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BEFORE THE ARIZONA CORPORATION COMMISSION

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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

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

This reply brief is submitted on behalf of Southwest Energy Efficiency Project ("SWEEP"), Western Resource Advocates ("WRA") and Arizona Community Action Association ("ACAA"). The positions described in this brief are supported by these three intervenors unless otherwise noted.

I. DEMAND CHARGES

In its opening brief, UNSE Electric, Inc. ("UNSE") or ("Company"), has withdrawn its support for mandatory three part rates including demand charges for all residential customers.

Although Staff continued to support mandatory three part rates for all residential customers in its opening brief, it is clear that Staff's support is wholly dependent on the Company's cooperation.

Referring to the Sulphur Springs case, Staff states in its Opening Brief in this case that:

1 Staff's belief is that the utility's cooperation is key to successfully implementing
2 three part rates. Without the necessary cooperation in transition efforts, including
3 the education of customers, three part rates proposed in this matter are
inappropriate for SSVEC.

4 Staff's Opening Brief at 15.

5 With the Company no longer supporting mandatory three part rates, it seems logical that Staff
6 would no longer support them either especially in light of comments from Commissioners on the
7 subject. *See, for example*, letter from Doug Little, Chairman, Arizona Corporation Commission
8 dated April 25, 2016 ("Further, I am concerned that the focus on three part rates, and a failure to
9 fully consider other intermediate approaches, may result in the Commission having limited
10 options with respect to the ability to consider and potentially adopt other rate designs... whatever
11 merits the concept of mandatory three part rates might appear to have in the abstract, the adverse
12 effect they could have on the economic and social realities faced by the ratepayers in the UNSE
13 service territory are profound and very concerning to me.")

14
15
16 As a result of these developments, Intervenors consider the issue of mandatory three part
17 rates for all residential customers moot rendering it unnecessary to comment on discussion of the
18 issue in other parties' briefs.

19 **II. BASIC SERVICE CHARGE**

20
21 Both the Company and the Staff continue to support a \$15 per month basic service charge
22 for residential customers. That represents a fifty percent increase over the current \$10 charge.
23 Intervenors won't repeat the discussion in their initial brief about how the proposed \$15 charge
24 lacks cost support and represents a departure from Commission treatment of this issue for the
25 Company, including the Company's significant change in methodology away from the Basic
26 Customer Method.
27
28

1 However, it is important to note that the proposed fifty percent increase in the basic
2 service charge will have the largest impact on lower-usage customers, many of whom are low-
3 income customers. Both Chairman Little and Commissioner Forese have expressed concerns
4 about the financial vulnerability of those customers in the UNSE service territory. See Chairman
5 Little's letter dated April 25, 2016 ("The UNSE service territory seems to me to be inappropriate
6 and unsuitable for a rate design of this type. Moreover, the demographics and financial
7 conditions that exist are not conducive to such an experiment. In my view the demographic,
8 geographic, economic and social profile associated with the UNSE service territory is fairly
9 unique and should be treated as such when considering this rate case"); Letter from
10 Commissioner Forese dated April 28, 2016 ("many constituents during the public comment
11 meetings spoke to the severe health and economic conditions in these territories...I would also
12 like to know UNSE's position on whether the low income programs that were proposed during
13 the hearing of this case are indeed adequate to properly address the concerns raised at the public
14 comment meetings.")

15
16
17
18 The simplest and most appropriate way to assist lower income customers in the UNSE
19 service territory is to reject the fifty percent increase in the basic service charge. As AARP
20 Arizona notes, "Arizona's seniors would see utility bills rise by \$60 a year before they even turn
21 on a single light bulb." AARP Comments in Response to Letters by Commissioner Bob Burns,
22 Commissioner Tom Forese, and Chairman Doug Little dated May 3, 2016. AARP notes that:

23
24 Seniors on limited or fixed incomes are already struggling: they have much
25 higher out-of-pocket medical expenses and spend a higher percentage of their
26 household income on utilities than younger age groups. As a result, elderly, low-
27 income and fixed-income Arizonans would be disproportionately impacted by
28 Unisource's proposal, forcing many to choose between food, rent, medicine,
transportation, and utility bills. *Id.*

