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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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AZ CORP COMMISSION
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DOUG LITTLE, Chairman
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

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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

**INITIAL BRIEF OF SOUTHWEST
ENERGY EFFICIENCY PROJECT,
WESTERN RESOURCE ADVOCATES
AND ARIZONA COMMUNITY ACTION
ASSOCIATION**

This brief is submitted on behalf of Southwest Energy Efficiency Project ("SWEEP"), Western Resource Advocates ("WRA") and Arizona Community Action Association ("ACAA"). The brief contains two parts: the first contains a discussion of issues related to the rate case that are common to SWEEP, WRA and ACAA. The second contains a discussion of issues specific to each of those Intervenors.

I. INTRODUCTION

Many observers and parties believe that this rate case will be precedential in terms of establishing whether the Commission for the first time in history will impose mandatory demand charges on residential customers in the name of cost causation. At a minimum, there is some expectation that this case will determine the future path for the treatment of solar distributed generation ("DG") customers.

1 To be sure, those are important issues. However, it would be a mistake to let those issues
2 obscure the fact that there are numerous other issues of substantial importance in this case.

3 It is also important to recall that rate case decisions are not merely expositions of
4 economic theory. Rates approved by the Commission are applied to real people and can have
5 significant impacts. In this case, even though the magnitude of the proposed rate increase has
6 been reduced since the application was filed, it is still significant especially when considered in
7 context. In this case, the context is that customers in the UNSE service territory are financially
8 distressed and have incomes below the average in Arizona. As a result, their utility bills
9 comprise a larger percentage of their household budget. Under the circumstances, it is
10 appropriate for the Commission to temper the force of economic theory with the burdens it may
11 produce for UNSE customers who are already struggling. See Hearing Transcript ("Tr.") Vol.
12 XII at 2817.
13
14

15 **II. THE CURRENT PROPOSAL**

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17 In its initial application, UNSE proposed a \$22 million revenue increase. Based on the
18 Company's cost of service study, residential customers would receive a disproportionate share of
19 that increase compared to medium and large commercial customers. The Company also
20 proposed to impose mandatory demand charges on solar DG customers based on the Company's
21 claim that it was not recovering the fixed costs of serving those customers. The Company also
22 proposed to eliminate the third tier of usage for residential customers. Additionally, the
23 Company proposed to eliminate net metering as it is currently defined for solar DG customers
24 and compensate them for exported energy based on a renewable credit rate tied to a utility scale
25 solar contract.
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1 In response, the Staff determined that it would be discriminatory to treat solar DG
2 customers any different than other residential customers. Based on that determination, the Staff
3 recommended that all residential customers, including solar DG customers, be subject to
4 mandatory demand charges. The Staff further recommended that it was not appropriate to make
5 any changes to net metering until the Commission issues an order in the Value of Solar
6 proceeding.
7

8 By the time the hearing in this case concluded, the Company had agreed to reduce its
9 initial proposed increase from \$22 million to \$15.1 million. The impact on UNSE customers
10 will still be significant.
11

12 Exhibit SWEEP – 4 on the next page shows the impacts of the current proposal on the
13 Company's almost 80,000 residential customers:
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UNSE Bill Impacts Based on UNSE Rejoinder Testimony, CAJ-RJ-2 Schedule H-4

Summary Below from UNSE Rejoinder, CAJ-RJ-2 Schedule H-4 (p. 1-3)

Size	kWh	Residential Service Demand vs. Transition Rate			
		Current	Transition	Difference	% Change
Xsmall	111	\$ 19.19	\$ 24.46	\$ 5.27	27.4%
Small	330	\$ 37.33	\$ 43.11	\$ 5.78	15.5%
Medium	664	\$ 68.96	\$ 74.21	\$ 5.25	7.6%
Large	1,144	\$ 116.53	\$ 122.49	\$ 5.96	5.1%
Xlarge	2,162	\$ 220.37	\$ 237.72	\$ 17.35	7.9%
Mean	830	\$ 85.16	\$ 89.96	\$ 4.80	5.6%
Sum	983	\$ 100.20	\$ 104.60	\$ 4.40	4.4%
Win	669	\$ 69.48	\$ 74.72	\$ 5.24	7.5%
Annual		\$ 1,018.12	\$ 1,075.95	\$ 57.83	5.68%

Size	kWh	Residential Service Demand vs. Transition Rate			
		Current	Transition	Difference	% Change
Xsmall	100	\$ 23.52	\$ 24.58	\$ 1.06	4.5%
Small	294	\$ 40.05	\$ 41.94	\$ 1.89	4.7%
Medium	560	\$ 64.31	\$ 64.97	\$ 0.66	1.0%
Large	914	\$ 98.00	\$ 95.11	\$ (2.89)	-2.9%
Xlarge	1,653	\$ 180.10	\$ 156.89	\$ (23.21)	-12.9%
Annual Avg	830	\$ 89.96	\$ 87.89	\$ (2.07)	-2.3%
Win/Avg	669	\$ 74.72	\$ 74.39	\$ (0.33)	-0.4%

Size	kWh	Residential Service Demand vs. Transition Rate			
		Current	Transition	Demand	Difference
Xsmall	117	\$ 24.97	\$ 26.95	\$ 1.98	7.9%
Small	386	\$ 47.88	\$ 52.66	\$ 4.78	10.0%
Medium	813	\$ 88.39	\$ 92.24	\$ 3.85	4.4%
Large	1,395	\$ 150.90	\$ 145.26	\$ (5.64)	-3.7%
Xlarge	2,471	\$ 272.70	\$ 241.56	\$ (31.14)	-11.4%
Annual Avg	830	\$ 89.96	\$ 93.77	\$ 3.81	4.2%
Sum/Avg	983	\$ 104.60	\$ 107.84	\$ 3.24	3.1%

SWEEP Exhibit

SWEEP Calculations Below Based on CAJ-RJ-2 Schedule H-4

kWh	Residential Service Demand (3-part Rate) vs. Transition (2-part Rate)						
	Current Annual Bill	Average Bill Per Month	Transition Annual Bill	Average Bill Per Month	Annual Difference	Monthly Difference	% Change from Current
111	\$ 230.34	\$ 19.19	\$ 293.52	\$ 24.46	\$ 63.18	\$ 5.27	27.4%
330	\$ 448.00	\$ 37.33	\$ 517.32	\$ 43.11	\$ 69.32	\$ 5.78	15.5%
664	\$ 827.49	\$ 68.96	\$ 890.52	\$ 74.21	\$ 63.03	\$ 5.25	7.6%
1,144	\$ 1,398.32	\$ 116.53	\$ 1,469.88	\$ 122.49	\$ 71.56	\$ 5.96	5.1%
2,162	\$ 2,644.45	\$ 220.37	\$ 2,852.64	\$ 237.72	\$ 208.19	\$ 17.35	7.9%
Mean	\$ 1,021.92	\$ 85.16	\$ 1,079.52	\$ 89.96	\$ 57.60	\$ 4.80	5.6%
Sum	\$ 983						4.4%
Win	\$ 669						7.5%
Annual	\$ 1,018.12	\$ 84.84	\$ 1,075.95	\$ 89.66	\$ 57.83	\$ 4.82	5.68%

