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BEFORE THE ARIZONA CORPORATION COMMISSION

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7
8 IN THE MATTER OF THE APPLICATION OF
9 UNS ELECTRIC, INC. FOR THE
10 ESTABLISHMENT OF JUST AND
11 REASONABLE RATES AND CHARGES
12 DESIGNED TO REALIZE A REASONABLE
13 RATE OF RETURN ON THE FAIR VALUE
14 OF THE PROPERTIES OF UNS ELECTRIC,
15 INC. DEVOTED TO ITS OPERATIONS
16 THROUGHOUT THE STATE OF ARIZONA
17 AND FOR RELATED APPROVALS.

Docket No. E-04204A-15-0142

Arizona Corporation Commission
DOCKETED

APR 25 2016

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RUCO'S CLOSING BRIEF

18 The Residential Utility Consumer Office ("RUCO") hereby submits its Closing Brief on
19 the matters raised in UNS Electric's, Inc.'s ("UNSE" or "Company") application for a rate
20 increase. As a preliminary matter, it appears that RUCO, Arizona Corporation Commission
21 Staff ("Staff") and the Company are in agreement regarding the proposed revenue requirement
22 - \$15.1 million and the proposed Cost of Equity - 9.5%. From RUCO's perspective, the only
23 issues that remain in dispute are the Rate Design, the Lost Fixed Cost Recovery Mechanism
24 ("LFCR"), property tax deferrals, and proposed changes to the purchased power and fuel
adjustment clause ("PPFAC").

1 **1) Introduction**

2 The predominant issue, still in dispute before the Arizona Corporation Commission
3 (“Commission”), is whether a universal three-part rate, which includes a demand charge,
4 should be applied to all residential ratepayers in this case. Based on RUCO’s evaluation and
5 the facts presented in this proceeding, the Arizona Corporation Commission should not apply a
6 universal three-part rate to all residential ratepayers. As the Company’s President, David
7 Hutchens, has said, this case must be evaluated “on its own specific circumstances and
8 merits.” And in this case, the urgent nature of the transition to a three-part rate, is not
9 warranted and would likely lead to significant implementation issues. The Company has not
10 collected enough data on customer usage to adequately inform or justify the rate design. The
11 three-part rate as designed without proper seasonal price signals for the demand charge, is
12 flawed. The Company has no history or experience in offering a three-part rate to residential
13 ratepayers, nor has it developed the necessary customer tools for ratepayers to manage a
14 three-part rate. The Company has no experience educating residential customers on a three-
15 part rate and there is no robust educational plan actually proposed. For these reasons, the
16 Company has not meet its burden of providing just and reasonable rates. The Commission
17 should not impose a universal three-part rate upon all residential ratepayers. RUCO
18 recommends the Commission approve several rate offerings which provide appropriate options
19 to all residential ratepayers.

20 Another issue outstanding involves grandfathering existing partial requirement DG
21 customers. Staff proposes a partial bill credit for these customers. At this time, the cost shift for
22 these customers is manageable. It is important for the integrity of the Commission, that these
23 early adopting DG customers get what they bargained for. The Commission should reject
24

1 Staff's proposal, to provide a partial bill credit, and fully grandfather early adopting partial
2 requirement DG customers.

3 The Company is proposing to include generation losses in the LFCR. The inclusion of
4 generation losses is against the design and purpose of the LFCR. Staff and RUCO both
5 oppose this proposal. The Commission should reject the Company's proposal to include
6 generation losses in the LFCR.

7 The Company is proposing a property tax deferral that tracks property tax assessments.
8 The Company's arguments are not persuasive. The Company is also seeking a deferral for
9 100% of costs related to an appeal of the property tax valuation for Gila River Power Plant.
10 RUCO recommends a 50/50 cost sharing between the Company and ratepayers, as both
11 benefit from a successful appeal. RUCO also recommends a cap be placed on these costs to
12 protect ratepayers. For these reasons, the Commission should not approve a property tax
13 deferral that tracks property tax assessments and the Commission should approve a 50/50
14 cost split and a reasonable cap on costs related to the valuation appeal. The Company is also
15 seeking to modify its existing PPFAC structure. RUCO is concerned the change in structure
16 may shift costs from one rate class to another and may expose the ratepayers to more risk.
17 The Commission should deny the Company's request to modify the current PPFAC.

18 2) Rate Design

19 A) Universal Three-part Rate Is Not Warranted

20 In the rate making process, a public service corporation has the burden of ensuring that
21 charges demanded or received for any commodity or service are just and reasonable. A.R.S.
22 40-361. The "clear purpose" of this statute "is to enable the Commission to review for fairness
23 the rates a public utility charges its customers for public utility services." American Cable TV v.
24

1 Arizona Public Service, 143 Ariz. 273, 693 P.2d 928 (1983). The Company has not met its
2 burden, in this case, for the following reasons.

3 **a. Urgent And Abrupt Nature Of The Transition To A Three-part Rate**

4 The urgent nature of the transition to a three-part rate, is not warranted and would likely
5 lead to significant implementation issues. In the initial rate case application, the Company's
6 primary objective was to address the concern that partial requirement distributed generation
7 ("DG") customers are not paying their fair share of the Company's fixed costs. The Company in
8 its initial rate case application declared, "[p]resently UNS Electric doesn't have the capability to
9 measure demand for every customer and is not advocating a forced migration to such a
10 structure at this time." UNSE-28 at 18. However, spurred by Staff's direct testimony, the
11 Company is now supporting Staff's proposal of a universal three-part rate, believing that equity
12 and fairness demand such a rate. UNSE-34 at 2, 10. With the Company's abrupt shift in
13 position, addressing the issues created by partial requirement DG customers is no longer the
14 Company's primary objective. Oddly, it was Staff, and not the Company, who proposed this
15 significant change in the Company's residential rate design. Such a significant change should
16 not be undertaken without adequate consideration of the consequences to ratepayers.

