	Interest on Customer Deposits	7,440	3,677	3,249	514	0	0
30	Taxes Other Than Income	6,140,682	3,838,350	597,122	1,574,072	70,810	60,327
31	Tax Expense	0	0	0	0	0	0
32	TOTAL OPERATING EXPENSES	\$146,735,363	\$83,433,728	\$12,549,228	\$44,473,282	\$5,805,326	\$473,799
33	OPERATING INCOME	\$28,439,117	\$11,976,509	\$1,939,907	\$13,378,887	\$991,766	\$152,048
35	RATE OF RETURN ON RATE BASE	10.53%	7.24%	7.12%	18.99%	17.53%	10.63%
36	RETURN AT PROPOSED RATES	\$26,610,039	\$10,663,827	\$1,728,510	\$13,097,400	\$971,472	\$148,831
37	RETURN ON RATE BASE	9.85%	6.45%	6.34%	18.59%	17.18%	10.41%
38	INPUTS						
39	TEST YEAR ADJUSTED SALES (kWh)	1,600,809,167	823,953,185	118,683,796	562,579,661	92,765,274	2,827,250
40	TEST YEAR PROPOSED MARGIN REVENUES	\$88,041,483	49,353,476	7,953,132	27,631,370	2,521,969	581,536
41	TEST YEAR PROPOSED FUEL REVENUES	\$85,303,919	44,744,078	6,324,606	29,939,311	4,254,829	41,094
42	TEST YEAR ADJUSTED CUSTOMERS	95,144	82,607	8,758	1,387	4	2,388

Calculation of Subsidies for the UNSE Direct and Rebuttal Cases

Calculation of Total and Class Subsidy (Direct Case)							
LINE NO.	DESCRIPTION	TOTAL	RESIDENTIAL SERVICE	SMALL GENERAL SERVICE	MEDIUM/ LARGE GENERAL SERVICE	LARGE POWER SERVICE	LIGHTING
		(A)	(B)	(C)	(E)	(G)	(H)
17	TOTAL RATE BASE	\$272,013,129	\$166,482,331	\$27,414,831	\$70,946,559	\$5,737,904	\$1,431,504
35	RATE OF RETURN ON RATE BASE	8.60%	6.79%	7.17%	13.36%	9.41%	8.09%
36	RETURN AT PROPOSED RATES	\$21,570,144	\$9,986,153	\$1,754,996	\$9,196,467	\$519,892	\$112,637
37	RETURN ON RATE BASE	7.93%	6.00%	6.40%	12.96%	9.06%	7.87%
38	INPUTS						
40	TEST YEAR PROPOSED MARGIN REVENUES	\$92,205,352	\$53,981,835	\$8,800,930	\$26,421,040	\$2,420,010	\$581,536
41	TEST YEAR PROPOSED FUEL REVENUES	\$77,522,386	\$40,227,839	\$5,768,557	\$27,305,258	\$4,183,666	\$37,065
43	Return on Rate Base at Full COS (L37)	7.93%	7.93%	7.93%	7.93%	7.93%	7.93%
44	Return at Full COS (L43 * L17)	\$21,570,144	\$13,201,745	\$2,173,946	\$5,625,933	\$455,005	\$113,516
45	Revenue at Full COS (L54-L36+L40+L41)	\$169,727,738	\$97,425,267	\$14,988,438	\$50,155,763	\$6,538,790	\$619,480
46	Proposed Revenue (L40+L41)	\$169,727,738	\$94,209,675	\$14,569,488	\$53,726,298	\$6,603,676	\$618,601
47	Class Subsidy/(Subsidization) (L45-L46)		\$3,215,592	\$418,950	(\$3,570,535)	(\$64,886)	\$879
48	Total Subsidy (L47:RS + L47:SGS + L47:L)	\$3,635,421					

