BEFORE THE ARIZONA CORPORATIO...

COMMISSIONERS

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

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 OF 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

STAFF'S REPLY BRIEF

I. INTRODUCTION.

The Utilities Division ("Staff") of the Arizona Corporation Commission ("ACC" or "Commission") hereby files its reply to the initial briefs filed on April 25, 2016. To the extent that Staff does not address a specific issue herein, Staff relies upon the arguments set forth in its Opening Brief, its pre-filed testimony, and the testimony of its witnesses at the hearing.

II. RATE DESIGN.

Staff continues to believe that a mandatory three-part rate design with a monthly customer charge, a demand component, and a volumetric energy charge is a viable and reasonable solution to the recovery of fixed costs and mitigation of cross subsidies. However, Staff acknowledges that the adoption of mandatory three-part rates would necessitate the full cooperation and support of UNS Electric, Inc. ("UNSE" or "Company"). Moreover, Staff conditioned its recommendation of three-part rates on the Company's development of a transition plan, including education and information programs for residential and small general services ("SGS") customers.[1] In light of the Company's withdrawal of its support for mandatory three-part rates, Staff does not believe that the implementation of mandatory three-port rates would be successful for UNSE at this time. As a result,

[1] Exhibit S-6 (Solganick Surrebuttal) at 6.

Staff recommends that the Commission consider adopting one of several alternative rate designs intended to enable UNSE to recover its fixed costs, address existing subsidies, and afford the Company an opportunity to realize its revenue requirement.

III. RATE DESIGN OPTIONS.

A. UNSE Recommendations.

In its Initial Post-Hearing Brief, the Company re-asserts that its current rate design does not provide for adequate fixed cost recovery.[2] UNSE claims that this deficiency is due to the fact that most of its fixed costs are recovered volumetrically on a per-kWh basis. Although UNSE may still support Staff's proposed three-part rate design in theory, the Company has determined that it will take much longer than originally anticipated to educate its customers about three-part rates. As a result, UNSE requests that the Commission adopt a rate structure for non-distributed generation ("DG") residential and SGS customers similar to that proposed in its application in this case.[3]

UNSE proposes the following options for residential customers: (1) a basic two-part rate; (2) a two-part time-of-use ("TOU") rate; (3) a two-part super-peak TOU rate for residential customers; (4) a three-part rate that includes a monthly basic service charge, a demand charge, and a volumetric energy charge; and (5) a three-part TOU rate that includes a monthly basic service charge, a demand charge, and on- and off-peak energy charges.[4] Under all of the Company's options for residential and SGS customers, the basic service charges would increase to $15 and $25, respectively, as proposed by Staff.[5] The Company's now proposed two-part residential options would have a two-tiered volumetric energy rate of 0-400 kWh and over 400 kWh; its three-part options would have a single tier for all energy used.[6] SGS customers would have similar rate options with the exception of the super-peak TOU rate.[7] In addition, for those low income customers who qualify, UNSE would continue to offer a CARES discount.[8]

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2 UNSE Brief at 3.
3 *Id.* at 4.
4 *Id.* at 5, 20.
5 *Id.* at 20.
6 *Id.* at 5.
7 *Id.* at 20.
8 *Id.* at 22.

The Company also reasserts the position that DG customers are distinguishable from non-DG customers due to their different and more burdensome use of the grid. These differences justify the development of a different rate design. As a result, UNSE proposes that residential and SGS DG customers be limited to either of the two three-part rate designs, unless they qualify for grandfathering.[9]

At this time, Staff does not feel it appropriate to distinguish between DG and non-DG customers and would submit that any rate design adopted by the Commission be applicable to all residential and SGS customers.

B. Staff Recommendations.

Staff believes that the Commission should consider the suggested alternatives to three-part rates. The record contains support for consideration of a two-part rate for residential and SGS customers that would increase the customer charge and eliminate the third volumetric tier. This option would improve revenue stability by the greater recovery of fixed costs through the proposed larger customer charges.[10] As noted above, the Company has agreed to Staff's recommended $15 and $25 customer charges for residential and SGS customers, respectively.

The continuation of a two-part rate design would enable the Commission to ascertain the outcome of the Value and Cost of Distributed Generation ("Value of DG") generic docket (Docket No. E-00000J-14-0023). This interim period would also provide UNSE with an opportunity to create education and information programs for its customers to better prepare them for a transition to three-part rates in the future. To that end, it may be helpful to include a *voluntary* three-part rate that includes a demand charge in UNSE's rate design in this proceeding. These rates may include a basic service charge that would be less than the basic service charge with the two-part rate to provide an incentive for voluntary customer migration. The Company could also develop a customer information and education program to help customers determine whether they could benefit from voluntarily subscribing to a demand rate. Finally, the Company would develop a bill format to illustrate each customer's monthly (and twelve months') demand (both On-Peak and Off-Peak) as a

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[9] *Id.* at 20, 24.
[10] UNSE Brief at 22-24; TR at 3713.

means of educating all customers about demand rates, even if a customer has not selected a demand rate. Though mandatory three-part rates may not be ideal for UNSE at this time, it would be wise to prepare customers for such an eventual transition in the future.