17 In part, the equity and fairness argument rests on the belief that treating partial
18 requirement DG customers and full requirement customers differently, is unfair and constitutes
19 rate discrimination. S-16 at 6. Thus, it is Staff's position that it is necessary to treat all
20 residential customers the same and impose a universal demand rate on all residential
21 customers – partial requirement DG and full requirement customers, alike. Id. Testimony given
22 during the hearing, suggests that the Company is not convinced by the discrimination
23
24

1 argument. Transcript at 409¹. When asked about this subject, the Company's president, David
2 Hutchens, testified as follows:

3 Q. So initially would it be fair to say that the company did not feel that
4 charging a three-part rate to just the DG customers was discriminatory in any
way?

5 A. No, we did not think that was discriminatory.

6 Q. So you believe that there was a basis for treating DG customers
differently?

7 A. I believed it then and I believe it now.
8

9 Id. at 409-410

10 The residential customer class consists of customers with different service
11 characteristics. The ratemaking principle of "fairness", contrary to Staff's interpretation, does
12 not require all customers of a class be subject to the "same" rate, but rather to "fair" rates.
13 RUCO-6 at 3. Rate discrimination does not mean that one rate must apply to every customer
14 in the rate class. Such a narrow interpretation means, all rates set by the Commission, are
15 discriminatory given the number of different customer classes and the number of rate options
16 available to them. To the extent that Arizona Courts have weighed in on the issue of rate
17 discrimination, they have interpreted the statute to mean that discrimination occurs when a
18 utility charges different rates to similarly situated customers. A.R.S. § 40-334, see for example
19 - *Town of Wickenburg v. Sabin* (1948) 68 Ariz. 75, 200 P.2d 342. Partial requirement DG and
20 full requirement customers are not similarly situated. RUCO-6 at 3.

21 Evidence to support this assertion is found in special rates, set for low-income
22 customers. Id. Low income customers belong to the residential rate class, but are treated

23 _____
24 ¹ For ease of reference, trial exhibits will be identified by their identification in the Transcript of Proceedings.
The transcript volume number will identify references to the transcript.

1 differently than other customers for rate making purposes. Transcript at 704. Full requirement
2 and partial requirement DG customers both belong to the residential rate class. However, each
3 have some important unique service characteristics. The partial requirement DG customer
4 offsets their energy load with self-produced generation, the full requirement customer does not.
5 RUCO-5 at 14. The partial requirement DG customer installs generation producing
6 infrastructure, which includes solar panels, separate meters and inverters, the full requirement
7 customer does not. Id. The partial requirement DG customer can export power to the utility's
8 distribution system, the full requirement customer cannot. Id. The partial requirement DG
9 customer receives compensation for exporting power onto the electrical grid, the full
10 requirement customer does not. Id. The partial requirement DG customer can mask their
11 energy load and their true demand for power, the full requirement customer cannot. Id. The
12 partial requirement DG customer can come in and out of needing services provided by the
13 utility, the full requirement customer cannot. Id. Finally, the partial requirement DG customer
14 can erase a monthly bill (net zero bill), even when using the full complement of utility services,
15 the full requirement customer cannot. Id.

16 RUCO maintains that partial requirement DG customers should be treated as such, for
17 rate making purposes. Staff agrees that the primary need for implementing three-part rates is
18 to address the issues created by customers adopting technology. Transcript at 3700.
19 Designing solutions to the issues, presented by the adoption of technology by partial
20 requirement DG customers, is a better approach and would currently only impact 2% of the
21 Company's residential ratepayers, rather than 100%. Transcript at 302.

22 Additionally, the urgent and abrupt nature of the transition to a three-part rate, violates
23 Bonbright's regulatory principle of gradualism. The Company currently has no residential
24 ratepayers on a voluntary or universal three-part rate with a demand charge. Transcript at 649.

1 The Company proposed a very tight timeline to roll out the new universal three-part rate.
2 RUCO-6 at 12. How the Company intends to implement the universal three-part rate is still
3 unsettled, but the Company has said, at least for illustrative purposes, that it will implement
4 transitional rates until the universal three-part rate can be implemented. UNSE-29 at 13. The
5 Company intends to implement the universal three-part rate in the first quarter of 2017. UNSE-
6 29 at 16. Recognizing the potential for devastating impacts to ratepayers, when implementing
7 such a drastic change, the Company is adopting Staff's recommendation to leave the rate case
8 open for 18 months, after the three-part rate is approved. Transcript at 3704. This is to address
9 any potential issues with the three-part rate design. Id. RUCO believes this point alone, should
10 cause the Commission to take pause. If a lengthy period of time, after the rate is approved, is
11 needed to ensure that there will not be any adverse impacts with the rate design, the
12 justification to take on such a fundamental shift in rate design for the entire residential rate
13 class, is not compelling.

14 **b. There Is A Lack Of Data In This Case**

15 The Company has not collected enough data on customer usage to adequately inform
16 the proposed rate design. A primary reason the Company did not originally propose a universal
17 three-part rate is the Company did not have the capability to measure demand, for every
18 customer. UNSE-28 at 10. By implication, without the ability to measure demand, there is no
19 library of data that has been collected for a statistically significant pool of ratepayers. Id. The
20 Company expects to have the infrastructure to measure demand, installed for all customers by
21 the end of 2016. UNSE-4 at 7. However, even if this demand measuring infrastructure is
22 functional by the end of 2016, it is too late to collect the data needed to inform the decision
23 making for this rate case. The Company was correct in their original proposal, by not seeking a
24 universal three-part rate.

1 There has been significant push back to a mandatory demand charge from the public at
2 large. With the exception of Staff, the Company, and a few other intervenors, all other parties
3 focusing on the residential rate, oppose the universal three-part rate. Staff testified there are
4 no ratepayers asking for a three-part rate. Transcript at 3699. There has been significant
5 ratepayer opposition, both verbally and in writing, to the universal three-part rate. Several
6 hundred written public comments have been submitted to the docket. Hundreds of ratepayers
7 have attended the various public comment meetings, as well. In both formats, written and
8 verbal, the comments have been nearly unanimous in opposition to the universal three-part
9 rate. Also contributing to the pushback, is the fact that the Company would be the first state
10 regulated utility to subject its residential ratepayers, to universal three-part rates, in the
11 country. Transcript at 309. This fact, naturally causes concern for many. While the pushback,
12 in and of itself, is not adequate justification for the Commission to not approve the rate
13 structure, the Company's inability to provide the intervenors and the public at large, with a
14 statistically significant pool of data and bill impacts, is adequate justification and has only
15 heightened a dialogue of fear and misinformation.