kWh*	Residential Service Demand (3-part Rate) vs. Transition (2-part Rate)						
	Transition Annual Bill	Average Bill Per Month	Res Demand Annual Bill	Average Bill Per Month	Annual Difference	Monthly Difference	% Change from Current
109	\$ 290.94	\$ 24.25	\$ 309.18	\$ 25.77	\$ 18.24	\$ 1.52	6.3%
340	\$ 527.58	\$ 43.97	\$ 567.60	\$ 47.30	\$ 40.02	\$ 3.33	7.6%
687	\$ 916.20	\$ 76.35	\$ 943.26	\$ 78.61	\$ 27.06	\$ 2.26	3.0%
1,155	\$ 1,493.40	\$ 124.45	\$ 1,442.22	\$ 120.19	\$ (51.18)	\$ (4.27)	-3.4%
2,062	\$ 2,716.80	\$ 226.40	\$ 2,390.70	\$ 199.23	\$ (326.10)	\$ (27.18)	-12.0%
Mean	\$ 1,079.52	\$ 89.96	\$ 1,089.96	\$ 90.83	\$ 10.44	\$ 0.87	1.0%
Win	\$ 826	\$ 1,075.95	\$ 89.66	\$ 91.12	\$ 17.43	\$ 1.45	1.82%

kWh*	Residential Service Demand (3-part Rate) vs. Transition (2-part Rate)						
	Current Annual Bill*	Average Bill Per Month	Res Demand Annual Bill	Average Bill Per Month	Annual Difference	Monthly Difference	% Change from Current
109	\$ 230.34	\$ 19.19	\$ 309.18	\$ 25.77	\$ 78.84	\$ 6.57	34.2%
340	\$ 448.00	\$ 37.33	\$ 567.60	\$ 47.30	\$ 119.60	\$ 9.97	28.7%
687	\$ 827.49	\$ 68.96	\$ 943.26	\$ 78.61	\$ 115.77	\$ 9.65	14.0%
1,155	\$ 1,398.32	\$ 116.53	\$ 1,442.22	\$ 120.19	\$ 43.90	\$ 3.66	3.1%
2,062	\$ 2,644.45	\$ 220.37	\$ 2,390.70	\$ 199.23	\$ (253.75)	\$ (21.15)	-9.6%
Mean	\$ 1,021.92	\$ 85.16	\$ 1,089.96	\$ 90.83	\$ 68.04	\$ 5.67	6.7%
Sum	\$ 826	\$ 1,018.12	\$ 84.84	\$ 91.12	\$ 75.26	\$ 6.27	7.39%

Residential Demand Annual vs Winter and Summer Average (six months of each)
 * Slightly different usage levels for each group compared to the first table, based on the UNSE exhibits

1 As can be seen from the chart, the impact on residential customers going from current rates to the
2 three part rate with demand charges is disproportionately large for medium to lower usage
3 customers. For customers using 687 kWh hours per month or less, the overall increase ranges
4 from 14% at that usage level to 26.7% for 340 kWh to 34.2% for 109 kWh. More than half of
5 the Company's residential bills are at or below the 687 kWh level. UNSE – 2, Schedule H-5,
6 Unadjusted, Page 1 of 14. Although there is not a perfect correlation between low use and low
7 income customers, in general it is true that for UNSE, low income customers have, on average,
8 somewhat lower annual consumption than other residential customers. *Id.* at Page 2 of 14.
9

10
11 Large and extra large residential customers would experience either a modest increase of
12 3.1% or enjoy an actual decrease of 9.6%. SWEEP – 4.

13 The reason for the disproportionate impact on low usage customers is because of the
14 proposed increases in the fixed charges. In its initial application, the Company proposed an
15 increase in the basic customer charge from \$10 to \$20 per month. The Company ultimately
16 agreed with the Staff on a \$15 per month charge. Similarly, the imposition of a mandatory
17 demand charge has a significantly greater impact on low usage customers than on high usage
18 customers who actually experience bill reductions as a result.
19

20
21 The increases to the basic customer charge and the establishment of demand rates are
22 really the story of this case. UNSE like other electric utilities in Arizona claims that it is unable
23 to recover its fixed costs through volumetric rates. Its response is to propose fixed charges that
24 customers cannot avoid like the basic customer charge and demand rates. Demand rates for
25 lower usage customers are going to appear like fixed charges for those customers to the extent
26 they cannot significantly reduce demand.
27
28

1 To the extent these fixed charges (which the Intervenors oppose) are being proposed in
2 the name of recovering fixed costs, it is important to understand the Company's argument about
3 its alleged inability to recover its fixed costs.
4

5 **III. THE RELATIONSHIP BETWEEN UNRECOVERED FIXED COSTS AND**
6 **AUTHORIZED RETURN**

7 No longer do utilities complain about being unable to earn their authorized rate of return.
8 Instead, the new complaint is that they are unable to recover their fixed costs of serving
9 customers. The inability to recover fixed costs then serves as the rationale for proposing to
10 impose fixed charges on customers as UNSE has done in this case.

11 It is true that a majority of electric utilities' costs including UNSE's are fixed in nature.
12 However, that has been true for a long time. There is nothing in the history of providing electric
13 service that has recently changed to result in a greater percentage of fixed costs for an electric
14 utility.
15

16 The difference today is that in the face of ever increasing electric rates, many customers
17 engage in conservation, energy efficiency or self-generation to reduce their consumption and
18 thereby reduce their bills. That is because, up until now, rates charged for electricity have been
19 designed on a volumetric basis so that the utilities' fixed charges are recovered through charges
20 for kWh consumption. Customers can reduce those charges, and their bills, by reducing their
21 consumption.
22

23 To some extent that has occurred in the UNSE service territory. The Company's
24 evidence in this case was not very specific but generally asserted that UNSE has annually
25 experienced a one to two percent decline in usage per customer. Tr. Vol. IX at 1874. That has
26 led the Company to assert that it is unable to recover its fixed costs and therefore needs not only
27
28

1 a rate increase but a significant increase in the basic service charge and the imposition of
2 mandatory demand rates on residential customers.

3 The Company's proposal is an extreme reaction to a situation that, although not trivial,
4 does not warrant a complete departure from traditional rate design. It is premature to say with
5 any precision that the Company would be unable to recover its cost of providing service based on
6 volumetric rates. The Company's last rate decision in 2012 authorized new rates based upon
7 volumetric charges. The Company, even at that time, was on a schedule of rate applications
8 every several years. That schedule does not seem to have accelerated because of volumetric
9 charges but instead because of the Company's inability to earn its authorized rate of return. It is
10 worth noting that the Company's actual return on equity in 2015 was 7.4%. Tr. Vol. III at 508.
11 Although that is below the Company's authorized rate of return, the approval of the originally
12 requested increase in this case would have resulted in over a 12% return on equity in 2015 using
13 only volumetric charges for residential customers. *Id.* That decreases to 10.8% based on the
14 reduced revenue requirement. Tr. Vol. III at 522.

15 Of course, there are many reasons why a utility company may not earn its authorized
16 return. A poor economy can be one of them. The evidence in this case shows that the UNSE
17 service territory has been slow to recover from the Great Recession. There is also the fact that
18 UNSE has put a new generation unit into service which, along with other cost increases, has
19 created financial stress. In sum, it would be incorrect to conclude that a decline in usage per
20 customer collected through volumetric rates is the cause of UNS' inability to earn its authorized
21 return. In fact, there is no evidence in this case that would definitively establish any particular
22 cause for UNS' inability to recover its authorized return. It may be nothing more than what
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1 utilities in Arizona have always claimed which is that the use of a historic test year automatically
2 impairs a utility's ability to earn its authorized return.

3 In any event, it would be a mistake to conclude that the Company's inability to earn its
4 authorized return and therefore its inability to recover its fixed costs somehow warrants the
5 imposition of new fixed charges that depart from traditional rate design for residential customers.
6

7 **IV. THE COMMISSION SHOULD REJECT INCREASES TO ANY FIXED**
8 **CHARGES OR THE ESTABLISHMENT OF NEW ONES**

9 The current proposal seeks to increase one fixed charge for residential customers and
10 establish a new fixed charge in the form of a mandatory demand rate. The Commission should
11 reject both of these proposals.

