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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

Arizona Corporation Commission

DOCKETED

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AZ CORP COMMISSION
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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
CYNTHIA ZWICK ON BEHALF OF THE
ARIZONA COMMUNITY ACTION
ASSOCIATION**

Arizona Community Action Association, through its undersigned counsel, hereby provides notice that it has this day filed the attached written surrebuttal testimony of Cynthia Zwick.

RESPECTFULLY submitted this 23rd day of February, 2016

Timothy M. Hogan
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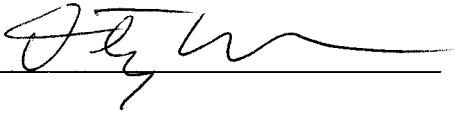
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12 All Parties of Record

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12 REASONABLE RATES AND CHARGES) **ON BEHALF OF THE ARIZONA COMMUNITY**
13 DESIGNED TO REALIZE A REASONABLE) **ACTION ASSOCIATION**
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SURREBUTTAL TESTIMONY OF
CYNTHIA ZWICK ON BEHALF OF THE
ARIZONA COMMUNITY ACTION ASSOCIATION

February 23rd, 2016

1 **Q. Please state your name and business address.**

2 A. My name is Cynthia Zwick. My business address is 2700 N 3rd St., Ste. 3040, Phoenix, AZ
3 85004.

4 **Q. What is your position at the Arizona Community Action Association?**

5 A. I serve as the Executive Director of Arizona Community Action Association (ACAA). I've
6 served in this position for over twelve years.

7 **Q. What is the purpose of your testimony today?**

8 A. The purpose of my testimony is to address the following items brought up in the Company's
9 rebuttal testimony:

- 10 • CARES eligibility;
- 11 • Rules changes regarding residential deposits and CARES customers;
- 12 • The appropriateness of demand rates for low-income customers;
- 13 • CARES customers being on their own rate;
- 14 • The need to avoid fixed charge increases for low-income customers; and
- 15 • CARES outreach.

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19 **CARES ELIGIBILITY**

20 **Q. Was the issue of the CARES eligibility rate addressed in UNSE's rebuttal testimony?**

21 A. Yes, it was addressed in the testimony of Craig Jones.

22 **Q. What is the Company's position?**

23 A. Mr. Jones said that the Company proposes to keep the eligibility level at 150% of the Federal
24 Poverty Guideline. He went on to discuss the potential additional costs to increasing CARES
25 eligibility.

26
27 **Q. Are there also additional benefits the company would see by enrolling additional CARES**
28 **customers by increasing eligibility to 200% of the Federal Poverty Guideline?**

1 A. Yes. The company will be able to see reduced collections costs, decreased costs obtaining and
2 paying interest on deposits, less company costs from payment plans, decreased bad debt write-off
3 costs, and improved working capital allowances.¹

4 **Q. How will collections costs be reduced?**

5 A. By providing the CARES discount to a low-income customer not on CARES, their bill will
6 decrease significantly. By decreasing their bill, the company increases their ability to pay. The
7 proposed cost to disconnect a customer is \$47, with an additional \$47 to reconnect, to say nothing
8 of the costs to collect any payments the customer wasn't able to make. Avoiding these costs can
9 have a real impact for the company and the customer.

10 **Q. How are deposit maintenance costs reduced?**

11 A. When the customer is enrolled in CARES and has a more affordable bill, they are less likely to
12 have trouble paying. This means they would be less likely to need to provide an additional
13 deposit, avoiding further economic distress as well as avoiding costs for the company by
14 obviating the need to collect additional deposits and pay interest on those newly collected
15 deposits. Using the company's EIA-861 data, the average bill is \$85.24, meaning the average
16 deposit would be twice that, \$170.48. Paying an interest rate of 0.13% yields an average interest
17 of \$0.22 per deposit; not a significant amount, but a cost nonetheless. Additionally, the hourly
18 rate of a UNS Customer Service Representative is \$17.23-\$23.94; assuming they spend 15
19 minutes collecting a deposit from a customer, the cost would be an average of \$5.15 per deposit
20 collected.
21

22 **Q. How can the Company save on payment plans?**

23 A. By making customers' bills more manageable, fewer customers will need to use payment plans to
24 pay off their accounts. Enrolling customers in CARES will decrease the company time spent
25 establishing and managing payment plans. This can have the additional effect of receiving
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27

28 ¹ Colton, Roger D. "Identifying Savings Arising from Low-Income Programs"

1 revenue sooner, decreasing lost time value in arrears. Again, the hourly rate of a customer
2 service representative for UNS Electric is \$17.23- \$23.94/hr. Assuming it takes 15 minutes to
3 negotiate and establish a payment plan, the cost to the company could be between \$4.31 and
4 \$5.99 per payment plan, giving an average cost of \$5.15.