16 **c. Three-part Rate Is Not Properly Designed**

17 The proposed demand charge component of the three-part rate is not properly
18 designed. A primary reason for implementing three-part rates, is to recover utility costs driven
19 by electricity demand. Costs driven by peak electricity demand are one of the primary driver of
20 system costs for utilities. Transcript at 335. Electricity demand varies significantly, based on
21 seasonality and time of day. RUCO-5 at 15 – 16. The proposed demand charge rate, does not
22 distinguish between utility costs incurred based on seasonality. Id. at 16. Under the Company's
23 proposal, a high electricity demand in January would cost a ratepayer the same as a high
24

1 electricity demand in August. Id. The system costs incurred by the Company at these times
2 differ, and by making the rate the same, sends the wrong price signal to the customer. Id.

3 Dr. Overcast, the Company's main rate design expert highlights the importance of
4 designing demand rates which reflect the appropriate underlying marginal costs. UNSE-34,
5 article Overcast, Edwin H., Smart Rates for Smart Utilities at 15., RUCO-6 at 17. During the
6 hearing, Dr. Overcast conceded that the Company's proposed three-part rate is not designed
7 properly to solve the "problem" that the Company and Staff are now concerned with. Transcript
8 at 1517. Dr. Overcast testified that the proposed demand rate is not the way he would have
9 done it. Id. at 1518. RUCO asserts that failing to consider these facts and testimony, has
10 resulted in a rate design that does not accomplish the goal of aligning cost recovery with costs
11 driven by demand.

12 **d. No History Of Offering And No Tools For Ratepayers To Manage**
13 **Three-part Rate**

14 The Company has no history or experience offering a three-part rate to residential
15 ratepayers. The Company has never offered a three-part rate, as an optional rate, to their
16 residential ratepayers. The Company has not developed, customer tools for ratepayers to be
17 able to manage a three-part rate. RUCO-6 at 9. These tools will have to be developed prior to
18 the implementation of the three-part rate. Id at 10. These facts alone, raise doubt about the
19 Company's ability to implement such an ambitious plan of putting all residential ratepayers on
20 a universal three-part rate. The Company may be best served by offering an optional three-
21 part rate. Such an offering allows the Company to start developing the data, business
22 experience, and infrastructure needed to consider the wisdom of adopting a three-part rate. It
23 may also provide sufficient evidence to adequately make the case, for universal three-part
24 rates, in the future.

1 **e. Educating Ratepayers On A Three-part Rate**

2 The Company has no experience educating residential customers on three-part rates
3 and there is no educational plan actually proposed. Starting in May of 2016, the Company
4 proposes to begin its customer education plan for three-part rates, running through October
5 2016. In November 2016, the Company would start providing usage and demand data to all
6 customers. UNSE-29 at 16. The Company's proposed educational campaign is minimally
7 specific and provides little assurance that customers will understand the demand charge.
8 RUCO-6 at 13. Ms. Smith, an employee of the Company, testified that the educational plan
9 presented, is just an "example" of an educational campaign, not the actual plan to be
10 implemented by the Company. Transcript at 610. This aspect of the Company's proposal has
11 been particularly troubling for RUCO given the oversimplified approach the Company has
12 demonstrated, regarding the educational process, throughout this proceeding. From the
13 Company's perspective, understanding the demand charge is as simple as understanding that
14 a customer does not run all of their appliances at once. Transcript at 606, 1462, and 1466. If it
15 were this simple, the Company would not need six months to roll out its customer education
16 plan.

17 **B) RUCO's Proposed Rate Design Options**

18 **a. Proposed Solution**

19 It's not uncommon for parties to offer alternative rate designs and recommendations as
20 part of a rate case. For the all the reasons identified in the previous section, RUCO
21 recommends that the Commission adopt its proposed rate design. RUCO recognizes the
22 issues presented to fixed cost recovery, by partial requirement DG customers and proposes a
23 different approach for addressing these customers. RUCO believes partial requirement DG
24 customers are not similarly situated to the general residential class and therefore, rate design

1 should be implemented to address the challenges created by these customers. RUCO's
2 proposal for partial requirement DG customers involves three options.

3 1. Non-Export Option

4 The first option is a non-export rate. This option is self-explanatory – this option does
5 not allow for the export of excess power to the grid. RUCO-5 at 11. Partial requirement DG
6 customers selecting this option can choose any of the Company's traditional rates offered to
7 full requirement customers. Id. Vote Solar's rate design expert, Briana Kobor, agreed that this
8 rate option addresses the rate discrimination concern, levied by some intervenors. Transcript
9 at 2248.

10 2. Advanced DG TOU Option

11 The second option is an advanced DG time of use ("TOU") option. This option is a
12 three-part rate and involves a minimum bill and a time of use demand rate during the summer.
13 This rate includes a minimum bill (not a fixed charge), a volumetric rate, and a demand charge
14 component. The export rate of excess power to the grid for customers who exchange
15 renewable energy credits ("REC") is 8.5 cents per kWh, equal to the self-consumption rate. Id.
16 For those who do not exchange RECs, the export rate is the Market Cost Comparable
17 Convention Generation ("MCCCG") rate. Id.

18 3. RPS Bill Credit Option

19 The third option is the Renewable Portfolio Standard ("RPS") Bill Credit Option. Id. With
20 this option the customer can select any of the Company's traditional rates. The credit rate for
21 new DG customers decreases over time as the Company's portfolio of renewable energy
22 capacity is increased. Id. The credit rate would start at 11 cents per kWh and go no lower than
23 the MCCCG rate. Id. The reductions are based on pre-determined tranches which provides
24 certainty to the ratepayer choosing to become a partial requirement DG customer. Id.