1 Of course, increasing fixed charges also undermines energy efficiency in Arizona. All
2 other things being equal, an increase in a fixed charge like the basic service charge means that
3 the volumetric rate is reduced to offset the increase. Lower volumetric rates promote increased
4 consumption which is the wrong price signal for customers and contrary to the Commission's
5 long standing energy policy.
6

7 Although there is evidence in the record that would actually support a decrease to the
8 basic service charge, including the evidence in SWEEP's rate design testimony, these
9 Intervenor strongly urge the Commission to, at a minimum, reject any increase to the current
10 \$10 basic service charge. See Intervenor Initial Brief at 9.
11

12 **III. RATE DESIGN**

13 In its brief, the Company has reverted to its initial application as far as the rate design for
14 residential customers. It proposes five rate options:
15

- 16 1. A basic two part rate.
- 17 2. A two part time-of-use rate.
- 18 3. A two part super peak TOU rate.
- 19 4. A basic three part rate that includes a monthly basic service charge, a demand
20 charge and a volumetric energy charge and;
21

22 5. A TOU three part rate that is the same as the basic three part rate except that the
23 volumetric energy charges will be TOU-based.

24 Initial Post-Hearing Brief of UNS Electric, Inc. at 20. The Company also proposes to eliminate
25 the three tier rate structure that currently exists.
26

27 As an initial matter, the Commission should reject the Company's proposal to eliminate
28 the three tiered rate structure and instead approve the transitional rates proposed by the Company

1 previously that preserve the three tier rate structure as the default rate for residential customers.
2 UNSE-33, CAJ-RJ-2, Schedule H-3, p. 1 of 4, Residential Service – Transition Rates. That is to
3 say, residential customers should remain on the proposed transitional rate that preserves the three
4 tier structure unless they affirmatively choose another rate option.
5

6 The three tiered rate structure is there for a reason. It promotes energy conservation and
7 the reduction of energy waste. Eliminating it means that high usage customers will pay
8 proportionately less and low usage customers will pay proportionately more and that generally
9 means that low income customers will pay proportionately more.
10

11 Additionally, the transitional rates proposed by the Company that preserve the three tier
12 rate structure are better at matching cost recovery with cost causation than some of the other
13 rates proposed by the Company during the course of the hearing. *See* Intervenors Initial Brief at
14 13. The transitional rate proposed by the Company included a \$15 basic service charge and
15 would have to be recalculated based instead on a \$10 service charge, which the Intervenors
16 support. The Commission in its Order should require the Company to recalculate the transitional
17 rates with the three tier rate structure and a \$10 basic service charge.¹
18

19 Alternatively, if the Commission does not want to order a recalculation of the transitional
20 rates previously proposed by the Company, below is a two-part rate design for residential
21 customers that would meet the same criteria (\$10 service charge and three tiers), and that is
22 designed to recover the Company's revenue requirement in this case, as well as to meet the
23 Company's targets for margin revenue and fuel revenue. This design would also mitigate the
24 size and impact of the rate increase for lower usage and low-income customers.
25
26

27 ¹ The schedules filed by the Company on May 5, 2016 do not include a transitional rate with the
28 three tiers because the Company is no longer proposing a three part rate and, therefore, a
transitional rate would be unnecessary.

Proposed Default Two-Part Rate		
Basic Service Charge	\$10.00	
Energy Delivery		Tier Limit
0-400 kWh	\$ 0.034000	400
401-1,000 kWh	\$ 0.050000	1,000
Over 1,000 kWh	\$ 0.063000	
Base Power	\$ 0.055254	

The intervenors generally support rate options for customers as long as the customers are provided sufficient information to make informed choices and adequate tools to help them implement the choices. In the case of any time-of-use or three part rate options that the Commission may approve, there must be education and information provided to customers so that they understand the consequences of their choice. If it is not absolutely clear that they will have adequate information to make an informed choice, customers should be allowed to revert to the default rate or choose another option without time restriction or penalty. Alternatively, customers could be held harmless for a period of time from the consequences of any unanticipated impacts associated with their rate choice.