Calculation of Total and Class Subsidy (Rebuttal Case)							
LINE NO.	DESCRIPTION	TOTAL	RESIDENTIAL SERVICE	SMALL GENERAL SERVICE	MEDIUM/ LARGE GENERAL SERVICE	LARGE POWER SERVICE	LIGHTING
		(A)	(B)	(C)	(E)	(G)	(H)
17	TOTAL RATE BASE	\$270,184,170	\$165,379,181	\$27,258,996	\$70,460,250	\$5,656,025	\$1,429,718
35	RATE OF RETURN ON RATE BASE	10.53%	7.24%	7.12%	18.99%	17.53%	10.63%
36	RETURN AT PROPOSED RATES	\$26,610,039	\$10,663,827	\$1,728,510	\$13,097,400	\$971,472	\$148,831
37	RETURN ON RATE BASE	9.85%	6.45%	6.34%	18.59%	17.18%	10.41%
38	INPUTS						
40	TEST YEAR PROPOSED MARGIN REVENUES	\$88,041,483	\$49,353,476	\$7,953,132	\$27,631,370	\$2,521,969	\$581,536
41	TEST YEAR PROPOSED FUEL REVENUES	\$85,303,919	\$44,744,078	\$6,324,606	\$29,939,311	\$4,254,829	\$41,094
43	Return on Rate Base at Full COS (L37)	9.85%	9.85%	9.85%	9.85%	9.85%	9.85%
44	Return at Full COS (L43 * L17)	\$26,610,039	\$16,287,951	\$2,684,698	\$6,939,526	\$557,054	\$140,811
45	Revenue at Full COS (L54-L36+L40+L41)	\$173,345,402	\$99,721,679	\$15,233,926	\$51,412,808	\$6,362,379	\$614,610
46	Proposed Revenue (L40+L41)	\$173,345,402	\$94,097,555	\$14,277,738	\$57,570,682	\$6,776,797	\$622,630
47	Class Subsidy/(Subsidization) (L45-L46)		\$5,624,124	\$956,188	(\$6,157,874)	(\$414,418)	(\$8,020)
48	Total Subsidy (L47:RS + L47:SGS)	\$6,580,312					

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

**DOUG LITTLE, CHAIRMAN
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN**

**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

SURREBUTTAL TESTIMONY OF

GREGORY W. TILLMAN

ON BEHALF OF

WAL-MART STORES, INC.

FEBRUARY 19, 2015

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Exhibits

- Exhibit GWT-S-1 – Schedule G-2 Proposed Rates**
- Exhibit GWT-S-2 – Calculation of Subsidies for the UNSE Direct and Rebuttal Cases**

Introduction

1
2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

3 A. My name is Gregory W. Tillman. My business address is 2001 SE 10th St.,
4 Bentonville, AR 72716-0550. I am employed by Wal-Mart Stores, Inc. as Senior
5 Manager, Energy Regulatory Analysis.

6 **Q. DID YOU FILE DIRECT RESPONSIVE TESTIMONY IN THIS CASE?**

7 A. Yes.

8 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?**

9 A. I am testifying on behalf of Wal-Mart Stores, Inc. ("Walmart").

10 **Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?**

11 A. Yes. I am sponsoring the exhibits listed in the Table of Contents.

12
13 **Purpose of Testimony**

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A. The purpose of my testimony is to address the modifications to rate design proposed
16 by UNSE. Specifically, I respond to the changes in the rate design proposals that
17 affect the proposed LGS rate class and are supported within the rebuttal testimonies
18 of Dallas J. Dukes and Craig A. Jones.

19
20 **Summary of Recommendations**

21 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE**
22 **COMMISSION FROM YOUR DIRECT TESTIMONY.**

23 A. My recommendations to the Commission from my Direct Testimony are as follows:

- 1 1) The Commission should approve UNSE's proposed Cost of Service Model.
- 2 2) The Commission should order UNSE to further mitigate the disparity in the
- 3 Medium and Large General Service rate class' Relative Rate of Return in all
- 4 future proceedings until all classes are brought to their cost of service.
- 5 3) The Commission should order that any reduction in the revenue requirement
- 6 created by its approval of an ROE lower than that requested by the Company
- 7 be used primarily to move the Medium/Large General Service class closer to
- 8 its cost of service.
- 9 4) The Commission should approve the Economic Development Rider ("EDR")
- 10 subject to the development of guidelines for the recovery and allocation of the
- 11 costs and/or any revenue deficiencies associated with the EDR.

12 **Q. DO YOU HAVE ANY UPDATES TO YOUR RECOMMENDATIONS??**

13 A. Yes. I am updating my recommendations to the Commission as follows:

- 14 5) The Commission should order UNSE to allocate the revenue requirement
- 15 reductions resulting from a lower ROE as described in this testimony, which
- 16 will reduce overall subsidy levels and bring all classes closer to their
- 17 underlying cost of service.
- 18 6) The Commission should approve the Economic Development Rider ("EDR")
- 19 as proposed by the Company in its direct and rebuttal testimonies.

