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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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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 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 **NOTICE OF FILING POST-HEARING REPLY BRIEF ON BEHALF OF NUCOR STEEL CORPORATION**

Nucor Steel Corporation ("Nucor"), hereby provides notice of filing its Post-Hearing Reply Brief in the above-referenced matter.

DATED this 11th day of May, 2016.

MUNGER CHADWICK, P.L.C.

Arizona Corporation Commission
DOCKETED
MAY 11 2016
DOCKETED BY

Robert J. Metli
Attorneys for Nucor Steel Corporation

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this 11th day of May, 2016, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

COPY of the foregoing hand-delivered
this 11th day of May, 2016, to:

Dwight Nodes
Administrative Law Judge
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Janice Alward, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Thomas Broderick, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

COPY of the foregoing mailed/emailed
this 11th day of May, 2016, to:

Jane Rodda
Administrative Law Judge
Arizona Corporation Commission
400 West Congress
Tucson, Arizona 85701

Bradley S. Carroll
UNS Electric, Inc.
88 E. Broadway, MS HQE910
P.O. Box 711
Tucson, Arizona 85702
bcarroll@tep.com

Daniel W. Pozefsky
Residential Utility Consumer Office
1110 W. Washington, Suite 220
Phoenix, Arizona 85007
dpozefsky@azruco.gov
Consented to Service by Email

Michael Patten
Jason Gellman
Snell & Wilmer, L.L.P.
One Arizona Center
Phoenix, Arizona 85004
mpatten@swlaw.com
jgellman@swlaw.com

Scott S. Wakefield
Heinton & Curry
5045 N. 12th Street, Suite 110
Phoenix, Arizona 85014

Ken Wilson
Western Resource Advocates
2260 Baseline Road, Suite 200
Boulder, CO 80302
Ken.wilson@westernresources.org
Consented to Service by Email

Rick Gilliam
The Vote Solar Initiative
1120 Pearl Street, Suite 200
Boulder, Colorado 80302

Timothy Hogan
Arizona Center for Law in the Public Interest
202 E. McDowell Road, Suite 153
Phoenix, Arizona 85003
thogan@aclpi.org
Consented to Service by Email

Thomas Loquvam
Melissa Krueger
Pinnacle West Capital Corporation
P.O. Box 53999, MS 8695
Phoenix, Arizona 85072
thomas.loquvam@pinnaclewest.com
Consented to Service by Email

Gregory Bernosky
Arizona Public Service Company
P.O. Box 53999, MS 9708
Phoenix, Arizona 85072
gregory.bernosky@aps.com

Court Rich
Rose Law Group P.C.
7144 E. Stetson Drive, Suite 300
Scottsdale, Arizona 85251
crich@roselawgroup.com
Consented to Service by Email

Lawrence V. Robertson, Jr.
P.O. Box 1448
Tubac, Arizona 85646
tubaclawyer@aol.com

Steve W. Chriss
Wal-Mart Stores, Inc.
2011 S.E. 10th Street
Bentonville, AR 72716-0550
Stephen.chriss@wal-mart.com

Meghan H. Grabel
Osborn Maledon, P.A.
2929 North Central Avenue
Phoenix, Arizona 85012
mgrabel@omlaw.com
Consented to Service by Email

Gary Yaquinto
Arizona Investment Council
2100 North Central Avenue
Phoenix, Arizona 85004
gyaquinto@arizonaic.org
Consented to Service by Email

Michael Alan Hiatt
Katie Dittelberger
Earthjustice
633 17th Street, Suite 1600
Denver, Colorado 80302
mhiatt@earthjustice.org
Consented to Service by Email

Jill Tauber
Chinyere A. Osula
Earthjustice Washington, DC Office
1625 Massachusetts Avenue NW, Suite 702
Washington, DC 20036-2212

Jeff Schlegel
SWEEP
1167 W. Samalayuca Drive
Tucson, Arizona 85704-3224
schlegelj@aol.com

Ellen Zuckerman
SWEEP
4231 E. Catalina Drive
Phoenix, AZ 85018
ezuckerman@swenergy.org

Kevin Higgins
Energy Strategies, LLC
215 South State Street, Suite 200
Salt Lake City, Utah 84111
khiggins@energystrat.com

C. Webb Crockett
Patrick J. Black
Fennemore Craig, P.C.
2394 E. Camelback Road, Suite 600
Phoenix, Arizona 85016-3429
wcrockett@fclaw.com
pblack@fclaw.com
Consented to Service by Email

Cynthia Zwick
Arizona Community Action Association
2700 North Third Street, #3040
Phoenix, Arizona 85004
czwick@azcaa.org
Consented to Service by Email