1 Much thought was put into developing each of these options. The non-export rate is
2 intended to treat new DG adopters in the same manner as a full requirement customer. Id. at
3 13. RUCO believes that it is fair to allow new DG adopters, under this rate, access to rates
4 available to full requirement customers. The Advanced DG TOU rate is a three-part rate with
5 demand component, designed to send cost of service based price signals, in order to recover
6 fixed costs not currently being collected from partial requirement DG customers. Id. at 14.
7 RUCO analyzed the various components necessary to come up with a fair and reasonable
8 demand rate and addressed the short comings it felt existed with the Company's proposal. Id.
9 Partial requirement DG customers and full requirement customers are not similarly situated. As
10 such, a TOU demand option is justifiable for partial requirement DG customers. RUCO further
11 proposes to open this option to full requirement customers, but place a cap on the number of
12 full requirement customers able to participate in the program. Id. at 18. RUCO believes the cap
13 is prudent to protect against unintended consequences. Id. at 18.

14 The RPS credit option is a fixed crediting mechanism designed, for the output of a photo
15 voltaic solar system, linked to a specific renewable energy standard and tariff ("REST")
16 procurement target. Id. at 21. The crediting mechanism would operate much like the declining
17 up-front incentive system, the Commission used a few years ago. Id. at 22. The credit would
18 start at or about the current net metering rate 11 cents/kWh and would gradually decline for
19 new DG customers in a manner that reflects increasing REST compliance. Id. The credit rate
20 would be fixed for 20 years, from the date the system was installed, to assure certainty for new
21 DG adopting customers. Id. The system would be fully metered and a bill credit would be
22 applied to a customer's bill every month. Id. The details of this rate would be determined within
23 the 2017 REST plan. As mentioned this rate plan offers 20 years of certainty which no other
24 rate plan offers.

1 Each proposal was designed to address the concerns raised by the Company and
2 intervenors in this case. By providing the partial requirement DG customer with options and
3 addressing the concerns raised, RUCO is the only party that has offered a reasonable all-
4 encompassing solution to the issues raised in this proceeding. The Commission should adopt
5 RUCO's proposed rate design for partial requirement DG customers.

6 **b. New Alternate Solutions**

7 Should the rate design option, proposed by Staff and supported by the Company, which
8 is the subject of most of this brief, not be approved, there are only a few other options
9 proposed. RUCO is pleased with our proposals for both full requirement and partial
10 requirement DG customers. Our proposal provides partial requirement DG customers a suite
11 of options, designed to address the unique issues they present. Further, our proposal only
12 affects rates for prospective DG adopters and not for the other 98% of traditional ratepayers.
13 However, if the Commission feels that RUCO's proposal does not adequately address the
14 issues presented, the Commission will be left with the difficult task of developing and
15 approving cohesive rates. For this reason, RUCO proposes the following additional and
16 supplementary comprehensive rate offerings as possible consensus solutions:

17 1. Traditional Two Part Rates With A Market Based Export Option

18 RUCO's is proposing several traditional two part rates. All residential ratepayers are
19 able to select these rates. It has been levied by certain parties that partial requirement DG
20 customers should be allowed on these rates and get credit for their exports. While RUCO still
21 finds the non-export policy proposal appropriate, to build consensus, RUCO offers a potential
22 modification to the policy. For DG customers with a PV system that produces less than 25% of
23 their annual load, full net metering is preserved for generation exports. However, for partial
24 requirement DG customers who produce more than 25% of their annual load, generation

1 exports would be compensated at a market based rate. The market based rate would be the
2 average wholesale price for that month. Additionally, the compensation would be paid monthly
3 (no banking). The lower than MCCCCG generation export rate, for the partial requirement DG
4 customer who produces more than 25% of their annual load, is justified because it is more
5 than offset by the generous rate for self-consumed generation.

6 2. Three-part Rate Option

7 RUCO has all along been open to optional demand charges for traditional customers.
8 Therefore, RUCO is offering a rate design that builds off Staff's proposed three-part rate.
9 RUCO's optional three-part rate would be available to all residential ratepayers and includes a
10 \$12.50 customer fixed charge. Full net metering is preserved with this option. This rate is
11 designed with a tiered TOU demand charge that sends accurate price signals to high demand
12 users and accounts for seasonal demand. The on-peak summer demand charge is over 30%
13 higher than the on-peak winter demand charge. There are two tiers in the demand charge, one
14 below 4 kW and one above 4 kW. This option sends a better cost based price signal, than
15 Staff's proposal, which maintains the same demand charge, with no tiers or price differential
16 for both summer and winter. After data collection and analysis, RUCO would like to see even
17 more seasonality built into the rate design next rate case.

18 3. Volumetric TOU Option

19 Throughout this proceeding, the solar industry has expressed a desire for rate options
20 other than a universal three-part rate. Many have expressed a desire for a volumetric TOU
21 rate. This option meets this request, while still making a sizable contribution to reducing the
22 cost shift. This optional Volumetric TOU rate is available to all residential ratepayers and has a
23 \$19.00 fixed charge. Full net metering is preserved with this option. However, in order to start
24

1 to meaningfully address the fixed cost recovery issue, presented by partial requirement DG
2 customers, this rate requires a higher fixed charge.

3 4. Full Requirement Customer TOU Option

4 This Full Requirement Customer TOU rate is available only to full requirement
5 customers and has a \$12.50 customer fixed charge. This rate was built based on the
6 Company's existing residential TOU rate and seeks to improve the low participation rate. The
7 rate plan now offers a shorter window for on-peak, to help customers better manage their
8 consumption and two tiers instead of three to alleviate some of the Company's concerns. On-
9 peak summer hours have been reduced from six hours to three. Summer peak is 4-7 pm
10 (rather than UNSE's six-hour on-peak period of 2-8 pm) and winter peak is from 6-9 am and
11 pm (rather than UNSE's two periods of four hours each). Again, the low subscription rates of
12 UNSE's current TOU offerings suggest UNSE has struggled to communicate effectively, to its
13 customers, about energy usage, system peak, and time-varying rates. More simplified
14 offerings, including a TOU rate with a shorter on-peak period, will simplify customer
15 communications, boost enrollment, and increase overall effectiveness.