20 The fact that an issue is not addressed herein or in related filings should not be

21 construed as an endorsement of any filed position.

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General Rate Design

Q. DID THE COMPANY STIPULATE TO A REDUCED RETURN ON EQUITY IN ITS REBUTTAL TESTIMONY?

A. Yes, UNSE has stipulated to an ROE of 9.5%.

Q. DID THE REDUCTION IN ROE RESULT IN A REDUCTION TO THE COMPANY'S MARGIN REVENUE AS PROPOSED IN ITS DIRECT CASE?

A. Yes, the margin revenue was reduced from the direct case amount of \$92,205,352 to \$88,041,483, a reduction of \$4,163,869.¹

Q. DO YOU HAVE ANY CONCERNS WITH THE REVISED COST OF SERVICE MODEL PRESENTED BY THE COMPANY IN ITS REBUTTAL TESTIMONY?

A. No. However, to the extent that alternative cost of service models or modifications to the Company's model are proposed by other parties, Walmart reserves the right to address any such proposals.

Revenue Allocation

Q. HAS THE COMPANY PROPOSED A CHANGE TO ITS CLASS REVENUE ALLOCATION TO INCLUDE THE REDUCED MARGIN REVENUE?

A. Yes. The change made to the revenue allocations in the Company's rebuttal case incorporates the reduced margin revenue. I am concerned that the changes also serve

¹ Schedule G-2 Proposed Rates, Line 40, for the respective cases. See Exhibit GWT-S-1

1 to move all classes, except the lighting class, away from their respective cost of
2 service, relative to UNSE's proposed revenue allocation in its direct case.

3 **Q. HAS THE COMPANY'S REBUTTAL CASE INCLUDED A REDUCTION IN**
4 **THE PROPOSED SUBSIDY RELATIVE TO THE SUBSIDY IN ITS DIRECT**
5 **CASE?**

6 A. No. The proposed subsidy level has increased significantly. Specifically, the
7 Company proposes a subsidy of \$6,580,312 in its rebuttal case, nearly \$3 million
8 higher than the \$3,635,421 proposed in its direct case.¹

9 **Q. IN YOUR DIRECT TESTIMONY, YOU PROVIDED A COMPARISON OF**
10 **THE RELATIVE RATES OF RETURN ("RROR") FOR THE RATE**
11 **CLASSES.² DID UNSE MAKE IMPROVEMENTS IN THE RROR OF THE**
12 **MAJOR RATE CLASSES?**

13 A. No. The Company's application of the reduction in revenue requirement caused each
14 of the major rate classes to be moved further from their respective cost of service
15 when compared to the proposed allocation in the direct case. This can be seen in
16 Table 1.

¹ Schedule G-2 Proposed Rates for the respective cases, the total subsidy is the sum of the difference between the class revenue requirement at full cost of service and the class proposed rate revenue for all subsidized classes. See Exhibit GWT-S-2.

² Direct Testimony of Gregory W. Tillman, page 6, lines 12-16.

Table 1: Change in Proposed Margin Revenue and RROR

	Total	Residential	Small General Service	Medium/Large General Service	Large Power Service	Lighting
Current Rate Margin Revenue	\$ 69,654,260	\$ 33,425,187	\$ 6,136,594	\$ 26,394,695	\$ 3,191,840	\$ 505,944
Current Rate of Return	2.47%	-3.77%	-0.87%	16.27%	28.64%	4.13%
Company's Direct Case						
Proposed Margin Revenue	\$ 92,205,352	\$ 53,981,835	\$ 8,800,930	\$ 26,421,040	\$ 2,420,010	\$ 581,536
Rate of Return	7.93%	6.00%	6.40%	12.96%	9.06%	9.06%
RROR	76%	76%	81%	163%	114%	114%
Company's Rebuttal Case						
Proposed Margin Revenue	\$ 88,041,483	\$ 49,353,476	\$ 7,953,132	\$ 27,631,370	\$ 2,521,969	\$ 581,536
Rate of Return	9.85%	6.45%	6.34%	18.59%	17.18%	10.41%
RROR		65%	64%	189%	174%	106%

Q. DO YOU AGREE WITH THE COMPANY'S CHANGES IN THE PROPOSED REVENUE ALLOCATION?

A. No. If, as stated by the Company, the goal is to reduce inter-class subsidies, the allocation of the reductions in non-fuel revenues proposed in the Company's rebuttal case does not serve to improve the Company's rate design.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE APPLICATION OF THE REDUCTION IN NON-FUEL REVENUE?