Staff would also support having multiple voluntary rate options, including TOU and demand charges. As an example, Staff would refer to the rate design proposed by Staff in the Sulphur Springs Valley Electric Cooperative ("SSVEC") rate case (Docket No. E-01575A-15-0312).[11] In that case, Staff has agreed to SSVEC's implementation of a revenue neutral, increasing customer charge phased in over a four year period. Under this plan, a customer's "service availability charge" (customer service charge) would increase each year contemporaneously with a decrease in the energy charge, thereby minimizing the overall bill impact. This rate plan is designed not only to more accurately recover fixed costs through the service availability charge, but also to lessen rate shock by the reduction in the volumetric charge.

SSVEC's proposed residential rate plan distinguishes between DG and non-DG customers and sets forth a cut-off date that determines whether the new rate schedule applies. Staff, however, does not support a separate rate schedule for customers with DG, irrespective of the date of installation. SSVEC's plan also calls for a change in net metering. Staff opposes any change in net metering until a decision is issued in the pending Value of DG docket (Docket No. E-00000J-14-0023).

As another option, Staff would propose continuing with the Company's existing two-part rate design with three tiers. Although Staff would prefer elimination of the third volumetric tier, such design has previously been approved by the Commission, and has been operating for some time.

C. RUCO Recommendations.

In its Pre-filed Testimony, RUCO proposed a Minimum Bill option,[12] although it does not address this option in its brief. Such a rate would make recovery of fixed costs more certain, but would eliminate the customers' options to adapt their usage to respond to price signals. In addition, it would not encourage conservation.

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[11] TR (Broderick) at 3597.
[12] Exhibit RUCO-6 at 28.

In its initial brief, RUCO proposes a separate rate design for DG customers with several options from which to choose:[13]

- The non-export option under which DG customers could select from any of the Company's standard rates, but would not be permitted to export any power to the grid;
- The Advanced DG TOU Option where customers would pay 3 part rates (a minimum bill, a flat base energy rate and a demand charge) and would be allowed to export power to the grid, at either 8.5 cents per kWh (the self-consumption rate for customers who exchange renewable energy credits, or RECs) or the Market Cost of Comparable Generation rate; and
- The Renewable Portfolio Standard ("RPS") bill credit option which also allows the customer to select from any of the Company's offered rates and to export power to the grid and receive a credit which is based on the Company's renewable energy portfolio. The credit rate would start at 11 cents per kWh and decrease over time as the Company's portfolio of renewable energy is increased.

In its brief, RUCO also introduces four new solutions as options should the Commission not adopt mandatory three-part rates or RUCO's previously discussed options:[14]

- Traditional Two Part Rates with a Market Based Export Option, available to any residential customer, under which full net metering would be preserved for DG customers who export less than 25 percent of their annual load, while those who produce more than 25 percent of their annual load would be compensated for export at a market based rate;
- Three Part Rate Option, available to any residential customer, which retains full net metering with a tiered TOU demand charge with a 4 kW break-over point and which takes seasonality into account;

[13] RUCO Closing Brief at 11.
[14] RUCO Closing Brief at 13-15.

- Volumetric TOU Option, available to all residential customers, which includes a $19 fixed charge and preserves net metering; and
- Full Requirement Customer TOU Option, available only to full requirements customers, which includes a $12.50 fixed charge and TOU rates with narrower windows for on-peak hours and seasonality components.

Many of RUCO's proposals would require changes to net metering. But noted above, due to the pending Value of DG docket, Staff is not prepared to recommend any change to net metering at this time.

D. TASC/Vote Solar Recommendations.

In their respective post-hearing briefs, The Alliance for Solar Choice ("TASC") and Vote Solar posit that there are better alternative rate designs than the Company's three-part rates and that options should be provided to customers. TASC suggests that a two-part rate with appropriately designed TOU options together with a minimum bill would ease UNSE's concerns about revenue collection while sending price signals to customers about when to conserve.[15] TASC further argues that TOU rates are easier to understand than demand charges and can be as or more effective in recovering costs and assisting customers in lessening demand.[16] Vote Solar essentially mirrors TASC's proposals.[17]

TASC and Vote Solar are also of the opinion that a minimum bill would be a more effective mechanism to help the Company recoup lost fixed costs that it incurs from serving low-load customers. In contrast, Staff witness Solganick dismisses the minimum bill as a "public relations challenge" and an "artifact of the '60s."[18] He explained that, included in such device is a certain amount of demand capability or a certain amount of energy and customers thought:

> [T]hey were paying for something they didn't want, and other people thought that they didn't get enough. And some people thought that [the utility was] encouraging people to use something that they didn't have to use.