16 Full rate schedules are detailed in **Attachment A** of this brief. Below is a short guide to
17 the new offerings introduced above:

18

Rate Plan	Fixed Charge	Full Net Metering	TOU
19 Traditional Two Part Rates to 20 have a Market Based Export Option	\$12.50	NO	Depends on rate schedule
21 Three-part Rate Option	\$12.50	YES	YES
22 Volumetric TOU Option	\$19.00	YES	YES
23 Full Requirement Customer TOU Option	\$12.50	NO	YES

24

1 **C) Grandfathering Solar Customers**

2 The issue of whether to grandfather existing partial requirement DG customers is an
3 issue of fairness. The Company is willing to accept the grandfathering of existing partial
4 requirement DG customers, who had an application in prior to June 15, 2015. Transcript at
5 387-388. This would mean these customers stay on the current net meter rate, as well as their
6 current two part rate. Id. at 388. The Company would also accept Staff's recommendation,
7 which is to move all the existing DG customers over to a three-part rate, with all residential
8 customers, but allow for a 15 percent bill credit. Id.

9 The Company admits that these customers were encouraged and motivated to adopt
10 DG solar by both up front incentives, as well as through the net metering rate. Transcript at
11 389. At the time, the Company and the Commission was aware, that these customers were
12 signing long term leases. Id. The Company was paying these DG adopters direct incentives,
13 and in exchange was receiving RECs, which it applied towards its REST compliance. Id.

14 Staff recognizes that these early adopters took a risk to install DG solar. S-17 at 5. Staff
15 further acknowledges that these customers bought or leased systems, when the cost was
16 much greater than a current system and that many of these early adopters paid substantial
17 amounts to install their systems. Id. Staff, however, does not go far enough to make these
18 early adopters whole. Staff's credit is meant to be a partial offset. S-16 at 6. Moreover, Staff's
19 proposal is subject to reevaluation in the Company's next rate case. Id. Staff's proposal will
20 impact the economic viability of these adopters' choices, after the fact. If approved, the only
21 thing certain for these early adopters, is that they will not get the deal they bargained for. A
22 bargain which was encouraged by both the Commission and the Company.

23 Staff's proposal presents another problem that raises an issue of fairness. In the
24 hearing, an exhibit was presented which was a copy of an early form for the Up-Front Incentive

1 Agreement between the Company and its early adopting DG solar customers. TASC-10. The
2 agreement is marked on every page as "ACC APPROVED". The recitals state, it is the desire
3 of the Company to increase the number of solar generation facilities and the consumption of
4 solar electricity within its service territory, while at the same time reducing the costs of such
5 facilities to its customers. The agreement further provides that if the adopting DG customer
6 removes their system from their roof, then the customer will have to reimburse the Company,
7 all of the up-front incentives paid by the Company to the customer. TASC-4 at 3. If Staff's
8 grandfathering proposal is adopted and it no longer makes financial sense for the early
9 adopting DG customer to remain on solar, they will have to pay back the Company their
10 upfront incentives in order to remove their systems. TASC-10 at 3. Such an outcome is unfair
11 and not the appropriate thing to do.

12 The percentage of early adopting DG customers, eligible for the proposed
13 grandfathering, is less than 2% of the total residential customers. At this time, the cost shift for
14 these customers is manageable. It is important, for the integrity of the Commission, that these
15 existing DG customers get what they bargained for, and that Commission honors their earlier
16 policy decision. The Commission should fully grandfather early adopting DG customers
17 through June 1, 2015, at their current rates.

18 **3) Company's Proposal To Include Generation Costs In LFCR**

19 The Company's proposal to include generation costs in the LFCR is not new. Including
20 generation costs in the LFCR has been proposed in the past, but never adopted by the
21 Commission. In this case, RUCO believes that the Company should not be allowed to include
22 generation costs in the LFCR. The Company's purchased power program has a significant
23 amount of flexibility, which allows it to adjust its purchases to match its short-term needs, and
24 as Staff points out, purchased power is fungible. S-5 at 55. Purchased power is not affected if

1 energy is delivered to a new or existing customer or sold off system. Id. Therefore, the
2 Company has many opportunities to adjust its energy supply. Id.

3 The Company argues, in support of including the generating costs, its sales have been
4 declining since the end of the test year. S-6 at 15. And the decline is due to more than just DG
5 and EE related reductions. Id. However, the Company's Integrated Resource Plan indicates
6 otherwise. Id. Moreover, the LFCR was not designed to recover for such losses, as it is not a
7 full revenue decoupling mechanism. Id. In this case, it should not be treated as one. Id.
8 Treating the LFCR as a full revenue decoupler, which is what the Company seems to be
9 asking, shifts the risk to the residential customers which is unacceptable. Id. The Commission
10 should reject the Company's request to include its generation costs in the LFCR.

11 4) Tax Deferral And Changes To PPFAC

12 The Company is asking for a two part property tax deferral. First, to account for 100% of
13 Arizona property taxes, above or below the test year level. Second, to account for changes in
14 the Gila River property tax valuation. The Commission should reject the Company's proposal
15 to account for Arizona property taxes above or below the test year level with a property tax
16 deferral. The Company asserted that as property values have gone down, tax rates have
17 increased. RUCO-1 at 33. This is not the case in Mohave County, a very large portion of the
18 Company's service territory. Id at 34. The Company also reasoned that since Arizona Public
19 Service ("APS") has such an adjustor, they should be entitled to one. Id. However, the
20 Company is not accounting for the fact that APS bargained for their property tax adjustor,
21 through a settlement, and took 100 basis points less in return on equity for the compromise. Id.
22 at 35. For these reasons, the Commission should not approve a property tax deferral for
23 property taxes, above or below the test year level.