5 **Q. How are bad debt write-off expenses decreased?**

6 A. By ensuring that low-income customers are signed up for CARES and have more reasonable
7 bills, less debt is incurred which would ultimately be written off as a cost to the company.
8

9 **Q. What is the current discount cost per CARES customer?**

10 A. According to the testimony of Craig Jones, in the test year the company spent \$581,326.00 on
11 discounts for 6,236 CARES customers, resulting in a discount per customer of \$93.22.

12 **Q. What are the per-customer costs that can be avoided by enrolling a low-income customer in
13 CARES?**

14 A. If a low-income customer, by enrolling in CARES, is able to avoid one disconnection, one
15 reconnection, one additional deposit, and one payment plan, they are able to avoid \$105.00 of
16 additional costs. Even if they are able to simply avoid one shutoff and reconnection, they can
17 avoid \$94.49 in costs. There will also be additional costs avoided by reducing bad debt expenses
18 and improving working capital allowance which aren't captured in this number. Avoiding these
19 costs benefits the company by allowing it to focus on the provision of electricity to customers
20 who need it, forgoing the time and labor associated with these collection activities. As is
21 demonstrated in this example, if the CARES rate makes the customer's electricity more
22 affordable, the discount can often pay for itself in reduced collections and overhead costs.
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26 DEPOSITS

27 **Q. Did the Company respond to ACAA's request to hold harmless CARES customers from the
28 deposit rule changes?**

1 A. Yes, UNSE witness Denise Smith responded to this request.

2 **Q. What was her response?**

3 A. Ms. Smith disagreed with the recommendation to hold CARES customers harmless; she also
4 clarified that “UNS Electric is not proposing to assess ‘additional’ deposit amounts.”

5 **Q. Do you agree with her assessment?**

6 A. No. Under the current rules, the Company “may require a Customer to establish or reestablish a
7 deposit if the Customer became delinquent in the payment of three (3) or more bills within a
8 twelve (12) consecutive month period.”² Under the proposed rules, “[t]he Company may require
9 a residential Customer to establish or reestablish a deposit if the Customer becomes delinquent in
10 the payment of two (2) or more bills...”³ Perhaps there’s some confusion over the use of the
11 word “additional,” but let me be clear: this proposed rule change will allow the company to
12 collect more dollars in deposits from more customers than they are able to under the current rules.
13

14 **Q. Should this rule be applied to low-income CARES customers?**

15 A. No, it should not. Assessing a deposit on a payment-troubled CARES customer will only make
16 their financial situation worse and make it harder for them to pay off their original debt. The
17 same protection afforded low-income APS customers, “waiving additional security deposits for
18 low-income ratepayers,”⁴ must be similarly provided to low-income UNS Electric customers.
19

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21 **DEMAND RATES**

22 **Q. Have you provided testimony regarding low-income customers and demand charges?**

23 A. Yes, I filed testimony on January 19th stating that demand charges are not in the best interest of
24 low-income customers.⁵
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27 ² <https://www.uesaz.com/doc/customer/rates/electric/UES-903.pdf>

28 ³ Direct Testimony of Denise Smith, Exhibit DAS-1

⁴ ACC Decision 71448

⁵ <http://images.edocket.azcc.gov/docketpdf/0000167848.pdf>

1 Q. **Have you reviewed the rebuttal testimony provided by the company regarding demand**
2 **charges?**

3 A. Yes, I have.

4 Q. **Are there any issues the company raised that you would like to address?**

5 A. Yes. I would like to address Dr. Overcast's recommendations for a demand charge.

6 Q. **Can you briefly describe Dr. Overcast's recommendations?**

7 A. Yes. Dr. Overcast recommended a demand charge with a 100% ratchet on the distribution
8 demand charge, as well as a charge for coincident peak and noncoincident peak. He also
9 recommended that the time frame for measuring a demand charge be 15 minutes.