A. In an effort to reduce the inter-class subsidies and move all classes closer to their cost of service, the Commission should order a distribution of the reduced margin revenue resulting from the decreased ROE in a manner that both limits rate increases to customers and further reduces inter-class subsidies. Beginning with the revenue allocation proposed in the Company's direct case, I recommend allocating 25% of the reduction, or \$1.04 million, to the classes bearing the subsidy – namely, the Medium/Large General Service class ("M/LGS") and the Large Power Service class ("LPS"). The decrease to the subsidizing classes should be proportioned on the total revenue found in the Company's originally filed rate design from its direct case. The remaining 75% of the reduction, or \$3.1 million should be allocated to the classes to which the Company proposed a rate increase in its direct case. The application of this

1 portion of the reduction should be proportionate to the level of increase proposed by
 2 the Company within its direct case.

3 **Q. UNDER YOUR PROPOSED GUIDELINES, HOW WOULD THE**
 4 **RESULTING CHANGES AFFECT EACH CLASS' PROPOSED REVENUE?**

5 A. Table 2 provides the calculation of the resulting margin revenues for each class based
 6 on my recommendation.

7 Table 2: Walmart Proposed Distribution of Margin Reduction

Description	Total Jurisdiction	Residential	Small General Service	Medium/Large General Service	Large Power Service	Lighting
Margin Revenue - Direct Case	\$ 92,205,352	\$ 53,981,835	\$ 8,800,930	\$ 26,421,040	\$ 2,420,010	\$ 581,536
Total Revenue - Direct Case	\$ 169,727,738	\$ 94,209,675	\$ 14,569,488	\$ 53,726,298	\$ 6,603,676	\$ 618,601
Proportion of Subsidization				89.05%	10.95%	
Margin Increase - Direct Case	\$ 22,551,092	\$ 20,556,648	\$ 2,664,336	\$ 26,345	\$ (771,829)	\$ 75,592
Proportion of Increase		88.14%	11.42%	0.11%		0.32%
Margin Reduction - Rebuttal	\$ (4,163,869)	\$ (4,628,359)	\$ (847,799)	\$ 1,210,330	\$ 101,958	\$ -
25% of Margin Reduction	\$ (1,040,967)					
Allocation to Subsidizing Classes				\$ (927,024)	\$ (113,944)	
75% of Margin Reduction	\$ (3,122,902)					
Allocation to Classes Increased		\$ (2,752,502)	\$ (356,750)	\$ (3,528)	\$ -	\$ (10,122)
Total Change in Margins	\$ (4,163,869)	\$ (2,752,502)	\$ (356,750)	\$ (930,551)	\$ (113,944)	\$ (10,122)
Proposed Margins	\$ 88,041,483	\$ 51,229,333	\$ 8,444,180	\$ 25,490,489	\$ 2,306,067	\$ 571,414

8
 9 **Q. DOES THE RESULTING REVENUE ALLOCATION RESULT IN A**
 10 **REDUCTION OF THE OVERALL SUBSIDY LEVEL AND MOVEMENT**
 11 **TOWARD THE INDIVIDUAL CLASSES' RESPECTIVE COSTS OF**
 12 **SERVICE?**

13 A. Yes. The subsidy level resulting from the recommended approach is reduced from
 14 the Company's proposed \$6.5 million to \$3.2 million. Under the proposal for
 15 allocation of these reductions, every class is moved closer to its own cost of service.
 16 The resulting RRORs are shown in Table 3.

Table 3: Walmart Proposed Margin, Rates of Return and RROR

Walmart Recommendation	Total	Residential	Small General	Medium/Large	Large Power	Lighting
Proposed Margin Revenue	\$ 88,041,483	\$ 52,146,834	\$ 8,563,097	\$ 24,579,343	\$ 2,177,421	\$ 574,788
Rate of Return	9.85%	8.14%	8.58%	14.26%	11.08%	9.94%
RROR		83%	87%	145%	113%	101%

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3 **Q. IN ADDITION TO MORE CLOSELY ALIGNING WITH THE STATED**
4 **GOALS, ARE THERE OTHER IMPERATIVES TO MOVING TOWARD**
5 **RATES THAT REFLECT OF THE UNDERLYING COSTS?**

6 **A.** Yes. Simply stated, removal of inter-class subsidies is essential in establishing sound
7 rate design on several fronts. Some of the more pressing issues in utility rate design
8 are being skewed by the existence of intra-class subsidies.