12 In general, increases in fixed charges reduce customers' control over their bills. An
13 increase in the basic service charge represents a charge that the customer cannot avoid.
14 Likewise, the imposition of a mandatory demand charge will for most customers look like a
15 fixed charge if they are unable to significantly reduce demand.
16

17 In both cases, and all other things being equal, the addition of fixed charges will have the
18 effect of reducing volumetric rates. That means that the incentive to reduce consumption is
19 weakened and a customer's ability to control its bill through reduced consumption is also
20 reduced.
21

22 **A. Basic Service Charge**

23 The current basic service charge for UNSE customers is \$10 per month. In its
24 application, UNSE proposed to double that charge to \$20 per month. In so doing, it rejects the
25 Commission's historical method for calculating the basic service charge and proposes that the
26 Commission adopt a new methodology.
27
28

1 Historically, the Commission has used the basic customer method for determining the
2 basic service charge. That method involves determining the costs associated with customer
3 service, meters and service line drops. SWEEP – 3 at 10. This approach also appears to be the
4 method the Company relied on in both its 2009 and 2012 rate cases.
5

6 The basic customer method is consistent with the principles established long ago by
7 Professor Bonbright. The costs collected in the customer charge should be based on the
8 definition of customer costs which is “operating and capital costs found to vary with the number
9 of customers, regardless, or almost regardless, of power consumption.” SWEEP – 3 at 10 citing
10 Bonbright, James C. 1961, *Principles of Public Utility Rates*. p. 347. These costs include only
11 those related to metering, accounting, billing and other direct customer service costs. The basic
12 customer method includes only the costs for direct basic customer service -- the cost to hookup
13 and maintain a customer’s account. The customer fixed charge should not include grid related
14 costs of transmission and distribution plant which are driven largely by the amount of customer
15 usage and demand.
16
17

18 A number of parties in this proceeding have calculated the basic service charge based on
19 the basic customer method and come up with results far less than proposed by the Company and
20 now the Staff. SWEEP calculates that the approximate charge would be \$4.32 (SWEEP – 3 at
21 13) and Vote Solar calculates it at \$7.50 (Vote Solar – 6 at 61). RUCO agrees that the current
22 \$10 charge should not be increased. RUCO – 6 at 24.
23

24 In this case, UNSE wants the Commission to reject the long-standing principles
25 supporting the basic customer method and adopt a new methodology based on minimum system
26 cost to serve a customer. In its testimony, the Company presented a customer charge of \$14.00
27 based on the minimum system method for allocating distribution system costs. The minimum
28

1 system method includes additional customer related demand and distribution costs. The
2 Company derived its originally proposed \$20 basic customer charge by including even more
3 distribution and demand related costs and asserting that its proposal was informed by its
4 marginal cost study showing a \$51.82 marginal cost for serving a new customer. UNSE – 3 at
5 30-31.
6

7 There is no cost based justification for increasing the basic service charge in this case and
8 deviating from the basic customer method to derive that charge. It is simply an effort on the part
9 of the Company to move as many costs as possible out of volumetric rates and into fixed
10 charges. High customer charges reduce customer control over utility bills, reduce customer
11 incentive to conserve electricity and engage in energy efficiency programs and
12 disproportionately impact low usage customers many of whom are also low income customers.
13

14 The Company has made no secret of what its intentions are with respect to rate design. It
15 envisions a rate structure in which virtually all of the Company's fixed costs are recovered
16 through fixed charges beginning with the basic service charge. Eventually, the only variable cost
17 that would be recovered through volumetric rates would be fuel and associated costs.
18

19 **B. Mandatory Demand Charges**

20 It is important to recall that almost all of UNSE's residential customers are served on a
21 tiered straight energy rate. UNSE customers have had virtually no exposure to time of use rates.
22 The Company has a time of use rate but it was so poorly designed that only a few hundred
23 customers have subscribed to it.
24

25 This is important because of the enormous and dramatic changes that are being proposed
26 in this case for the way UNSE customers will be charged for electric service. If the proposal is
27 approved by the Commission, all residential customers will be moved to a rate that not only
28

1 imposes mandatory demand charges but also charges for consumption based on time of use.
2 Either one of these changes alone would have been significant for customers and required an
3 extensive education effort. In combination, the proposal will be daunting if not overwhelming
4 for many UNSE customers.
5

6 ***1. The Impact on Bills***

7 The demand charge proposed by UNSE is revenue neutral in the sense that it is designed
8 to recover no more than the authorized increase to the residential class. The Company has
9 simply taken the authorized increase reflected in the transitional rates and designed a time of use
10 rate with a demand charge to recover the same amount of revenue. That rate design assumes
11 residential customers will not alter their consumption or demand.
12

13 To say that the three part rate is revenue neutral, however, obscures the fact that it will
14 have dramatic impacts on customers at various usage levels. As can be seen on Exhibit SWEEP
15 - 4, on page 5 of this Brief, customers using 340 kWh per month or less will experience an
16 additional 7.6% increase over the transitional rate solely attributable to the three part rate and the
17 demand charge. Extra large customers using between 1,155 and 2,062 kWh per month will
18 experience a decrease of 12% on their bills when compared to the transitional rates.
19

20 For low to medium usage customers, the impact of the three part rate is to take what was
21 already a significant rate increase and increase it further by approximately 7% or more. Large
22 users, on the other hand, see only a modest increase or a decrease of up to 10% on their bills.
23

24 The conclusion is that without making any changes whatsoever to consumption or
25 demand, a demand charge will represent a significant rate increase for many customers by itself
26 without regard to any revenue increase authorized in this case. It is as if there was no rate
27 increase in this case and the Company simply proposed to implement a three part rate on a
28

1 revenue neutral basis. It would mean a significant rate increase for the medium to lower use
2 customers who cannot alter their demand.

3 4 2. *The Rationale for Demand Rates*

5 Demand charges for residential customers are unforgiving. The demand charge is based
6 on the single highest demand registered in any hour during the on-peak period of time during a
7 month. The on-peak period of time proposed by UNSE is 2:00 P.M. to 6:00 P.M. A residential
8 customer can be diligent every day of the month and every peak period hour except for one in
9 which demand spikes for unanticipated reasons. Even so, it is that one hour to which that the
10 demand charge will be applied.
11

12 The proposal is defended by the Company and Staff on economic grounds. They first
13 cite to the fact that commercial and industrial customers have been charged demand rates for
14 years and have had no difficulty adjusting to them. That ignores the obvious differences between
15 residential customers on the one hand and commercial and industrial customers on the other.
16 Commercial and industrial customers have predictable load. The larger commercial customers
17 are able to develop or recruit the expertise necessary to manage load and minimize the impact of
18 demand charges.
19

20 That is not the case for residential customers. Residential customers have significantly
21 varying usage patterns that are often, as a practical matter, completely out of their control.
22

23 The proponents of demand charges claim that they most accurately reflect cost causation
24 and that even if a residential customer makes a mistake for one hour during the month out of the
25 120 or so on peak hours, it is appropriate that they be charged based on their peak demand. It is
26 worth noting, however, that it is the residential customer's peak that is charged, not the
27 residential customer's demand at the time of the system peak. Because of this mismatch, a
28

1 residential customer's reduction in demand does nothing to affect the costs incurred by UNSE to
2 meet the system peak. Tr. Vol. XII at 2813 – 2815.