1 The Commission should also implement a 50/50 sharing split of legal costs for
2 appealing the assessed value of the Gila River Power Plant and implement a reasonable cap
3 of the costs. The Company disagrees with the Arizona Department of Revenues assessment
4 of the full cash value estimate of the Gila River Power Plant. Id at 36. The Company is
5 appealing this valuation and is seeking a deferral of costs for the appeal. Id. at 37. RUCO
6 recommends a 50/50 sharing split of these costs, rather than ratepayers paying 100%. Id.
7 RUCO continues to recommend this because the benefits of a successful appeal, are shared
8 by both ratepayers and the Company's shareholders. Id. RUCO also recommends a
9 reasonable cap be placed on legal expenses, as a protection for ratepayers. Id. The
10 Commission should approve a 50/50 cost sharing split of these costs and place a reasonable
11 cap on the legal expenses.

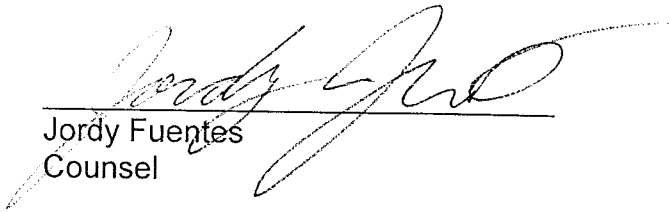
12 The Commission should not modify the Company's existing PPFAC structure. The
13 Company proposes to modify the existing PPFAC. Id. at 39. The current PPFAC reduces the
14 impact on residential ratepayers. Id. RUCO is concerned the change in structure may shift
15 costs from one rate class to another and may expose ratepayers to more risk. Id. For these
16 reasons, the Commission should not agree to modify the current PPFAC.

17 **5) Conclusion**

18 The Company has not met their burden of proving the move to a universal three-part
19 rate is just and reasonable. Because there is no need for this degree of urgency, there is a lack
20 of data and analysis, the proposed rate is not designed properly, the Company has not
21 developed tools nor do they have experience offering the proposed rate, and the educational
22 plan presented was not adequate, the Commission should not impose a universal three-part
23 rate upon all residential ratepayers. The Commission should approve RUCO's proposals, or
24 others which provide appropriate options to all residential ratepayers. It is important for the

1 integrity of the Commission, that early adopting DG customers get what they bargained for, the
2 Commission should fully grandfather early adopting DG customers through June 1, 2015, at
3 their current rates. The LFCR mechanism was not designed to recover lost generation cost,
4 the Commission should reject the Company's request to include its generation costs in the
5 LFCR. The Company provided no legitimate reason for why their request for a property tax
6 deferral should be granted, therefore, the Commission should not approve a property tax
7 deferral for property taxes, above or below the test year level. Sharing the costs for the Gila
8 River Power Plan property tax valuation appeal benefits the Company and ratepayers,
9 therefore, the Commission should approve a 50/50 cost sharing split of these costs and place
10 a reasonable cap on the legal expenses. Lastly, the Company's request to modify the PPFAC,
11 unduly presents the opportunity for a cost shift, the Commission should not agree to modify the
12 current PPFAC.

13
14 RESPECTFULLY SUBMITTED this 25th day of April, 2016.

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16
17 
18 Jordy Fuentes
19 Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
of the foregoing filed this 25th day
2 of April, 2016 with:

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By Cheryl F. Paulob
Cheryl Paulob

ATTACHMENT A

Rate Plan	Present	Company Proposed Rates	RUCO Recommended Rates
Residential Service CARES			
Customer Charge	\$ 4.900000	\$ 9.000000	\$ 6.130000
Energy Charge 1st 400 kWhs	0.018973	0.028700	0.029000
Energy Charge, all additional kWhs	0.035400	0.048100	0.054600
Base Power Supply Charge, all kWhs	0.064510	0.050260	0.050260
PPFAC	(0.003488)	varies monthly	varies monthly
Residential Service			
Customer Charge	10.000000	15.000000	12.500000
Energy Charge 1st 400 kWhs	0.019300	0.030100	0.028600
Energy Charge 401-1,000 kWhs	0.034350	0.040100	0.051000
Energy Charge, all additional kWhs	0.038499	0.058100	0.057300
Base Power Supply Charge, all kWhs	0.061700	0.055090	0.055090
PPFAC	(0.003488)	varies monthly	varies monthly
Residential Time of Use Rates, all kWhs			
Customer Charge	11.500000	15.000000	12.500000
Energy Charge 1st 400 kWhs	0.030350	0.035300	0.037800
Energy Charge 401-1,000 kWhs	0.030350	0.035300	0.037800
Energy Charge, all additional kWhs	0.030350	0.035300	0.037800
Base Power Supply Charge, all kWhs			
Summer On-peak, kWh	0.129605	0.111001	0.111001
Summer Off-peak, kWh	0.039605	0.042830	0.042830
Winter On-peak, kWh	0.129605	0.091550	0.091550
Winter Off-peak, kWh	0.031385	0.038610	0.038610
PPFAC Charges			
Summer On-peak, kWh	(0.003488)	varies monthly	varies monthly
Summer Off-peak, kWh	(0.003488)	varies monthly	varies monthly
Winter On-peak, kWh	(0.003488)	varies monthly	varies monthly
Winter Off-peak, kWh	(0.003488)	varies monthly	varies monthly
Residential Time of Use Rate Super Peak, all kWhs			
Customer Charge	11.500000	20.000000	14.380000
Energy Charge 1st 400 kWhs	0.025000	0.030810	0.037100
Energy Charge, all additional kWhs	0.035000	0.050810	0.050810
Base Power Supply Charge, all kWhs			
Summer On-peak, kWh	0.170000	0.159790	0.159790
Summer Off-peak, kWh	0.039700	0.040810	0.040810
Winter On-peak, kWh	0.150000	0.159790	0.159790
Winter Off-peak, kWh	0.038700	0.040810	0.040810
PPFAC Charges			
Summer On-peak, kWh	(0.003488)	varies monthly	varies monthly
Summer Off-peak, kWh	(0.003488)	varies monthly	varies monthly
Winter On-peak, kWh	(0.003488)	varies monthly	varies monthly
Winter Off-peak, kWh	(0.003488)	varies monthly	varies monthly