- 9 • Subsidies tend to perpetuate themselves by encouraging the inefficient use of
10 system resources. Arguably, the most effective way to ensure efficient operations
11 and proper allocation of system resources is to present proper price signals to
12 consumers. If a particular group of customers is subsidized, then the price signal
13 to that group of customers is artificially low. Pursuant to the theory of own-price
14 elasticity as it applies to electric service (which simply means that consumption of
15 a product increases as its price decreases, and consumption decreases as its price
16 increases), the artificially low price will create an undesirable increase in
17 consumption relative to consumption at the price that accurately reflects the
18 underlying costs. This increased demand will likely result in increased allocation
19 of costs to the subsidized class perpetuating the need for subsidies to the class.
- 20 • Subsidies support inequalities in the evaluation and selection of alternative supply
21 options and energy efficiency efforts. If subsidies exist within the rate design,
22 then the underlying economics of alternative supply options or energy efficiency

1 actions is distorted and customers are likely to accept or reject potential projects
2 based on a value that is not reflective of the true avoided costs. Customers may
3 choose to implement technologies that ultimately provide less benefit than
4 expected or, alternatively, reject projects that, in the long run, would be
5 economically beneficial to themselves, other utility customers, and society.
6

7 **Economic Development Rider**

8 **Q. DOES WALMART AGREE WITH THE APPROVAL OF THE ECONOMIC**
9 **DEVELOPMENT RIDER AS PRESENTED IN THE COMPANY'S**
10 **REBUTTAL TESTIMONY?**

11 A. Yes. The Company has clarified its intent and method to make the adjustments
12 necessary to prevent transfer of any revenue deficiencies to other customers.¹ The
13 Commission should approve the Economic Development Rider.
14

15 **Customer Special Interests**

16 **Q. HAS UNSE MADE STATEMENTS WITHIN ITS REBUTTAL TESTIMONY**
17 **REGARDING WALMART, OTHER CUSTOMERS, AND CUSTOMER**
18 **INTEREST GROUPS PARTICIPATION IN THIS RATE PROCEEDING?**

19 A. Yes. In the testimony of Mr. Jones, he discourages situations where "*customers seek*
20 *special treatment to make their rates lower at the expense of other customers.*"²

¹ Rebuttal Testimony of Dallas J Dukes, pages 24-28.

² Rebuttal testimony of Craig A. Jones, page 33, line 26 – page 34, line 2.

1 Further, Mr. Jones implies that Walmart and other interveners seek a decision of the
2 Commission to create “winners” at the expense of “losers”¹.

3 **Q. DOES MR. JONES’ STATEMENTS ACCURATELY REPRESENT THE**
4 **INTENT OF WALMART AS A PARTICIPANT IN THIS, OR ANY OTHER,**
5 **RATE PROCEEDING?**

6 A. Absolutely not. Walmart’s motivation as a participant in rate proceedings is to ensure
7 that its interests are heard by the Commission. To characterize Walmart’s intent as
8 anything other than exercising its rights and fulfilling its responsibilities as an
9 intervener in a manner that seeks to establish rates based on the cost-causation
10 principles of sound rate-making, is misleading. Walmart seeks “fair treatment” for all
11 customers and desires that Commissions establish rates that require all customers to
12 be responsible for their own costs. My Direct Testimony states Walmart’s goal for
13 rate-making in all such proceedings: *“Walmart advocates that rates be set by*
14 *regulatory agencies based on the utility’s cost of service. A regulatory policy that*
15 *supports the fair-cost-apportionment objective ensures that rates reflect cost*
16 *causation, send proper price signals and minimize price distortions. In addition to*
17 *the fairness objective, Walmart supports rate structures that encourage the efficient*
18 *use of electricity in a manner that seeks to minimize the long-term costs of electric*
19 *service.”*²

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 A. Yes.

¹ Ibid, page 34, lines 15-18

² Direct testimony of Gregory W. Tillman, page 4, lines 14-19