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7 *Attorneys for Western Resource
8 Advocates*

9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10 DOUG LITTLE, Chairman
11 BOB STUMP
12 BOB BURNS
13 TOM FORESE
14 ANDY TOBIN

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
SURREBUTTAL TESTIMONY OF
KEN WILSON ON BEHALF OF
WESTERN RESOURCE
ADVOCATES**

Western Resource Advocates ("WRA"), through its undersigned counsel, hereby provides notice that it has this day filed the attached surrebuttal testimony of Ken Wilson.

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Arizona Corporation Commission

DOCKETED

FEB 23 2016

DOCKETED BY *kh*

1 DATED this 23rd day of February, 2016.

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 Western Resource Advocates*

9 ORIGINAL and 13 COPIES of
10 the foregoing filed this 23rd day
11 of February, 2016, with:

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

17 COPIES of the foregoing
18 electronically mailed this
19 23rd day of February, 2016 to:

20 All Parties of Record

21 
22
23
24
25

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

2 A. My name is Kenneth L. Wilson. My business address is 2260 Baseline Road, Suite 200,
3 Boulder, Colorado 80302.

4
5 **Q. Did you submit Direct Testimony on behalf of Western Resource Advocates?**

6 A. Yes.

7
8 **Q. Have you reviewed the Direct Testimony filed by the Utilities Division (“Staff”) of the**
9 **Arizona Corporation Commission and Rebuttal Testimony filed by UNS Electric (“Company”)**
10 **in this docket.**

11 A. Yes.

12
13 **Q. What subject matter do you cover in your Surrebuttal Testimony?**

14 A. I address the opinions of Staff and the Company regarding the advisability of switching
15 residential customers from a 2-part rate design to a 3-part rate design that includes demand charges.

16
17 **I. RESPONSE TO STAFF**

18 **Q. In his testimony Mr. Broderick proposes to shift from a 2-part rate structure to a 3-part**
19 **rate structure. Do you agree with his opinion in this shift?**

20 A. No. Moving to a 3-part rate structure with demand charges for residential and small
21 commercial customers is a radical change in rate design that is unnecessary. Transitioning to a 2-part
22 Time of Use (“TOU”) rate structure with a minimum bill is a more reasonable approach that avoids

23

24

1 many customer issues inherent with demand charges. I addressed many of the issues with demand
2 charges in my direct testimony and will not repeat them here.

3
4 **Q. Have any other state commissions adopted a 3-part rate structure with demand charges
5 for all residential and small commercial customers?**

6 A. Not to the best of my knowledge.

7
8 **Q. Mr. Broderick is concerned the Company does not recover a fair share of fixed costs
9 from all customers, and proposes demand charges as a solution. Do you agree with his
10 opinion?**

11 A. I agree that each customer should pay their fair share of fixed costs. However, as I stated in
12 my Direct Testimony, I believe that TOU rates with a modest minimum bill are a better mechanism
13 to accomplish this goal. TOU rates more accurately assess both fixed and variable costs to the
14 customers who are using energy during peak load hours. The minimum bill also helps assess fair
15 costs to vacant and seasonal properties, which a demand rate does not.

16
17 **Q. Mr. Broderick suggests that demand charges "... will better assist customers to avoid
18 utility costs, and it will encourage adoption of additional technologies." Do you agree with this
19 statement?**

20 A. No. While many energy efficiency technologies have been designed to allow residential and
21 small commercial customers to reduce their energy use, there are few if any technologies that are
22 available to economically reduce demand charges. Battery storage solutions are being marketed in
23 some states to reduce demand charges for larger commercial customers, but these solutions are
24

1 expensive and not designed for smaller energy users. Someday, battery storage systems may be an
2 economic means to reduce demand charges for smaller energy users, but it seems unfair to implement
3 demand charges before such technology is widely available.

4
5 **Q. Mr. Solganick presents an analogy for demand charges in the rental car energy: when a**
6 **customer rents a larger sized car for a higher price, this represents a demand charge. Do you**
7 **agree with his analogy?**

8 A. No, in fact I completely disagree. Rental car companies, like other competitive businesses,
9 cover their fixed costs with volumetric pricing. Renting a larger car for a higher price is not a
10 demand charge, it is simply renting a higher value service. The analogy with the electric industry
11 would be paying for a higher grade of reliability, for example. Rental car companies cover their fixed
12 costs by renting cars one day at a time, or one week at a time. If each member of your family rents a
13 separate car, you are not charged a "demand charge" because you are renting more cars. Virtually all
14 competitive businesses recover fixed costs by volumetric pricing.

15
16 **Q. What are additional examples of competitive businesses covering all their fixed costs**
17 **with volumetric prices?**

18 A. The airline industry has huge fixed costs in airplanes and other infrastructure. They recover
19 those costs one seat at a time. The hotel industry recovers fixed costs one room at a time. Oil
20 companies recover the huge fixed costs of refineries and fueling stations one gallon at a time.
21 Grocery stores recover fixed costs one apple at a time. None of these industries use demand charges.
22 If a non-monopoly business began assessing demand charges, customers would undoubtedly shift to a
23 competitive replacement that does not assess demand charges.

24

1 **II. Response to the Company**

2 **Q. Mr. Overcast states in his Rebuttal Testimony that WRA's support for a low customer**
3 **charge is not a good method of assessing costs to the cost causer. Do you agree with his**
4 **assessment?**

5 A. Not in general. A single distribution feeder is shared by many hundreds or thousands of
6 residential customers. The only element of the distribution grid that is shared by small numbers of
7 customers is the service transformer. While one could make an argument that the cost of the service
8 transformer could be assessed more granularly, the larger costs embedded in the feeders and
9 substation are used by all and should be shared by all in volumetric charges, as has been done for
10 many years in many states.

11
12 **Q. Mr. Dukes in his Rebuttal Testimony presents a chart on page 22. What does that chart**
13 **indicate about the impact of demand charges on customer bills for customers with low monthly**
14 **energy use?**

15 A. Mr. Dukes uses the chart to discuss impacts of various rate structure changes on DG. I find
16 his calculations of the impacts on customers without DG interesting with respect to the impacts of a
17 3-part rate structure on customers who use lower amounts of energy each month relative to those who
18 use more energy each month. Looking at the second column of numbers (Proposed 3-part Rate: No
19 DG) we can see that the monthly bill of customers who use 500 kWh per month increases by \$3.51,
20 while customers who use 1,500 kWh per month see a bill decrease of \$18.81. The crossover point
21 seems to be about 900 kWh per month, at which level customers see a \$0.06 bill decrease per month.
22 The table suggests that all customers with less than 900 kWh per month of use will see bill increases
23 with a 3-part rate structure and customers with usage of greater than 900 kWh will see bill decreases.

24

1 Increasing bills for customers who use less energy, who are often lower income customers, is poor
2 policy. It fails to send accurate price signals to customers about the overall cost of using energy and
3 disincentivizes energy efficiency and energy conservation.

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

6 **A. Yes.**

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