10 Q. **What effect would instituting a 100% ratchet on the distribution demand charge have on**
11 **low-income customers?**

12 A. A 100% ratchet would turn the demand charge into a fixed charge. After the peak demand for the
13 year is set, most likely in the summer, staving off life-threatening heat,⁶ the customer has no
14 incentive to conserve demand below the peak usage. Moreover, the customer will continue to be
15 charged for that peak usage, as if their demand is the same in the summer as it is during the
16 shoulder months. With this increased charge implemented on the bill, low-income customers
17 would be less able to control how much they pay for power, stretching their budgets ever-tighter.

18 Q. **What justification was given for setting the demand charge range of 15 minutes?**

19 A. The rationale given was that "15 minute intervals are more stable over time so customers do
20 not see large swings in their demand measurements."

21 Q. **Are there situations where customers may see increased bill volatility due to the 15 minute**
22 **interval?**

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28 ⁶ <http://www.azdhs.gov/documents/preparedness/epidemiology-disease-control/extreme-weather/pubs/heat-related-illness-update-april-2015.pdf>

1 A. Yes, an example would be a moderate-use apartment, using approximately 500 kWh per month.
2 A customer with that monthly load would have an average demand of 0.7 kW. However, in a 15
3 minute span in the morning, that customer may take a shower, get dressed for work, and cook
4 breakfast. This would use the hot water heater (approximately 4.5 kW), the hair dryer (1.5 kW),
5 and the microwave (1.1 kW). With a 15-minute demand charge calculation, the customer would
6 be charged for ten times their average monthly demand. A low-income customer would not be
7 able to bear such a steep charge, and unless they stopped going to work, there's very little that
8 could be done to shift the demand, making this an unavoidable fixed charge.
9

10 **Q. Does Dr. Overcast cite any utilities that have instituted mandatory demand charges for**
11 **residential customers?**

12 A. Yes, Butler Rural Electric Cooperative in Kansas implemented a mandatory demand charge for
13 peak use times.

14 **Q. Does this cooperative's use of demand charges allay your concerns about demand charges?**

15 A. No.

16 **Q. Why not?**

17 A. Very little evidence is provided to show customer adaptation to demand rates. All that is
18 provided in the rebuttal testimony is a Manager's Report from the cooperative saying that
19 "many... conserved." The report does not say how many or by how much. Additionally, it does
20 not mention if any customers had difficulty with the demand charges, didn't understand how they
21 were implemented, or saw their bills increase as a result. More to the point, there's no mention of
22 how low-income customers were able to negotiate the demand charge, and how their experience
23 compared to the residential customer base.
24

25 **Q. Were any special considerations offered for "vulnerable customers"?**

26 A. Yes, Craig Jones discussed the possibility of keeping "vulnerable customers" on transition rates
27 until the next rate case. I believe that the most appropriate transition rate for low-income
28

1 customers would be to hold them harmless in these proceedings and to continue the CARES
2 discount as is.

3 **Q. Are low-income customers vulnerable?**

4 A. Yes, as I discussed in my testimony on January 19th, low-income customers are absolutely a
5 vulnerable group, and I believe holding them harmless in these proceedings is the right move.

6 **Q. Why so?**

7 A. First and foremost, low-income customers struggle to pay their bills, experiencing a much higher
8 energy burden than the average residential customer. An average family in Mohave or Santa
9 Cruz County, earning the county median income, has an energy burden of 2.75%. Households
10 earning the mean income of the bottom income quintile in Mohave County have an energy
11 burden of 8.3%, nearly three times the burden of the median household. Families in Santa Cruz
12 earning the mean of the lowest income quintile have an energy burden of 10.4%, more than three
13 and a half times the energy burden of a household earning the median income for the county. The
14 poverty rate for Mohave county is 19.9%, and the poverty rate for Santa Cruz county is 24.4%, so
15 the mean income for the bottom quintile represents the average income of households in poverty
16 in these areas. In order for the bill described in the bill impact section of CAJ-R-2 to be
17 affordable (to have a comparable energy burden to a household with median income), the low-
18 income household would need a discount of 63% or 70% for Mohave County or Santa Cruz
19 County, respectively, in addition to the discount already provided in the CARES demand rate.
20 Holding low-income customers harmless – maintaining the current CARES rates and leaving it
21 unfrozen – would keep their energy burdens at 7.5% and 9.3% for Mohave and Santa Cruz
22 counties, respectively. The Commission should pursue truly affordable rates; failing that, low-
23 income customers must be held harmless from increasingly unaffordable bills.
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28 **MOVING THE CARES CUSTOMERS TO THE STANDARD DEMAND RATE**