**Residential Service Bright Arizona
Community Solar**

Customer Charge	10.000000	15.000000	12.500000
Energy Charge 1st 400 kWh	0.019300	0.030100	0.028600
Energy Charge 401 -7,500 kWh	0.034350	0.040100	0.051000
Energy Charge >7,500 kWh	0.038499	0.058100	0.057000
Base Power Supply Charge, all kWhs	0.084510	0.075090	0.075090
PPFAC	(0.003488)	varies monthly	varies monthly

**Three-part Residential Time of Use
Rate**

Customer Charge	NA	15.000000	Optional 12.500000
Demand Charge			
0-4 kW Summer	NA	5.000000	4.000000
>4 kW Summer	NA	5.000000	12.000000
0-4 kW Winter	NA	5.000000	4.000000
>4 kW Winter	NA	5.000000	8.000000
Summer On-peak, kWh	NA	0.105800	0.124450
Summer Off-peak, kWh	NA	0.042830	0.045000
Winter On-peak, kWh	NA	0.086300	0.064400
Winter Off-peak, kWh	NA	0.038610	0.035000
Base Power Supply Charge, all kWhs	NA	0.015340	0.013300
PPFAC Charges			
Summer On-peak, kWh	NA	varies monthly	varies monthly
Summer Off-peak, kWh	NA	varies monthly	varies monthly
Winter On-peak, kWh	NA	varies monthly	varies monthly
Winter Off-peak, kWh	NA	varies monthly	varies monthly

**Residential Volumetric TOU Option,
all kWhs**

Customer Charge	NA	NA	19.000000
Base Power Supply Charge, all kWhs	NA	NA	0.035040
Summer On-peak, kWh	NA	NA	0.145000
Summer Off-peak, kWh	NA	NA	0.032500
Winter On-peak, kWh	NA	NA	0.105000
Winter Off-peak, kWh	NA	NA	0.030000
PPFAC Charges			
Summer On-peak, kWh	NA	NA	varies monthly
Summer Off-peak, kWh	NA	NA	varies monthly
Winter On-peak, kWh	NA	NA	varies monthly
Winter Off-peak, kWh	NA	NA	varies monthly

**Full Requirement Residential Customer TOU Option, all
kWhs**

Customer Charge	NA	NA	12.500000
Energy Charge 1st 400 kWhs	NA	NA	0.034000
Energy Charge, all additional kWhs	NA	NA	0.050000
Base Power Supply Charge, all kWhs	NA	NA	
Summer On-peak, kWh	NA	NA	0.150000

Summer Off-peak, kWh	NA	NA	0.045000
Winter On-peak, kWh	NA	NA	0.090000
Winter Off-peak, kWh	NA	NA	0.040000
PPFAC Charges			
Summer peak, kWh (4:00 to 7:00 PM)	NA	NA	varies monthly
Summer Off-peak, kWh	NA	NA	varies monthly
Winter peak, kWh (6:00 to 9:00 AM & PM)	NA	NA	varies monthly
Winter Off-peak, kWh	NA	NA	varies monthly
Small General Service			
Customer Charge	14.500000	30.000000	22.250000
Energy Charge 1st 400 kWh	0.030176	0.030000	0.034900
Energy Charge 401 -7,500 kWh	0.041042	0.039900	0.047400
Energy Charge >7,500 kWh	0.076042	0.077300	0.087800
Base Power Supply Charge, all kWhs	0.058241	0.053290	0.053290
PPFAC	(0.003488)	varies monthly	varies monthly
Small General Service Time of Use Rates, all kWhs			
Customer Charge	16.500000	30.000000	23.250000
Energy Charge 1st 400 kWh	0.030176	0.030000	0.034900
Energy Charge 401 -7,500 kWh	0.043176	0.039900	0.049900
Energy Charge >7,500 kWh	0.076042	0.077300	0.087800
Base Power Supply Charges			
Summer On-peak, kWh	0.129605	0.109800	0.109800
Summer Shoulder-peak, kWh	-	-	-
Summer Off-peak, kWh	0.039605	0.045800	0.045800
Winter On-peak, kWh	0.129605	0.108800	0.108800
Winter Off-peak, kWh	0.031385	0.040036	0.040036
PPFAC Charges			
Summer On-peak, kWh	(0.003488)	varies monthly	varies monthly
Summer Off-peak, kWh	(0.003488)	varies monthly	varies monthly
Winter On-peak, kWh	(0.003488)	varies monthly	varies monthly
Winter Off-peak, kWh	(0.003488)	varies monthly	varies monthly
Medium General Service			
Customer Charge	50.000000	100.000000	75.000000
Demand Charge, per kW	12.810000	13.469567	13.460000
Energy Charge (kWhs)	0.005470	0.005480	0.006500
Base Power Supply Charge, all kWhs	0.056603	0.053290	0.053290
PPFAC	(0.003488)	varies monthly	varies monthly
Medium General Service TOU			
Customer Charge	52.000000	100.000000	76.000000
Demand Charge, per kW	12.810000	13.469567	13.470000
Energy Charge (kWhs)	0.005470	0.005480	0.005800
Base Power Supply Charge, all kWhs	-	-	-