Intervenors support the development of well-designed time-of-use rates. It would make sense in this case, as the appropriate next step for UNSE residential customers, to provide a time-of-use rate alternative that would introduce customers to the idea of time sensitive rates, and for the Company to promote and provide education on the optional time-of-use rates. Intervenors do not support the Company's proposed time-of-use rates because the summer on-peak period of 2:00 p.m. to 8:00 p.m. and the two four-hour winter on-peak periods are far too long. The on-peak periods should only be three hours in length, in summer and winter, so that customers are better able to adjust their schedules and their energy use. A summer on-peak period of six hours will be difficult for customers to manage and will undermine the introduction of time sensitive

1 rates. Intervenor's Initial Brief at 22. See also RUCO's Closing Brief at 15 ("More simplified
 2 offerings, including a TOU rate with a shorter on-peak period, will simplify customer
 3 communications, boost enrollment, and insure overall effectiveness.")

4
 5 Below is a voluntary residential time-of-use rate with the \$10 basic service charge,
 6 shorter on-peak periods consisting of a three-hour summer on-peak period (4:00 p.m. to 7:00
 7 p.m.) and two three-hour winter on-peak periods (6:00 a.m. to 9:00 a.m., and 6:00 p.m. to 9:00
 8 p.m.), and the three tiered rate structure for energy delivery. This voluntary rate is designed to
 9 recover the Company's revenue requirement in this case. Under this rate, customers who choose
 10 to be on the time-of-use rate would be better able to adjust their energy use, and they would
 11 make adjustments for shorter periods of time during the on-peak times coincident with system
 12 peak demand. Therefore this rate design would be more effective for customers and for reducing
 13 peak demand on the UNSE system. This voluntary time-of-use rate design would also mitigate
 14 the bill impacts due to the rate increase for lower usage and low-income customers who chose to
 15 be on the rate.
 16
 17

18

Proposed Voluntary 2-Part TOU Rate		
Basic Service Charge	\$10.00	
Energy Delivery		Tier Limit
0-400 kWh	\$ 0.034000	400
401-1,000 kWh	\$ 0.050000	1,000
Over 1,000 kWh	\$ 0.063000	
Base Power	Summer	Winter
On-Peak	\$ 0.150000	\$ 0.090000
Off-Peak	\$ 0.043500	\$ 0.043100
PPFAC	0.0000%	

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 25 **IV. ENERGY EFFICIENCY IN BASE RATES**

26
 27 SWEEP proposed recovering energy efficiency costs in base rates so that it is treated the
 28 same as the Company's other energy resources, as a core resource for meeting customers' energy

1 needs. See Intervenor's Initial Brief at 23. SWEEP proposed that the Commission approve \$5
2 million in base rates as part of this proceeding. The Commission's review and approval of
3 energy efficiency programs would still be done in the DSM implementation plan process and the
4 current DSM adjustor mechanism should remain intact but be used as an adjustor to recover or
5 refund any energy efficiency funding amounts above or below the \$5 million in base rates.
6

7 The Company acknowledges that SWEEP's proposal has no impact on customer bills.
8 Instead, the Company argues that the DSM surcharge provides ratepayers "with important
9 information on the investments being made in energy efficiency programs." UNSE Brief at 61.
10 Of course, the same can be said for any other energy resource expenditure the Company makes
11 but fails to include as a separate item on the customer's bill. If transparency is the goal, then it is
12 unfair and illogical to single out only energy efficiency among the Company's many energy
13 resources on the customer's bill.
14