3
4 Nevertheless, all of the experts in this case who support demand charges base that
5 demand charges on the idea that it more accurately reflects cause causation than volumetric rates.
6 Their argument is that demand charges measure the customer's share of the fixed costs including
7 generation, transmission and distribution associated with serving that customer. They contend
8 that volumetric rates cannot do that because the charges are variable but the costs are fixed.
9

10 That argument is fine in theory. The problem in this case is that the only relevant
11 evidence in the record supports the exact opposite conclusion.

12 The only actual analysis of the various rate proposals made in this case was conducted by
13 AURA witness Scott Rubin. Based on the regression analysis that he performed, Rubin
14 concluded that the transitional rates proposed by the Company did the best job of recovering
15 costs from the customers responsible for those costs. In Rubin's analysis, the three part demand
16 rate was "notably worse" in reflecting the cost of service than the transitional rate. AURA – 1 at
17 17.
18

19 Rubin's analysis was criticized on the grounds that it was based on a small sample.
20 However, as Rubin testified, the sample size was not of his choosing. It was all that the
21 Company had made available.
22

23 More importantly, neither the Company nor any other party to this proceeding submitted
24 any similar analysis of the rates proposed other than criticizing Rubin's analysis. At the very
25 least, Rubin's analysis casts significant doubt upon the unproven proposition repeated by the
26 Company, Staff and other parties that demand rates are a superior method of matching costs to
27 cost causers.
28

1 Throughout the hearing, the issue of time of use rates was discussed. The witnesses
2 supporting demand charges all regarded time of use rates as complimentary to, but not a
3 replacement for, demand charges. They were resolute in their conviction that demand charges
4 represented a more accurate way of capturing costs than time of use rates. However, none of
5 them could say how close time of use rates come to matching demand charges for accuracy when
6 it comes to reflecting cost causation. Additionally, Staff's expert, Howard Solganick, testified
7 that he was unaware of any study that measured the difference in effectiveness between time of
8 use rates and demand charges as far as reducing peak system demand is concerned. Tr., Vol. XII
9 at 2831.
10
11

12 Based on the foregoing, the economic efficiency of demand charges is not obvious and
13 may be misguided based on the evidence in this case. It is unclear based on this record that they
14 would do a better job than the transitional rates at reflecting costs or that they would do a better
15 job than time of use rates when it is unknown how much more accurate one is than the other.
16

17 3. *Demand Charges Will Create Confusion*

18 Contrary to the claims of the proponents, demand charges can be extremely confusing.
19 Oddly enough, it is anecdotal evidence provided by the proponents of demand charges that
20 undercuts their arguments. In one case mentioned by UNSE's expert, Dr. Overcast, an
21 acquaintance of his who operated a tennis club overestimated the impact of adding sky lights on
22 the indoor tennis facilities because he calculated his savings without understanding that his bill
23 included a demand charge. Tr. Vol. VII at 1416. Another case mentioned by Staff's expert
24 involved his wife's uncle who owned a racetrack and could never understand why he had to pay
25 a demand charge for lighting the track at night. Tr. Vol. XII at 2847. Even the evidence offered
26 by APS' witness, Chuck Meissner, undercuts any claim that demand rates are not confusing. In
27
28

1 a sample analysis for residential customers who voluntarily chose APS' demand rate option,
2 fully 40% of them did not save any money. APS – 6 at 7. And these are customers who
3 presumably were informed about the rate and voluntarily chose to participate.
4

5 Simply because demand rates have historically been used for commercial and industrial
6 customers doesn't mean that they should be used for residential customers. Demand charges will
7 undoubtedly be confusing for residential customers. If that wasn't true we wouldn't be
8 considering a massive education campaign to inform residential customers about what demand
9 charges measure and why they are being billed for demand in addition to how much electricity
10 they use. Of course, customers will continue to be billed for electricity usage which will
11 compound their confusion about why they must additionally pay for something called a demand
12 charge.
13

14 Perhaps the best example of just how confusing this might be for residential customers
15 was the list of appliances submitted by the Company in connection with its testimony about the
16 education that will be necessary for residential customers. UNSE – 21, DAS-RJ-1. The exhibit
17 is several pages long and shows the wattage for customer appliances running from efficient air
18 conditioning and standard air conditioning to clothes irons and toasters. While it may be obvious
19 that air conditioning consumes more electricity than other appliances, among the other
20 appliances it's not intuitive about which ones consume the most electricity.
21
22

23 The idea that customers only have to remember not to run all of their appliances at once
24 was shown to be overly simplistic. The demand charge proposed by UNSE will measure the
25 highest demand over one clock hour in any on peak period during the month. While running all
26 the appliances at once will certainly cause demand to spike, the same amount of demand will be
27 created by running the appliances one after another during the one hour peak period.
28

1 4. ***For Most Customers, Demand Charges do not Provide a Meaningful***
2 ***Opportunity to Save on Their Bills***

3 Perhaps the most cynical promotion of demand charges for residential customers is that
4 demand charges give customers yet another way to save on their electric bill. Instead of just
5 saving by reducing kilowatt hour consumption, customers can also reduce their bill by reducing
6 their demand. At least that's the argument the Company makes in this case. The truth is that for
7 low use and low income customers, demand reduction of any significance is beyond their reach.
8

9 For low use customers, the trivial amount of savings that can be achieved is simply not
10 worth the effort. For a customer with 5 kW of demand (which is actually slightly higher than a
11 medium customer), that customer might expect to achieve demand reductions on the order of
12 three or four percent.
13

14 According to Staff witness Solganick, a medium customer on winter rates who reduced
15 demand five percent would save approximately \$.75 on its monthly bill. Tr. Vol. XII at 2808 –
16 2810. To achieve that \$.75 savings on its monthly bill, the customer would have to take action
17 each and every hour of the on-peak hours every day of the month to reduce demand and insure
18 that there were no demand spikes. And for all that effort, the customer would receive the sum of
19 \$.75. No customer is going to go to that effort for such little savings. If savings are to be
20 realized, it will be from the large and extra large customers who might actually be able to
21 manage their demand.
22

23 For low income customers, most of the tools and technology discussed that would
24 support demand reduction efforts cost money and many are expensive. As a result, it is
25 unrealistic to think that low income customers will be able to afford any of the tools or
26 technology that could assist them. Their only recourse might be to follow APS' advice at the
27
28

1 hearing and shut the house down and “go to a mall or a movie “for six hours every day during
2 the summer. Tr. Vol. XI at 2494.

3
4 For low use and low income customers, demand charges are not an opportunity to save
5 on their bills. At best, demand charges will appear as another fixed charge that the customer
6 cannot avoid. At worst, if the customer is unable to avoid spikes in their demand, their bills
7 could increase dramatically.

8 **V. INTERVENOR POSITIONS**

9
10 **A. Southwest Energy Efficiency Project**

11 Jeff Schlegel testified on behalf of the Southwest Energy Efficiency Project (“SWEEP”).
12 SWEEP is a public interest organization dedicated to advancing energy efficiency as a means of
13 promoting customer benefits, economic prosperity, and environmental protection in Arizona and
14 five other states in the southwest.

15
16 **1. *Reduce Rather Than Increase the Basic Service Charge***

17 The UNSE proposal for a 50% increase in the residential basic service charge, which is a
18 mandatory fixed charge that customers are required to pay no matter what they do, should be
19 denied. The Company’s proposal for a 50% increase to \$15 per month is not cost justified by any
20 standard, and the Company did not provide evidence supporting the derivation of the proposed
21 \$15 charge.¹ Increasing mandatory fixed charges for residential customers will reduce customer
22 control over electricity bills and reduce the customer incentive to pursue ways to reduce their
23 utility bills. The higher mandatory fixed charge is antithetical to the policy goal of increasing
24 cost-effective energy efficiency in order to reduce total customer costs.
25

26
27
28 ¹ In its initial application, UNSE proposed a basic service charge of \$20 for residential customers.