Craig A. Marks
Craig A. Marks, PLC
10645 N. Tatum Blvd., Suite 200-676
Phoenix, Arizona 85028
Attorney for AURA
craig.marks@azbar.org
Consented to Service by Email

Pat Quinn
Arizona Utility Ratepayer Alliance
5521 E. Cholla Street
Scottsdale, Arizona 85254
Pat.quinn47474@gmail.com
Consented to Service by Email

Jeffrey W. Crockett
Crockett Law Group
1702 E. Highland Ave., Suite 204
Phoenix, Arizona 85016
jeff@jeffcrockettlaw.com
Consented to Service by Email

Kirby Chapman, CPA
Sulphur Springs Valley Electric Coop., Inc.
311 E. Wilcox
Sierra Vista, Arizona 85650
kchapman@ssvec.com

Garry D. Hays
Law Offices of Garry D. Hays, PC
2198 E. Camelback Road, Suite 305
Phoenix, Arizona 85016
ghays@lawgdh.com

Jay Moyes
Jason Moyes
Moyes, Sellers & Hendricks, Ltd.
1850 N. Central Avenue, Suite 1100
Phoenix, AZ 85004
jmoyes@law-msh.com
jasonmoyes@law-msh.com
Consented to Service by Email

Vincent Nitido
Trico Electric Cooperative, Inc.
8600 W. Tangerine Road
Marana, Arizona 85658
vnitido@trico.coop

Briana Kobor
Vote Solar
Program Director – DG Regulatory Policy
360 22nd Street, Suite 730
Oakland, CA 94612

Tom Harris, Chairman
Arizona Solar Energy Industries Assn.
2122 W. Lone Cactus Drive, Suite 2
Phoenix, AZ 85027
info@ariseia.org
Consented to Service by Email

Timothy J. Sabo
Snell & Wilmer LLP
One Arizona Center
400 E. Van Buren Street
Phoenix, AZ 85004
tsabo@swlaw.com

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
DOUG LITTLE – CHAIRMAN
BOB BURNS
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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

NUCOR STEEL

POST-HEARING REPLY BRIEF

MAY 11, 2016

Nucor Steel—Kingman ("Nucor"), by and through undersigned counsel, hereby files its Post-Hearing Reply Brief in the above-captioned matter.

INTRODUCTION

The record in this matter provides ample justification for the Commission to order UNS Electric (Company) to take meaningful steps toward reducing intra- and inter-class subsidies, as recommended by Nucor-Steel Kingman (Nucor) and other parties. Although we do not see a need to repeat the points made in our previous filings in this rate case, this Post-Hearing Reply Brief addresses three issues that have been raised in the April 25 Initial Post-Hearing Briefs.

ARGUMENT

I. The Commission should adopt Nucor's proposal to base the demand charge for LPS and LPS-TOU customers on that customer's contribution to the system peak.

Throughout this proceeding, the Company has opposed Nucor's proposal to revise the manner in which the demand charge is calculated for large industrial energy customers, even though the Company has failed to articulate any logical basis for the current demand charges in its LPS and LPS-TOU tariffs. Nucor's previous testimony outlined the well-understood rate design concept of designing rates so as to equitably recover revenues from customers within a class in relation to the costs imposed upon the utility system by various customers. And although not all parties have discussed this issue in great detail, those parties that have addressed demand charges have recognized the importance of demand charges that properly reflect a customer's contribution to the overall system peak.[1]

Indeed, the Company's "top two" justifications for its proposals to change the design of the Company's electric rates in this proceeding were to "(i) reduce intra-class subsidization,

[1] *See, e.g.*, Initial Post-Hearing Brief of Fresh Produce Association of the Americas at 4.

[and] (ii) promote fairness and recover costs from cost causers . . . ."[2] These goals are even restated in the Company's Initial Post-Hearing Brief:

> In its Application, UNS Electric proposed changes to its residential and small general service rate structure to: . . . (ii) better align rate design with cost causation and reduce inter- and intra-class inequities, (iii) reduce the level of cross-subsidies among customers . . . .[3]

Although the Company appears to believe that intra-class subsidies in the rates faced by residential and small commercial customers should be eliminated, failing to address the design of the demand charge faced by LPS customers would result in perpetuating substantial subsidization within the industrial customer class.

