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Docket Number: E-04204A-15-0142

Dear Colleagues and Interested Parties:

During the fifteen days of hearings on the UNSE rate case, Docket No. E-04204A-15-0142, held in Tucson last month, there was a robust discussion of the issues associated with the proposed rate design.

Of particular interest was the discussion regarding the merits and shortcomings of mandatory three part rates including a residential demand charge.

After attending the public comment sessions held in Nogales on March 22nd, Kingman and Lake Havasu City on March 31st and a second, extremely well attended session in Lake Havasu City on April 18th, I became more acutely aware of the concerns of UNSE ratepayers and returned to research the record to better understand the potential impact of mandatory three part rates on residential ratepayers.

While I applaud the staff of the Utilities Division for thinking outside the box and recommending a novel approach to rate design, I am concerned that we may be losing sight of the principal of gradualism in regulatory rate making in this instance. Further, I am concerned that the focus on three part rates, and a failure to fully consider other intermediate approaches, may result in the Commission having limited options with respect to the ability to consider and potentially adopt other rate designs.

With this letter, I want to encourage the involved parties to either offer, or more fully explore, other alternatives to mandatory three part rates; paying particular attention to alternatives not requiring a mandatory residential demand charge in their briefs.

Similarly, I would encourage the presiding administrative law judge to explore and evaluate different rate design methodologies and discuss them in her Recommended Opinion and Order, thus providing the Commission additional rate design options that they can consider.

Whatever merits the concept of mandatory three part rates might appear to have in the abstract, the adverse effect they could have on the economic and social realities faced by the ratepayers in the UNSE service territory are profound and very concerning to me.

The UNSE service territory seems to me to be inappropriate and unsuitable for a rate design of this type. Moreover, the demographics and financial conditions that exist are not conducive to such an experiment. In my view, the demographic, geographic, economic and social profile associated with the UNSE service territory is fairly unique and should be treated as such when considering this rate case.

I also wish to be very clear that I do not consider any rate design approach that is being discussed, or that might ultimately be adopted in the UNSE rate case, to be precedent setting in any way.

During the hearing, there was a robust discussion on the topic of Net Metering. There were several approaches that were suggested that with modifications could be interesting.

UNSE originally proposed that the current net metering based on the retail rate could be potentially replaced with a "renewable credit rate". The Company proposed that it would be reset each year. Parties representing the distributed solar installers' interests were concerned that this would make the economics of solar adoption 'unpredictable' since someone purchasing rooftop DG would not be able to accurately forecast what the amount of the credit would be each year.

Typical power purchase agreements have a term over which the amount paid for electricity is fixed. Often, there are opportunities to extend the agreement with the ability to modify the price paid for electricity based on market conditions at the time of extension.

I would suggest that a rate design that included a "renewable credit rate" which could reset each year, but would be fixed for an initial term for each customer who adopted DG solar, might have some merit and receive favorable consideration. The initial term would have a meaningful length of perhaps 10-15 years with the potential to renew with a possible adjustment of the credit amount for an additional 5-10 years.

Such a model is more predictable, creates certainty, and allows a more accurate economic rate of return calculation for someone considering rooftop DG. It also allows for DG solar generation to be compensated in a reasonable and market based manner.

Finally, should the parties consider the possibility of settlement discussions in this case, I would hope that some of the suggestions above might find their way into any settlement agreement that the parties might develop.

Sincerely,

Doug Little
Chairman
Arizona Corporation Commission