1 The Company should use the Basic Customer Method to determine the level of the basic
2 service charge, and should include the categories of customer costs set forth by Professor
3 Bonbright. The Commission should reduce the residential basic service charge to \$4.32 per
4 month, which is the level Mr. Schlegel calculated using the Basic Customer Method. Mr.
5 Schlegel calculated the \$4.32 per month proposed basic service charge using the appropriate
6 method and the appropriate costs, and he included the documentation in his testimony.² The
7 Commission should reduce the current \$10 basic service charge to this level.
8

9
10 **2. *Reject Any Proposals for Mandatory Demand Charges for Residential***
11 ***Customers***

12 Any proposals in this proceeding that would force mandatory demand charges on all
13 residential customers should be rejected. Forcing mandatory demand charges on all residential
14 customers restricts customer choice and limits customers' options regarding how to manage and
15 control their bills. Customers should have options and should be able to choose a rate design that
16 best fits their needs. The effects and consequences of moving all residential customers in the
17 UNSE territory to a mandatory demand charge are not known. Finally, if the Company's intent is
18 to reduce peak demand, there are effective, proven rate designs (i.e., time-of-use rates, discussed
19 in more detail below) that reduce peak demand, are not as confusing to customers, are easier for
20 customers to respond to and therefore are more acceptable to customers, and will not impact
21 lower usage customers negatively and disproportionately.
22

23
24 **3. *Deny the Three-Part Rate Design Proposal***

25 The specific UNSE three-part rate design proposal, including, but not limited to the
26 mandatory demand charges for all residential customers, should be denied. As was ultimately
27

28 ² Exhibit to SWEEP – 3, UNS Customer Charge Quantification.

1 made clear from UNSE's rejoinder and clarified through SWEEP's oral testimony and Exhibit,³
2 the Company is proposing five significant changes to the residential rate design in this case, and
3 is making the changes mandatory. The five significant changes in the new proposed mandatory
4 Residential Service Demand rate are:
5

- 6 • The 50% increase in the basic service charge, from \$10 to \$15 per month.
- 7 • The new mandatory demand charge for residential customers.
- 8 • A new mandatory time-of-use component for collecting base fuel rates through on-peak
9 and off-peak charges.
- 10 • The elimination of the three tiers for the kWh delivery charges.
- 11 • The elimination of optimal rates and rate choices for customers.
- 12
- 13

14 The Company does not have adequate data available to develop, analyze, and fully
15 understand its three-part rate design proposal, especially in terms of costs, the impacts on
16 customer bills, and customer response. The higher basic service charge and new mandatory
17 residential demand charge will disproportionately impact lower usage customers, many of whom
18 are limited or fixed income customers. There is also no evidence in the record to indicate the
19 ability of limited income customers to respond to mandatory residential demand charges.

20 The three-part rate design is multi-faceted and complex, and it will be confusing to many
21 customers. For example, there are a number of factors customers will need to understand and
22 consider while making changes to reduce demand under a mandatory demand charge. Customers
23 will need to understand the demand draw of each appliance and device in their home; when (in
24 which hour) each device will be used; how long each device will be on (and whether the usage
25 spans across more than one clock hour); the actions of individual household members over the
26

27
28 ³ Tr. Vol. IX at 1944 – 1945; Exhibit SWEEP-4.

1 course of a day; how these events interrelate in any given hour and over 100+ “peak” hours each
2 month; and what they could do or change to reduce their demand.

3 UNSE does not have the outreach plan and information developed or in place to educate
4 customers. Nor does UNSE have adequate tools developed or in place to assist customers to
5 understand and manage their demand. It is also not clear which customers will have the ability to
6 respond, much if at all, especially for some lower usage and fixed income customers.
7

8 Overall, the proposed three-part rate is too big of a step for UNSE residential customers.
9 It would be better for UNSE customers and more effective to take a smaller and more gradual
10 step, such as greater use of effective time-of-use rates.
11

12 **4. *Ensure Consistency with System Coincident Peak Demand***

13 If, despite SWEEP’s opposition, the Commission chooses to approve a mandatory three-
14 part rate for residential customers, the demand charge should be based on a time period
15 consistent with the system coincident peak demand.
16

17 The Commission should also be very careful in considering what costs will be included in
18 the demand charge; the demand charge should include only incremental peak related costs.

19 **5. *Use Time-of-Use Rates as an Effective Alternative to Three-Part*** 20 ***Rates***

21 UNSE should make greater use of well-designed time-of-use (TOU) rates for residential
22 customers, as one part of a two-part rate design that also includes a lower basic service charge, as
23 an alternative to a mandatory demand charge and the three-part rate design. This gradual step
24 would send customers appropriate price signals related to cost of service while also providing
25 opportunities to reduce their utility bills.
26
27
28

1 Properly designed time-of-use rates offer many advantages to the three-part rate structure
2 proposed by UNSE in this proceeding. Two-part time-of-use rates are simpler and less confusing
3 for customers, and are much more common in Arizona and throughout the United States.
4 Customers are more comfortable and familiar with two-part time-of-use rates, and therefore
5 customers are better able to understand and respond to the price signals. Customers “get” that the
6 cost of providing electricity is higher on hot summer afternoons, and they can respond by
7 focusing on reducing energy use during those afternoons. It is much harder to “get” that, under a
8 mandatory demand charge, a significant portion of the energy bill would be caused by the
9 highest hourly demand in one hour at one point over a 100+ hour period each month.
10
11

12 Instead of collecting costs only at the time of highest hourly peak demand, time-of-use
13 rates collect costs more gradually throughout the multi-hour peak period. TOU rates capture and
14 communicate the fact that the costs of serving customers vary throughout the day, but they do
15 not put all of the cost causation nor all of the cost recovery into one undetermined and unknown-
16 in-advance hour in a 100+ hour period each month.
17

18 Importantly, time-of-use rates are effective at reducing peak demand. The Brattle Group,
19 the firm of APS witness Dr. Faruqui, has estimated that TOU rates will produce about a 10%
20 reduction in coincident peak demand, Critical Peak Pricing rates will produce about a 30%
21 reduction in coincident peak demand, and demand charges will produce only a 1.7% reduction in
22 coincident peak demand.⁴ This tells us that time-of-use rates, not demand charges, are an
23 effective strategy as well as the appropriate strategy for UNSE customers.
24
25

26
27 ⁴ Hledik, R. The Top Ten Questions about Residential Demand Charges. Presentation at the
28 http://www.brattle.com/system/publications/pdfs/000/005/171/original/The_Top_10_Questions_about_Demand_Charges.pdf?1431628604

1 In order to be effective at sending an appropriate price signal but to also work with
2 customers to help them reduce their peak demand, time-of-use rates should be customer friendly.
3 The perfect should not be the enemy of the good (nor the effective). SWEEP recommends an on-
4 peak period of three hours so that customers are better able to adjust their energy use. A summer
5 on-peak period of six hours, as UNSE has proposed, is excessive and is very difficult for
6 customers to manage and respond to. A TOU rate with a three-hour on-peak period will be easier
7 for customers to respond to, and therefore will be more effective at reducing peak demand, and
8 will also result in less customer opposition and fewer customer complaints.
9