1 **Q. Do you support the CARES customers being moved to the three part rate along with the**
2 **standard residential customers?**

3 A. No.

4 **Q. Why not?**

5 A. It all comes back to affordability. With the three part rate and flat percentage discount after the
6 fact, CARES customers see an 11% increase in annual rates. Increases in energy costs are
7 associated with tradeoffs between families paying for utilities or food, with an increased risk for
8 nutritional risk for children in homes with higher energy burdens.⁷ Given the substantial effects
9 on health and wellness that increased energy bills have on the most vulnerable, I believe low-
10 income customers should be held harmless from these proposed changes.
11

12
13 **FIXED CHARGE INCREASE FOR LOW INCOME CUSTOMERS**

14 **Q. Was the issue of increased fixed charges for low-income customers brought up in the**
15 **rebuttal testimony?**

16 A. Yes, Dr. Overcast discussed the benefits of a higher fixed charge, specifically how it benefits
17 higher-use low-income customers.
18

19 **Q. Do you agree that a higher fixed charge is beneficial for low-income ratepayers?**

20 A. No. Dr. Overcast is right that higher-use customers see a smaller percentage increase with larger
21 fixed charges than lower-use customers did, as demonstrated in the Bill Impact Analysis in Craig
22 Jones' rebuttal testimony. However, low-usage bills are much more frequent than high-usage
23 bills among CARES customers. There were 20,000 more bills in the test year below the average
24 kWh per bill than there were above the average kWh per bill. Even when bills less than 300 kWh
25 are excluded from the total, the bills less than average outnumber the bills above the average by
26

27
28 ⁷ Heat or Eat: The Low Income Home Energy Assistance Program and Nutritional
and Health Risks Among Children Less Than 3 Years of Age
<http://pediatrics.aappublications.org/content/118/5/e1293>

1 7,000. Maintaining a low fixed charge provides more relief for more customers' bills, which puts
2 it squarely in the public interest. Moreover, customer usage rates aren't static; a lower fixed
3 charge and a higher kWh charge incentivizes customers to conserve energy and decrease their
4 bills. If the policy of increased fixed charges were pursued, there's no incentive to conserve or
5 take any specific action, as there's no way to reduce the impact of a fixed charge.
6

7 **Q. For low-income high-usage customers who are unable to significantly conserve energy, is**
8 **there a policy action that may benefit them more than increased fixed charges?**

9 A. Many low-income households who live in poor housing stock with old and inefficient appliances
10 may not be able to achieve savings due to the inefficiencies in their home. For these customers
11 weatherization would provide much more relief than increased fixed charges. A study conducted
12 by Oak Ridge National Laboratory found that weatherization saves clients \$437 per year,
13 providing savings in energy as well as health, safety, and comfort.⁸
14

15 CARES OUTREACH

16 **Q. Have you read Denise Smith's rebuttal testimony regarding CARES outreach?**

17 A. Yes, I have.

18 **Q. Do you have any additional comments to respond to what she said?**

19 A. The primary interest in bringing up the outreach that the Company has done on CARES is to say
20 that it appears that CARES is significantly under-enrolled. After analyzing census data, it
21 appears that approximately 24,000 UNSE customers are eligible for CARES, while only 6,200
22 customers are enrolled. It appears that this gap should be closed with increased outreach.
23

24 **Q. Does this conclude your testimony?**

25 A. Yes, it does. Thank you.
26

27
28 ⁸ http://weatherization.ornl.gov/pdfs/ORNL_TM-2010-66.pdf