Summer on-peak, kWh	0.114886	0.114886	0.114886
Summer off-peak, kWh	0.039886	0.033500	0.033500
Winter on-peak, kWh	0.114886	0.101047	0.101047
Winter off-peak, kWh	0.026168	0.031690	0.031690
PPFAC Charges	(0.003488)	varies monthly	varies monthly
Large General Service			
Customer Charge	50.000000	300.000000	175.000000
Demand Charge, per kW	12.810000	12.880000	12.880000
Energy Charge (kWhs)	0.005470	0.005300	0.005300
Base Power Supply Charge, all kWhs	0.041880	0.053290	0.053290
PPFAC	(0.003488)	varies monthly	varies monthly
Large General Service TOU			
Customer Charge	52.000000	300.000000	300.000000
Demand Charge, per kW	12.810000	12.880000	12.880016
Energy Charge (kWhs)	0.005470	0.005300	0.005300
Base Power Supply Charge, all kWhs			
Summer on-peak	0.114886	0.143771	0.143771
Summer off-peak	0.039886	0.038600	0.038600
Winter on-peak, kWh	0.114886	0.139880	0.139880
Winter off-peak, kWh	0.026168	0.034927	0.034927
PPFAC Charges			
Summer On-peak, kWh	(0.003488)	varies monthly	varies monthly
Summer Off-peak, kWh	(0.003488)	varies monthly	varies monthly
Winter On-peak, kWh	(0.003488)	varies monthly	varies monthly
Winter Off-peak, kWh	(0.003488)	varies monthly	varies monthly
Large Power Service (<69KV)			
Customer Charge <69 kV	1,200.0000	300.0000	300.0000
Customer Charge >69 kV	1,200.0000	1,500.0000	1,500.0000
Demand Charge <69kV, per kW	22.000000	12.880000	12.880016
Demand Charge >69kV, per kW	17.000000	12.480000	12.480000
Energy Charge (kWhs) <69 kV	0.000462	0.005300	0.005300
Energy Charge (kWhs) >69 kV	0.000462	0.000500	0.000500
Base Power Supply Charge, all kWhs <69 kV	0.041880	0.049332	0.049332
Base Power Supply Charge, all kWhs >69 kV	0.048410	0.049332	0.049332
PPFAC <69kV Summer	(0.003488)	varies monthly	varies monthly
PPFAC <69kV Winter	(0.003488)	varies monthly	varies monthly
PPFAC >69kV Summer	(0.003488)	varies monthly	varies monthly
PPFAC >69kV Winter	(0.003488)	varies monthly	varies monthly
Large Power Service (>69KV) TOU			
Customer Charge	1,200.0000	1,500.0000	1,500.0000
Demand Charge <69kV, per kW	22.000000	12.880000	12.880016
Demand Charge >69kV, per kW	17.000000	12.480000	12.480000

Energy Charge (kWhs)	0.000462	0.005300	0.005300
Base Power Supply Charge, all kWhs			
Summer on-peak	0.122510	0.143771	0.143771
Summer off-peak	0.032110	0.038600	0.038600
Winter on-peak	0.092110	0.139880	0.139880
Winter off-peak	0.030910	0.034927	0.034927
PPFAC Charges			
Summer On-peak, kWh	(0.003488)	varies monthly	varies monthly
Summer Off-peak, kWh	(0.003488)	varies monthly	varies monthly
Winter On-peak, kWh	(0.003488)	varies monthly	varies monthly
Winter Off-peak, kWh	(0.003488)	varies monthly	varies monthly
LARGE POWER SERVICE MINING			
Customer Charge	1,200.000	-	-
Demand Charge, per kW	17.000000	-	-
Energy Charge (kWhs)	0.000462	-	-
Power Factor Adjustment	-	-	-
Base Power Supply Charge, all kWhs	0.041880	-	-
PPFAC	(0.003488)	varies monthly	varies monthly
Interruptible Power Service			
Customer Charge	18.000000	75.00000	46.50000
Demand Charge, per kW	5.000000	5.520000	5.520000
Energy Charge (kWhs)	0.019408	0.014990	0.015200
Base Power Supply Charge, all kWhs	0.043760	0.053090	0.053090
PPFAC	(0.003488)	varies monthly	varies monthly
Lighting Dusk to Dawn			
New 30' Wood Pole (Class 6) - Overhead	4.340000	4.340000	4.340002
New 30' Metal or Fiberglass - Overhead	8.660000	8.660000	8.660005
Existing Wood Pole - Underground	2.180000	2.180000	2.180001
New 30' Wood Pole (Class 6) - Underground	6.520000	6.520000	6.520003
New 30' Metal or Fiberglass - Underground	10.812000	10.812000	10.812006
Wattage, per Watt	0.051681	0.058707	0.058707
Lighting Base Power Supply Charge, per Watt	0.010113	0.014505	0.014505
PPFAC	(0.003488)	varies monthly	varies monthly
Rider R-5 Electric Service Solar Rider (Bright Arizona Community Solar)			
Residential Electric, Rate R-01	0.084510	0.075090	0.075090
General Service, Rate SGS-10	0.078241	0.073290	0.073290
Medium General Service, R-MGS	0.076603	0.073290	0.073290
TOU - Small General School			
Customer Charge	16.50000	100.00000	23.25000
Demand Charge, per kW	-	13.950000	-

Energy Charge 1st 400 kWh	0.030176	0.005500	0.034900
Energy Charge 401 -7,500 kWh	0.043176	0.005500	0.049900
Energy Charge >7,500 kWh	0.076042	0.005500	0.087800
Base Power Supply Charges			
Summer On-peak, kWh	0.126510	0.120586	0.109800
Summer Off-peak, kWh	0.033010	0.039200	0.045800
Winter On-peak, kWh	0.108510	0.106747	0.108800
Winter Off-peak, kWh	0.032910	0.037390	0.040036
PPFAC Charges			
Summer On-peak, kWh	(0.003488)	varies monthly	varies monthly
Summer Off-peak, kWh	(0.003488)	varies monthly	varies monthly
Winter On-peak, kWh	(0.003488)	varies monthly	varies monthly
Winter Off-peak, kWh	(0.003488)	varies monthly	varies monthly
TOU - Large General School			
Customer Charge	52.0000	300.000	300.000
Demand Charge, per kW	12.810000	13.350000	12.880016
Energy Charge (kWhs)	0.005470	0.005470	0.005300
Base Power Supply Charge, all kWhs			
Summer on-peak	0.114886	0.148471	0.143771
Summer off-peak	0.039886	0.043300	0.038600
Winter On-peak, kWh	0.114886	0.144580	0.139880
Winter Off-peak, kWh	0.026168	0.039627	0.034927
PPFAC Charges			
Summer On-peak, kWh	(0.003488)	varies monthly	varies monthly
Summer Off-peak, kWh	(0.003488)	varies monthly	varies monthly
Winter On-peak, kWh	(0.003488)	varies monthly	varies monthly
Winter Off-peak, kWh	(0.003488)	varies monthly	varies monthly