10
11 **6. *Provide Information and Effective Tools for Customers***

12 If, despite SWEEP's opposition, the Commission chooses to approve a mandatory three-
13 part rate for residential customers, the Commission should first order UNSE to provide
14 customers with more information and tools to help them manage and alleviate increasing energy
15 bills caused by the rate increase itself and by new rate design mechanisms. These tools and
16 information would give customers more choice and more options. The tools should be offered
17 and be widely available to customers before any new rates and new pricing mechanisms are
18 implemented.
19

20 As part of the toolbox, UNSE should expand demand side management offerings that will
21 help customers manage their energy usage and demand during "peak" periods before any
22 changes to rate design, including demand charges, mandatory or voluntary, are implemented.
23 SWEEP provided several examples in its Rate Design Testimony. SWEEP – 2 at 11. Also, the
24 Commission, in approving any order that changes or increases rates for customers, should ensure
25 that the least cost resource – energy efficiency – is fully pursued.
26
27
28

1 7. ***Retain Tiered Rates for Residential Customers***

2 The Commission should reject UNSE’s proposal to eliminate tiered rates for residential
3 customers. It is appropriate to use tiered rates to provide an important economic signal to
4 customers to encourage the efficient use of energy, and to discourage wasteful energy use. This
5 is an important energy policy in Arizona. The elimination of the tiered rates would shift
6 additional costs to lower usage customers and contribute to a disproportional impact of the
7 overall rate increase on lower usage customers.⁵

8
9
10 8. ***Recover Energy Efficiency Costs in Base Rates***

11 UNS Electric has positioned energy efficiency as a core resource to meet energy needs over
12 the next decade. For example, in 2024, energy efficiency will comprise more than 14% of UNS
13 Electric’s energy resource portfolio, up from 5.4% in 2014, and energy efficiency will do so
14 cost-effectively, at costs significantly lower than other resources.⁶ As a result, energy efficiency
15 is one of UNS Electric’s fastest growing energy resources for meeting customer energy needs in
16 future years.

17
18 As a core resource meeting the real energy needs of customers at lowest cost, energy
19 efficiency should be adequately funded through a stable, fully-embedded funding and cost
20 recovery mechanism – and therefore energy efficiency program costs should be recovered in
21 base rates rather than in a separate adjustor mechanism. For UNSE, the Commission should
22 approve \$5 million in base rates as part of this proceeding. The Commission’s review and
23 approval of energy efficiency programs and budgets would still be done in the DSM

24
25
26
27 ⁵ Exhibit SWEEP-4.

28 ⁶ UNS Electric, 2014 Integrated Resource Plan, April 1, 2014,
<http://images.edocket.azcc.gov/docketpdf/0000152211.pdf>.

1 Implementation Plan process. The Commission previously approved \$10 million for energy
2 efficiency programs in base rates for APS.⁷

3
4 The DSM adjustor mechanism should still remain intact, but it should be used as an
5 adjustor to recover or refund any energy efficiency funding amounts above or below the \$5
6 million in base rates needed to implement energy efficiency programs to meet the required
7 energy savings levels. Recovering energy efficiency program costs through base rates is
8 consistent with the treatment of other energy resources, whose costs are not expressly identified
9 in the current bill format.

10
11 **9. *Treat All Energy Resources Equitably and Transparently***

12 The Commission should direct UNSE to treat all energy resources equitably in terms of
13 disclosure and transparency on customer bills and in customer communications. There are two
14 important objectives here: (a) providing a simple, clear bill to customers, and (b) providing
15 useful and transparent information to customers. Mr. Schlegel testified that both objectives can
16 and should be achieved, but they are best achieved through two parallel efforts and not one
17 single effort.⁸

18
19 First, the utility bill should be simplified and clarified by presenting fewer cost categories
20 and treating all energy resources equitably in terms of disclosure (and by not including the DSM
21 adjustor as a line item on the bill). Removing the DSM adjustor from the utility bill would be
22 consistent with the treatment of other energy resources, whose costs are not expressly identified
23 in the current format of the utility bill.

24
25
26
27 ⁷ In Commission Decision No. 67744, approving the settlement agreement to increase Arizona
28 Public Service Company (APS) rates in 2005, an annual \$10 million allowance for DSM costs
was approved for inclusion within base rates.

⁸ SWEEP - 2 at 15.

1 Second, supplemental information on utility costs and energy resources should be provided
2 to and be easily available for customers at all times via the web and quarterly via a bill insert or
3 other communication – and not on the customer utility bill itself. This information could include
4 a simple graphic that illustrates how each rate dollar is spent, with the costs associated with each
5 and every energy resource (and not just energy efficiency) clearly delineated in the graphic.
6 Doing this would provide clear and transparent information for all customers, and would not
7 single out energy efficiency costs for inequitable or selective treatment.
8

9
10 ***10. Modify the Cost-Effectiveness Test for Energy Efficiency***

11 The cost-effectiveness test for energy efficiency should be modified and improved to
12 accurately account for the capacity and other benefits that energy efficiency delivers, and so that
13 customers are not being denied opportunities to save money on their utility bills. It is ironic in
14 this proceeding that the Company and parties are focusing quite a bit of attention on capacity and
15 demand, yet the cost-effectiveness test as implemented in Arizona does not accurately account
16 for the capacity benefits of energy efficiency. SWEEP recommends that the Commission adopt
17 the recommendations put forth by SWEEP, UNSE, APS, and other stakeholders in the 2010
18 memorandum on cost-effectiveness.
19

20
21 **B. Western Resource Advocates**

22 Ken Wilson testified on behalf of Western Resource Advocates. WRA is a nonprofit
23 organization that protects the West's land, air and water through conservation program areas that
24 include Clean Energy.

25
26 ***1. There Should be no Separate Rate Structure for Solar DG Customers***

27 WRA does not support the establishment of a separate rate classification for solar DG
28 customers. WRA – 1 at 2. Wilson pointed out that much of the energy those customers generate

1 is used on site, lowering their load in a manner similar to customers utilizing energy efficiency
2 measures. WRA – 1 at 3. The method of appropriately assessing a utility's fixed costs to serve
3 solar DG and non-solar customers can be identical. If the issue of exporting energy is excluded
4 from the discussion, solar DG customers do not look all that different from other customers with
5 low energy use. WRA – 1 at 3.

7 Wilson noted that much of the energy generated by solar DG customers is used to operate
8 air conditioning systems, refrigerators and other appliances. To the UNSE system, this would
9 appear as a load reduction similar in nature to putting in a more efficient air conditioning system,
10 a more efficient refrigerator or other more efficient appliances. Wilson pointed out that if a
11 separate rate classification for solar DG customers is justified, then it wouldn't be much of a
12 stretch to conclude that a separate rate structure for energy efficiency measures should also be
13 established. WRA – 1 at 3 – 4.

16 WRA rejects the notion that a separate rate classification is necessary for solar DG
17 customers to order to assess them a fair share of the Company's fixed costs for distribution,
18 transmission and generation. Instead, WRA recommends that the Commission consider other
19 measures that can be applied equitably to all customers.

21 **2. Demand Charges**

22 WRA is concerned that residential customers will not understand demand charges and
23 will not have the information necessary to change behavior in a manner that will control the level
24 of demand charges they are assessed. In general, demand charges will increase bills for low
25 income customers and customers with electric heating. Demand charges for residential
26 customers will act like a very high fixed charge and will surprise customers with much more
27 erratic, unpredictable and unmanageable bills. WRA – 1 at 5.