Nucor has demonstrated that the current calculation of the LPS-TOU demand charge is not reasonably connected to the actual system peak and is therefore not just and reasonable. The Company has had several opportunities to explain the logic behind the demand charges in the LPS and LPS-TOU tariffs, but has repeatedly failed to provide any basis for them. In its Initial Post-Hearing Brief, the Company again expressed its opposition to Nucor's proposed redesign of the LPS demand charge, but did not provide an adequate justification for the current demand charge:

> Although Nucor seeks revisions to the LPS tariff structure, the Company believes such revision is unnecessary and inappropriate. . . . Modifying the demand rate and off-peak prices would simply shift more costs to other customer classes or would increase other parts of Nucor's bill . . . .[4]

The short discussion on this issue in the Company's Initial Post-Hearing Brief suggests that UNS Electric may not understand Nucor's proposal. There are at least two problems with the way UNS has characterized Nucor's proposal.

[2] *See* UNSE-29 at 2.
[3] Initial Post-Hearing Brief of UNS Electric, Inc. at 18.
[4] *Id.* at 37.

First, Nucor's proposal would not "simply shift more costs to other customer classes." In contrast to the Company's assertion, Nucor's proposal would align the prices charged to customers *within* the LPS rate class (including LPS and LPS-TOU customers) with the costs imposed upon the UNS Electric system *by those customers*. That is, Nucor's proposal is designed to lessen intra-class subsidies within the LPS class. It would not "shift more costs to other customer classes."

While the Company's Initial Brief mischaracterizes the effect of Nucor's proposal to redesign the demand charge faced by industrial energy consumers, UNS Electric's witness on this issue was pressed to address the problems with these tariffs at the hearing. Under questioning from ALJ Rodda, Mr. Jones correctly responded:

> Nucor's concern, as I understand it, is more a matter of how we allocate a cost -- once a cost, an amount is allocated to the class, they've expressed more concern about how we allocate it between the customers within the class.[5]

Nucor has demonstrated—and no party has disputed—that Nucor's proposed change to a 4CP-based demand charge would reduce the intra-class subsidies occurring within the LPS rate class by properly aligning demand charges with cost causation. Nucor presently subsidizes other customers within the LPS class because Nucor consumes relatively little electricity during on-peak periods (which include hours associated with annual system peaks) and thus has relatively little impact on the utility's need for generating capacity and transmission capacity. The evidence in the record is clear that UNS Electric's need for generating capacity and transmission capacity is largely driven by the demand for electricity during hours coinciding with the system peak. Because of its load pattern, Nucor's contribution to these coincident peaks is quite minimal, and Nucor's demand charge should reflect that reality.

[5] Tr. at 2659.

Second, the Company's argument in its Initial Brief that Nucor's proposed redesign of the demand charge could "increase other parts of Nucor's bill" is also inaccurate. Nucor's proposal only affects the recovery of demand-related costs among the various LPS (and LPS-TOU) customers. The Company appears to be suggesting that it could move demand-related costs so that they might be collected through other charges (e.g., energy or customer charges). Nucor is strongly opposed to any such reclassification or shifting of costs. And it would be absurd for the utility to now argue that fixed costs which are clearly demand related (i.e., those associated with generating capacity or transmission capacity) and have traditionally been recovered through a demand charge should be collected through an energy or customer charge. Putting forth such an argument would completely undermine the utility's position in this proceeding on the proper recovery of costs in other contexts.

In summary, we urge the Commission to adopt Nucor's proposal to redesign the demand charge applied to customers served under the LPS and LPS-TOU tariffs to better reflect the customer's contribution to the system peak, as proposed in Dr. Zarnikau's Direct Testimony.

II. <u>The revenue allocation in the Company's original application should be used, along with proper adjustments for changes in the Company's revenue requirement.</u>

From the beginning of this case over a year ago, it has been recognized by the Company and other parties that the Company's current rates result in substantial inter-class subsidization.[6] This issue was again raised by Wal-Mart[7], the Fresh Produce Association of the Americas[8], Freeport Minerals Corporation, Arizonans for Electric Choice and Competition, and Noble Americas Energy Solutions[9], and the Company[10] in post-hearing briefs. The Company notes in

[6] *See* UNSE-31 at 24.
[7] *See* Wal-Mart Stores, Inc.'s Initial Closing Brief at 2.
[8] *See* Initial Post-Hearing Brief of Fresh Produce Association of the Americas at 6.
[9] *See* Post-Hearing Joint Opening Brief of Freeport Minerals Corporation, Arizonans for Electric Choice and Competition and Noble Americas Energy Solutions LLC at 5.

its Initial Post-Hearing Brief that "[o]ne of UNS Electric's goals in this rate case is to move the revenue recovery from each class closer to its actual cost of service. *This will begin to reduce the interclass subsidies*."[11] In fact, no party disputes that large industrial and commercial customers are presently subsidizing residential customers.