Mr. Solganick does not recommend minimum bills because of those negative perceptions.[19]

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[15] TASC Post-Hearing Brief at 5, 35.
[16] *Id.* at 35.
[17] Vote Solar Initial Post-Hearing Brief at 44-47.
[18] TR (Solganick) 2723-24.
[19] *Id.*

IV. CLASS REVENUE ALLOCATIONS.

None of the parties in this case disputes the assertion that the residential class of customers is currently being subsidized by the commercial classes, nor have there been significant challenges to the Company's CCoSS in that respect. Among the intervenors, the large non-residential customers generally support the Company's initial proposal for allocation among customer classes: 91 percent of its requested $22.5 million increase to the Residential class, 11.8 percent to the SGS class, small amounts to the Medium/Large General Service classes, and a reduction to the Large Power Service class. After reviewing Staff's proposed allocation, the Company revised its proposal to reflect the reduced revenue increase of $15.9 million (ultimately reduced to $15.1 million), with 86 percent of the proposed increase allocated to the Residential class. The large non-residential customers oppose this allocation.

Staff witness Solganick testified that the Company's initial proposal resulted in the Residential class bearing 91.2 percent and the SGS class 11.8 percent of the revenue increase.[20] To promote concepts of gradualism, Staff continues to recommend that the revenue requirement be allocated by increasing the Residential and SGS classes by 50 percent of the amount needed to reach parity and increasing all other classes by an equal 10.1 percent. Under this recommended revenue allocation, the Residential and SGS classes receive 58.3 percent and 7.3 percent, respectively.

In the Post-Hearing Opening Brief of Freeport Minerals Corporation, Arizonans for Electric Choice and Competition, and Noble Americas Energy Solutions, LLC (collectively "Freeport"), those entities take a different approach to rate class allocations by factoring in fuel cost reductions, which result in additional cross-subsidies.[21] While this is a valid analysis, Staff would note that the price of fuel is variable, with rates changing year to year, which renders it uncertain. Rates, on the other hand, are certain and will remain fixed until the next rate case, making Staff's reliance on rates alone more reliable and appropriate.

Freeport further suggests a creative approach for funding a buy-though program. Rather than simply allocating the $15.1 million revenue increase among the classes, Freeport suggests that the

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[20] Exhibit S-4 at 24: Exhibit HS-4.
[21] Freeport Post-Hearing Opening Brief at 15-18.

allocation be made based on the Company's initial $22.6 million revenue increase. The $7.5 million reduction in the revenue increase (from $22.6 to $15.1 million) would be allocated one-half to the subsidy-paying classes and one-half to the subsidy-receiving classes, using the rate spread proposed by the Company as part of its previously proposed $22.6 million revenue increase. As part of this proposal, Freeport suggests that the subsidy-paying classes would forgo $908,000 of their decrease in order to fund a buy-through program.

While Staff does not generally oppose this funding proposal, Staff disagrees with the allocation methodology. By allocating based on the proposed $22.6 million increase, and then reducing the amount by one-half of the $7.5 million difference from $15.1 million, this proposal merely changes the bottom line allocation percentages. The traditional methodology, as proposed by Staff and the Company, is simpler, more direct, and accomplishes the same goal. The final allocation should reflect Staff's proposed increase of the Residential and SGS classes by 50 percent of the amount needed to reach parity and should increase all other classes by an equal 10.1 percent.

V. GRANDFATHERING.

The Company and solar industry intervenors all propose that existing DG solar customers as of a specified date be "grandfathered."[22] During this case, Staff offered a number of proposals intended to mitigate the impact on existing solar customers, many of which are now moot given the Company's withdrawal of support for three-part rates. Staff is not necessarily opposed to some form of grandfathering as a mitigating factor, but is concerned that any form of grandfathering must clearly define the elements of the current rate design that are included in grandfathering (such as basic service and energy charges which change after each rate case), establish a fair and reasonable date for delineating which DG customers are grandfathered, define how long a facility is grandfathered based on lifespan or other factors such as return on investment, and not impede the Commission's ability to address rates for these customers in the future.

VI. NET METERING.

Staff continues to oppose UNSE's reliance on a single Purchased Power Agreement ("PPA") to establish the Renewable Credit Rate ("RCR") and also opposes any change in net metering absent

[22] See, e.g., TR (Hutchens) at 387; (Kobor) 2126; (Huber) 2276-78; and TASC Post-Hearing Brief at 4.

the adoption of three-part rates. In addition, as previously noted, potential changes to the net metering rules are among the issues under consideration in the Commission's Value of DG docket. Staff recommends no changes to net metering at this time.

VII. CONCLUSION.

Staff respectfully requests that the Commission adopt Staff's recommendations on the disputed issues for the reasons stated above and the testimony and evidence provided in this matter.

RESPECTFULLY SUBMITTED this 11th day of May, 2016.

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