1 As for understanding demand charges, WRA points out that there's a big difference
2 between understanding how much electricity you use each month and how fast you use
3 electricity in an hour. Oftentimes, customers have little control over how high their peak is
4 particularly when there are others in the household using appliances. To effectively manage
5 demand, customers would need to monitor individual appliances that they turn on at the same
6 time during every hour of the day and know when large, automatic appliances like air
7 conditioners are already running. WRA - 1 at 5 - 6.
8

9
10 WRA also points out that peak demand by any random group of residential customers
11 would rarely be during the same hour in a month. While there is some correlation with respect to
12 average peak hours, the actual peak hours are unlikely to be at the same time of day on the same
13 day of the month. That means that if you take the hourly peak kW in a month for each
14 residential customer and add them all up, the total will be far more than the actual peak load for
15 residential customers on the UNSE system. As a result, UNSE's demand charge proposal
16 presents a very real risk of overcharging residential customers for demand in excess of the costs
17 the utility incurs to satisfy that demand. WRA - 1 at 6 - 7.
18

19 Demand charges will likely increase bills for low income customers. Demand charges
20 will essentially act like increase fixed monthly charges because of the inability to meaningfully
21 affect demand. Demand charges will also disincentivize energy efficiency because, as noted
22 earlier, demand charges essentially function as higher fixed charges. That being the case, energy
23 or volumetric charges must be correspondingly reduced and reducing the volumetric rate has
24 been shown to increase residential energy consumption. WRA - 1 at 9.
25
26
27
28

1 3. *Minimum Bills*

2 WRA recommends that the Commission consider a minimum bill each month as an
3 alternative way to recover a portion of fixed costs that would not otherwise be recovered from
4 very low use customers. WRA – 1 at 11. A minimum bill is a fixed charge each month that
5 includes a charge for a minimum amount of energy in addition to the basic service customer
6 charge. For example, if the fixed basic service charge is \$10 per month and retail energy charges
7 are \$.10 for kWh, a minimum bill of \$30 per month would include 200 kWh of electricity. That
8 guarantees that a portion of the utility's fixed costs are covered by all customers. WRA – 1 at
9 12.

10
11
12 WRA understands that trying to recover all of the fixed costs with a minimum bill would
13 make the minimum bill too high. It recommends that most of the utility's fixed costs should
14 continue to be collected with energy charges. A small minimum bill simply assures that all
15 customers pay a share of the fixed charges. One parameter for establishing a minimum bill is to
16 examine how much electricity low use, low income customers typically use. Monthly bills for
17 low income, low use customers should not go up because of a minimum bill. WRA – 1 at 12.

18
19 A minimum bill would help with the problem of vacant and seasonally occupied
20 properties not paying their fair share of fixed costs. It would also help in the recovery of fixed
21 costs from solar DG customers. A minimum bill has the advantage over demand rates that it is
22 easy to understand and does not have any surprises associated with it. WRA – 1 at 13.

23
24 4. *Time of Use Rates*

25 WRA believes that many of the issues raised by the Company about matching cost
26 recovery to cost causation can be addressed by using time-of-use rates for all residential
27 customers. The costs of generation vary by time of day and day of week and so does the need
28

1 for capacity on the UNSE grid. Time-of-use rates can better capture the cost to provide that
2 energy and the capacity on the grid to deliver that energy to the customer. WRA – 1 at 13 – 14.

3 The cost of generation is relatively low at night and high during the late afternoon and
4 early evening hours with generation costs somewhere in between during the morning and into the
5 early afternoon. Having three different rates for the three different periods of the day can reflect
6 the relative cost of service delivery during different times of the day. Because the energy grid at
7 both the transmission and distribution level must have the capacity to deliver power during peak
8 load conditions, customers who use the system more during those peak periods should pay more.
9 And time of use rates do that. WRA – 1 at 14.

10
11 Time- of-use rates would be more understandable by residential customers rather than
12 demand charges. Time-of-use rates also provide customers with a meaningful opportunity to
13 save money on their utility bills by using less energy during peak hours and more energy during
14 low load hours. Time-of-use rates would also make onsite generation more valuable for solar
15 DG customers and incentivize the adoption of energy efficiency measures. WRA – 1 at 15 – 16.

18 5. *Basic Service Charge*

19 WRA believes that the basic service charge should remain at the current \$10 level.
20 Increasing it is unnecessary and does not incentivize economically efficient customer behavior.

21 UNSE can continue to collect adequate revenues from charges for energy use as it has
22 done successfully in the past. If the Company is concerned about inadequate funding of fixed
23 costs from vacant properties, seasonally occupied properties and customers with solar DG, it can
24 adopt a minimum bill. WRA – 1 at 17.

25 The minimum bill includes some amount of energy that is essentially “pre-paid.” The
26 basic service charge does not include a minimum level of electricity. For low income users, this
27
28

1 can make a big difference. For vacant and seasonally occupied properties and for solar DG
2 customers, the minimum bill accomplishes the same goal as a higher basic service charge. The
3 only cost elements that are appropriately collected in the basic service charge are billing,
4 collections and the service drop. Anything else will discourage energy efficiency by reducing
5 the amount of the customer's bill associated with volumetric energy consumption. When the
6 customer reduces their use, it has less impact on their bill. The overall impact of an increase in
7 the basic service charge is to increase customer bills and discentivize energy efficiency. WRA
8
9 - 1 at 17.

11 C. Arizona Community Action Association

12 Cynthia Zwick testified on behalf of the Arizona Community Action Association. Ms.
13 Zwick is the executive director for the Association. ACAA is a nonprofit agency created in 1967
14 to address poverty across Arizona. Through a collaboration of nearly 300 organizations and
15 individuals, ACAA develops and implements strategies to address and ultimately eliminate
16 poverty.
17

18 I. *Low-Income profile of UNSE's service territory*

19 Arizona has 1.7 million people enrolled in Medicaid and Children's Health Insurance
20 Program ("CHIP.")⁹ The Consumer Price Index has increased by 65 points since 2000, resulting
21 in a 37% increase in inflation.¹⁰ This means that everything – food, housing, transportation,
22 medical care – is increasingly becoming more and more unaffordable. Residential electricity
23 costs have increased even faster in Arizona, at a rate of 47%.¹¹ This has occurred while low-
24 wage workers have seen a 5% decrease in wages in that same period, and public benefits have
25
26

27 ⁹ <https://www.medicaid.gov/medicaid-chip-program-information/by-state/arizona.html>

28 ¹⁰ <http://data.bls.gov/cgi-bin/cpicalc.pl?cost1=100&year1=2000&year2=2015>

¹¹ <https://www.eia.gov/electricity/data/browser/>

1 remained stagnant or substantially decreased.¹² The number of needy families receiving TANF
2 in Arizona has decreased by 69% since 2010 alone.¹³ In Arizona, 29,000 households received
3 LIHEAP assistance, of the 657,000 households eligible for fuel assistance; as a result, 96% of the
4 households eligible for LIHEAP go unassisted.¹⁴

6 Low-income households in UNSE's service territory are in a very vulnerable state. The
7 poverty rate in Mohave County is 19.9%, and the poverty rate in Santa Cruz County is 24.4%,
8 compared to only 15.6% nationwide. Childhood poverty is even worse; 31.7% of children in
9 Mohave County and 32.7% of children in Santa Cruz currently live below the poverty line.
10 Mohave's per-capita income is 38% less than the per-capita income for the USA. Santa Cruz's
11 per-capita income is 60% lower than the national per-capita income.

13 Seventeen percent of Mohave households receive Supplemental Nutrition Assistance
14 Program ("SNAP") benefits and 24% of Santa Cruz residents receive SNAP benefits. The
15 income level for a family of three in poverty is \$20,160. Twenty three percent of households in
16 Mohave County and 27% of households in Santa Cruz earn less than that. Of these households,
17 the overwhelming majority are cost-burdened in their housing. In Mohave County, 72% of
18 households making less than \$20,000 per year pay more than 30% of their income to housing
19 costs, and in Santa Cruz county 77% of these households dedicate more than 30% to housing
20 expenses.
21

23 The families at the lowest rung of the income ladder are hardest-hit. Households at the
24 bottom income quintile have an average income of \$10,219 in Mohave and \$8,181 in Santa Cruz.