15
16 **V. CARES RATES**

17 ACAA supports the CARES rate proposed by RUCO in its initial brief,² with a fixed
18 charge of \$6.13. This proposal does the best job of protecting low-income customers from
19 exorbitant electricity rates. However, ACAA would offer one modification: in lieu of the current
20 CARES discount (percentage based on usage, with a flat discount for customers over 1000
21 kWh), we would propose a flat discount of \$12 per month for CARES customers and \$24 per
22 month for CARES-Medical customers. The company proposed a flat discount to decrease the
23 administrative burden of CARES, which we believe is a reasonable request. We also agree
24 with RUCO's proposal that CARES customers remain on a separate rate structure. Low-income
25 customers have unique needs and concerns, and they are best served on their own rate schedule.
26
27

28 ² <http://images.edocket.azcc.gov/docketpdf/0000169917.pdf>

1 If the Company's proposal is selected, the CARES rate will need to be enlarged in order
2 to provide a similar level of protection to low-income customers. The two-part CARES rate
3 proposed by the Company in its initial brief would result in an 11% increase on the CARES
4 customer class. In order to hold the CARES class harmless, the CARES discount would need to
5 be \$23 per month, instead of the \$16 per month proposed by UNSE. The CARES-Medical
6 discount would remain at \$28 per month. It is in the public interest to choose rates that require a
7 smaller discount to make low-income bills affordable, which is why RUCO's proposal should be
8 adopted.
9

10
11 **A. Monitoring CARES Customers**

12 In its brief, Staff proposed to "to monitor the CARES program during the final rate
13 design development." Staff was not clear as to what that monitoring may entail. At the very
14 least, it should include monitoring CARES enrollment (to measure the discrepancy between
15 enrolled customers and likely eligible customers), monitoring bill impacts and total revenue
16 collected from the CARES class, comparing it to what's expected, and if necessary, having tools
17 available to increase assistance to CARES customers in the event they are impacted at a higher
18 rate than expected.
19

20
21 **B. Elimination of the Third Tier**

22 ACAA is against removing the third tier, as it would disproportionately affect low-
23 income customers. Of the CARES customer population, 75% of the customers use less than
24 1000 kWh, while 69% of the customers on the RES-01 tariff use less than 1000 kWh.
25 Eliminating the third tier would redistribute these costs among low-use customers, who are
26 already doing everything they can to conserve to keep their bills down. If RUCO'S proposal is
27 not adopted, and CARES customers are not maintained on a separate class, then this change will
28

1 affect all low-income customers served by UNSE. Low-income customers use less electricity
2 than average households in an attempt to keep their bills affordable, and it would stymie their
3 efforts if the highest-tier was eliminated and those costs were redistributed among the lower-use
4 customers.
5

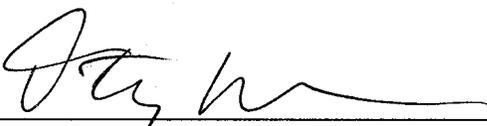
6 **C. Energy Efficiency in Base Rates**

7 ACAA is sympathetic to SWEEP's request to include energy efficiency in base rates.
8 Energy efficiency is a least-cost resource,³ and it benefits low-income customers to maximize the
9 adoption of least-cost resources. However, customers on the CARES rates are currently exempt
10 from paying the DSM fee, so including this in the base rates would have the effect of raising
11 rates on low-income customers. This can be addressed through the CARES rates design by not
12 including any DSM costs for low-income customers in the CARES rates or through an
13 adjustment of the CARES rates.
14

15 **D. Auto-Enrollment.**

16 ACAA renews its request for the Company to implement auto-enrollment in the CARES
17 program for their low-income customers receiving bill assistance. Based on the experience of
18 SRP, ACAA anticipates an increase in participation of approximately 3.5%, or 210 customers.
19

20 RESPECTFULLY submitted this 11th day of May, 2016
21

22
23 
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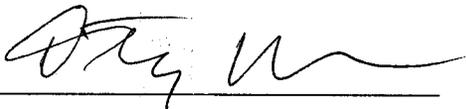
3 <https://www.lazard.com/media/2390/lazards-levelized-cost-of-energy-analysis-90.pdf>

1 ORIGINAL and 13 COPIES of
2 the foregoing filed this 11th day
3 of May, 2016, with:

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12 All Parties of Record

13 
14 _____