Unfortunately, several of the utility's largest industrial customers have left the service area or have gone out of business in recent years, at least in part as a result of the Company's industrial electricity rates, which even the Company acknowledges are relatively high.[12] As recognized by the Arizona Investment Council[13] and the Company[14], among others, the loss of several of the Company's largest customers has resulted in significant revenue losses for the Company and is one of the primary drivers for the Company's request for an overall increase in rates.

In spite of the difficult economic circumstances in the UNS Electric Service Territory and in spite of the abundant evidence on the record that the current subsidization of residential customer classes by commercial and industrial customer classes should be reduced, the Company has put forward a revised revenue allocation proposal that would do little to reduce these subsidizations, and Staff has recommended a revenue allocation that would further exacerbate the inter-class subsidies.

The Company's initial Direct Testimony originally recommended a revenue allocation that would have reduced—though not eliminated—these inter-class subsidies.[15] However, even though the Company stated that one of its goals in the rate case is to "move the revenue recovery

[10] *See* Initial Post-Hearing Brief of UNS Electric, Inc. at 16.
[11] *Id.* at 16 (emphasis added).
[12] *See* UNSE-3 at 5.
[13] *See* Initial Post-Hearing Brief of Arizona Investment Council at 27.
[14] *See* Initial Post-Hearing Brief of UNS Electric, Inc. at 10.
[15] *See* UNSE-31, Exhibit CAJ-2.

from each class closer to its actual cost of service," and that "the [Class Cost Of Service Study] suggested that *more* revenue should be allocated to the residential class,"[16] the Company's revised revenue allocation proposal would *increase* rates for the LPS customer class[17] and would still not substantially reduce inter-class subsidization. Moreover, even though the Company's requested increase in revenue requirement has been reduced by approximately $7.5 million, industrial and large commercial customers would actually be worse off under the company's revised revenue allocation proposal.

Staff's revenue allocation proposal goes a step further. Even though the Company's cost of service study (and the Company's Direct Testimony) supports a rate *decrease* for the LPS classes, "[u]nder Staff's proposal, all classes receive an increase,"[18] including the LPS customers. According to Staff's Schedule HS-4, the utility would receive an absurdly high 36.62% Rate of Return on Rate Base from the LPS class under Mr. Solganick's proposed revenue assignment—far higher than from any other class and much higher than the 6.92% Rate of Return on Rate Base for the overall system.[19]

Nucor continues to believe that an increase in LPS customer rates at this time would be a step in the wrong direction. The Commission should adopt the revenue allocation as originally proposed by the Company in its Direct Testimony, with further adjustments consistent with the reduced revenue requirement increase.

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[16] *See* Initial Post-Hearing Brief of UNS Electric, Inc. at 16.
[17] *See id.* at 37.
[18] Staff's Opening Brief at 10.
[19] *See* S-18.

III. Nucor does not oppose the adoption of a Buy-Through Tariff as part of a broader set of changes to reduce the disparity among relative rates of return, provided some reasonable safeguards are implemented.

Nucor's position on the Buy-Through Tariff has been mischaracterized by the Arizona Investment Council in its Initial Post-Hearing Brief.[20] To be clear, Nucor does not oppose the adoption of a Buy-Through Tariff, provided it is part of a broader set of changes that will reduce inter-class subsidies and some safeguards are implemented for non-participating customers. As Nucor understands the proposal submitted by AECC witness Kevin Higgins[21], the administrative costs of a limited Buy-Through Tariff would be set aside from eligible customer classes' 50% share of the $7.5 million reduction in the Company's requested revenue requirement. If the program is not fully subscribed, any unused revenues set aside for the program would simply be returned to the eligible customer classes. While it is not clear whether the Buy-Through Tariff as proposed by the Company (or as proposed by Mr. Higgins) would be a workable option for Nucor at this time, Nucor generally does not oppose a buy-through tariff as part of a larger set of changes that would result in overall improvements in industrial and commercial tariffs.

CONCLUSION

Based on the evidence presented in this case, the Commission should order the Company to:

1. Adopt Nucor's proposal for a demand charge for LPS-TOU customers that reflects the customer's contribution to the system peak;
2. Adopt a revenue allocation that reduces the disparities in Relative Rate of Return among the customer classes; and
3. Adopt other relief requested by Nucor in its Initial Post-Hearing Brief.

[20] Initial Post-Hearing Brief of Arizona Investment Council at 27.

[21] *See* Post-Hearing Opening Brief on Behalf of Freeport Minerals Corporation, Arizonans for Electric Choice and Competition, and Noble Americas Energy Solutions LLC at 5.

RESPECTFULLY SUBMITTED this 11th day of May, 2016.

MUNGER CHADWICK, P.L.C.

Robert J. Metli
Attorneys for Nucor Steel Corporation