26 ¹² <http://www.epi.org/publication/charting-wage-stagnation/>,
27 <http://www.azcentral.com/story/news/arizona/politics/2015/10/19/arizona-first-state-lifetime-limits-financial-assistance-cns/73818446/>

28 ¹³ <https://www.fas.org/sgp/crs/misc/RL32760.pdf>

¹⁴ <http://neuac.org/wp-content/uploads/2015/10/2016LADStateSheetsFINAL.pdf>

1 The highest income quintile earns 12 times more than the lowest quintile in Mohave, and they
2 earn 16 times as much in Santa Cruz.

3 Bills are currently unmanageable for CARES customers. CARES customers paid late
4 payment charges on 27% of their bills during the test year, compared to 17% of bills having late
5 payments for non-CARES customers. Thirty-two percent of CARES customers had a payment
6 plan during the test year, while 16% of non-CARES customers employed payment plans. Any
7 further increase will only lead to greater difficulty paying and more hardship for UNSE's most
8 vulnerable customers.
9

10 **2. CARES Participation**

11 Much attention has been paid to enrollment in the CARES rate. Currently, 6,236
12 customers participate, according to UNSE's filing. ACAA's estimate, using values from the
13 U.S. Census, is that between 23,000 and 29,000 UNSE customers are eligible for the CARES
14 rate. This has a significant impact on the rate design changes proposed. If demand rates are
15 implemented, as the Company has proposed, low-income customers will be afforded some
16 protection from negative impacts by the CARES discount rate. However, if 73%-78% of the
17 CARES-eligible customers aren't enrolled, the CARES rate will offer no protection for the
18 majority of low-income customers. Even if demand rates aren't implemented for all customers,
19 it is in the public interest to enroll all eligible customers on the CARES rate, decreasing the
20 company's costs for collections, disconnections, payment plans, and other such activities, and
21 decreasing low-income customers' challenges to pay their utility bills.
22

23 To do that, several activities could be enacted immediately to improve CARES
24 enrollment. First of all, any customer who receives bill assistance from LIHEAP, Warm Spirits,
25 SHARE, or any other bill assistance or weatherization program should automatically be enrolled
26
27
28

1 in the CARES rate. (This has been implemented by SRP, which has seen 2,040 accounts auto
2 enrolled in SRP's monthly discount program for the first time, with an additional 5,223 accounts
3 that were enrolled at the time bill assistance was received extending their discount rate eligibility
4 for another 12 months.)

6 Additionally, the company could take steps to streamline the application process.
7 Currently, the CARES application must be accessed electronically, printed, filled out, and then
8 mailed in for the customer to receive the discount rate. Anyone who's failed to mail in a rebate
9 card knows that this is often easier said than done. An additional hurdle for low-income
10 customers is that 54% of Arizona residents at or below 150% FPG don't have a printer or a
11 computer.¹⁵ The digital divide is being shrunk somewhat by smartphones;¹⁶ in order to
12 accommodate shifting technological preferences, UNSE should allow for customers to submit
13 their CARES application electronically, via smartphone. Additionally, UNSE should train their
14 Customer Service Representatives to propose the CARES rate to payment-troubled customers
15 who call to discuss their bills or request payment assistance. They should also be trained to take
16 their application for the CARES rate over the phone, and if they qualify, to sign them up for the
17 CARES rate.

21 3. *CARES Rate*

22 The CARES rate itself should be adjusted to ensure that CARES customers are held
23 harmless from the rate increase. For the transition rates, in addition to the usage-based discount,
24 the company should also continue to offer the current fixed charge discount, decreasing the Basic
25 Service Charge from \$9.00 to \$4.90. Based on an analysis of the bill frequency information

27 _____
28 ¹⁵ 2009 EIA RECS data

¹⁶ <http://www.pewinternet.org/2015/04/01/chapter-one-a-portrait-of-smartphone-ownership/>

1 provided by the company, this will keep the revenue collected from the CARES class within 1%
2 of the current total. Additionally, the company committed to continue “support for [Unisource
3 Electric’s] low income assistance programs at or above current levels” when it was purchased by
4 Fortis.¹⁷ The transition rates, as proposed, would appear to be a violation of this agreement. As
5 such, the company is obligated to at least maintain current discount levels, which include a fixed
6 charge discount and the usage-based discount.
7

8 Regarding the demand rates; it is still ACAA’s position that low-income customers are
9 vulnerable, and by virtue of enrolling in the CARES rate, have self-identified as such. These
10 vulnerable customers should be allowed to remain on the transition rate, at least until the next
11 rate case. However, if demand rates are forced on all customers, including CARES customers,
12 then the demand rate should be designed to hold the class harmless from the rate increase. In
13 order to do this, the CARES discount needs a slight increase from \$17 to \$20 per customer.
14 Modeling a \$20 per month CARES discount (using the bill frequency data provided and
15 extrapolating load factors from the data provided in Schedule H-4 of Craig Jones’ Rejoinder
16 testimony) yields an increase of 0.545% revenue collected from the CARES class, sufficiently
17 holding the class harmless.
18
19

20 Holding CARES customers harmless ensures they won’t experience any additional
21 financial distress as a result of this rate increase and will support their ability to remain current
22 on their account.
23

24 4. *Deposit Rule*

25 CARES customers should be held harmless from UNSE’s proposed deposit rule, which
26 will allow the company to collect deposits more frequently.
27

28 ¹⁷ <http://images.edocket.azcc.gov/docketpdf/0000153431.pdf>

1 ACAA thanks UNSE for listening to its concerns and incorporating several of ACAA's
2 suggestions into their proposal. Maintaining the deferred payment plan length at six months will
3 allow customers who have fallen behind a greater opportunity to become current with their bills.
4 Modifying the termination notice to include contact information for local weatherization and bill
5 assistance agencies will ease the stressful process of receiving a disconnection notice and help
6 the customer obtain the services they need to manage their energy burden. Providing a program
7 delivery budget for agencies distributing Warm Spirit funds will allow the agencies to do their
8 job better and increase their communications efforts around the program, providing greater
9 service to UNSE's most vulnerable customers. Again, ACAA extends its appreciation to UNSE
10 for incorporating these requests into its proposal.
11
12

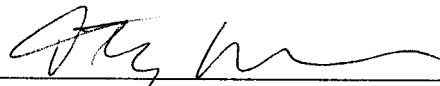
13 **5. Expanding CARES Eligibility**

14 CARES eligibility should be expanded up to 200% of the Federal Poverty Guideline.
15 Households at or below 200% of the FPG in Mohave and Santa Cruz counties don't make a
16 living wage, which means they don't make enough to adequately support themselves, or are
17 being forced to make impossible choices about whether to buy food, clothes, or pay the utility
18 bill. Extending assistance to the working poor will provide significant relief to a great number of
19 households who need it.
20
21

22 **6. Maintain the exclusion of the DSM surcharge from CARES rate.**

23 Low-income customers should continue to be excluded from the DSM surcharge. With
24 the exception of the weatherization program, they aren't able to participate in any of the DSM
25 programs offered, and should not be required to pay for programs they can't afford to use.
26

27 RESPECTFULLY submitted this 25th day of April, 2016
28



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the foregoing filed this 25th day
of April, 2016, with:

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Docket Control
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COPIES of the foregoing
electronically mailed this 25th day of
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All Parties of Record

