ORIGINAL

0000170271

RECEIVED

2016 MAY 11 P 4: 24

AZ CORP COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

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 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 REPLY BRIEF OF UNS ELECTRIC**

UNS Electric, Inc., through undersigned counsel, submits its Reply Brief, a copy of which is attached.

RESPECTFULLY SUBMITTED this 11th day of May, 2016.

UNS ELECTRIC, INC.

By [signature]

Bradley S. Carroll
UNS Electric, Inc.
88 East Broadway, MS HQE910
P.O. Box 711
Tucson, Arizona 85702

and

Arizona Corporation Commission
DOCKETED
MAY 11 2016
DOCKETED BY

Michael W. Patten
Timothy J. Sabo
Jason D. Gellman
Snell & Wilmer L.L.P.
One Arizona Center
400 East Van Buren Street
Phoenix, Arizona 85004

Attorneys for UNS Electric, Inc.

Original and 13 copies of the foregoing filed this 11th day of May 2016, with:

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

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

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

Brian E. Smith
Bridget A. Humphrey
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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

Copy of the foregoing mailed and/or emailed this 11th day of May 2016, to:

Daniel Pozefsky
Residential Utility Consumer Office
1110 West Washington Street, Ste. 220
Phoenix, Arizona 85007
dpozefsky@azruco.com
Consented To Service By Email

Nucor Steel Kingman LLC
c/o Doug Adams
3000 W. Old Hwy 66
Kingman, Arizona 86413

Eric J. Lacey
Stone Mattheis Xenopoulos & Brew, PC
1025 Thomas Jefferson Street, NW
8th Floor, West Tower
Washington DC 20007-5201
EJL@smxblaw.com
Consented To Service By Email

Robert J. Metli
Munger Chadwick PLC
2398 East Camelback Road, Suite 240
Phoenix, Arizona 85016
rjmetli@mungerchadwick.com
Consented To Service By Email

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

Court S. Rich
Rose Law Group pc
7144 E. Stetson Drive, Suite 300
Scottsdale, Arizona 85251
crich@roselawgroup.com
Consented To Service By Email

Thomas A. Loquvam
Melissa M. Krueger
Pinnacle West Capital Corporation
P.O. Box 53999, MS 8695
Phoenix, Arizona 85072-3999
Thomas.loquvam@pinnaclewest.com
Melissa.Krueger@pinnaclewest.com
Consented To Service By Email

Gregory Bernosky
Arizona Public Service Company
P.O. Box 53999. MS 9712
Phoenix, Arizona 85072-3999
gregory.bernosky@aps.com

Rick Gilliam
Director of Research and Analysis
The Vote Solar Initiative
1120 Pearl Street, Suite 200
Boulder, Colorado 80302
rick@votesolar.com
Consented To Service By Email

Briana Kobor, Program Director
Vote Solar
360 22^{nd} Street, Suite 730
Oakland, CA 94612
briana@votesolar.com
Consented To Service By Email

Jill Tauber
Chinyere A. Osula
Earthjustice Washington, DC Office
1625 Massachusetts Avenue, NW, Suite 702
Washington, DC 20036-2212
jtauber@earthjustice.org
Consented To Service By Email

Ken Wilson
Western Resource Advocates
2260 Baseline Road, Suite 200
Boulder, Colorado 80302
ken.wilson@westernresources.org
Consented To Service By Email

Scott Wakefield
Hienton & Curry, P.L.L.C.
5045 N. 12^{th} Street, Suite 110
Phoenix, Arizona 85014-3302

Steve W. Chriss
Senior Manager, Energy Regulatory Analysis
Wal-Mart Stores, Inc.
2011 S.E. 10^{th} Street
Bentonville, AR 72716-0550
Stephen.Chriss@wal-mart.com

Timothy M. Hogan
Arizona Center for Law in the Public Interest
514 W. Roosevelt Street
Phoenix, Arizona 85003
thogan@aclpi.org
Consented To Service By Email

Michael Alan Hiatt
Katie Dittelberger
Earthjustice
633 17^{th} Street, Suite 1600
Denver, Colorado 80202
mhiatt@earthjustice.com
kdittelberger@earthjustice.com
Consented To Service By Email

Jeff Schlegel
SWEEP Arizona Representative
1167 W. Samalayuca Dr.
Tucson, Arizona 85704
schlegelj@aol.com

Ellen Zuckerman
SWEEP Senior Associate
4231 E. Catalina Dr.
Phoenix, Arizona 85018
ezuckerman@swenergy.org

C. Webb Crockett
Patrick Black
Fennemore Craig, PC
2394 East Camelback Road, Suite 600
Phoenix, Arizona 85016
wcrockett@fclaw.com
pblack@fclaw.com
Consented To Service By Email

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

Meghan H. Grabel
Osborn Maladon, PA
2929 North Central Avenue
Phoenix, Arizona 85012
mgrabel@omlaw.com
Consented To Service By Email

Gary Yaquinto, President & CEO
Arizona Investment Council
2100 North Central Avenue, Suite 210
Phoenix, Arizona 85004
gyaquinto@arizonaaic.org
Consented To Service By Email

Cynthia Zwick
Arizona Community Action Association
2700 North 3rd Street, Suite 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
craig.marks@azbar.org
Consented To Service By Email

Pat Quinn
President and Managing Partner
Arizona Utility Ratepayer Alliance
5521 E. Cholla Street
Scottsdale, Arizona 85254
patt.quinn47474@gmail.com

Jeffrey W. Crockett
Crockett Law Group PLLC
2198 East Camelback Road, Suite 305
Phoenix, Arizona 85016
jeff@jeffcrockettlaw.com
Consented To Service By Email

Kirby Chapman, CPA
Chief Financial and Administrative Officer
Sulphur Springs Valley Electric Cooperative, Inc.
311 E. Wilcox
Sierra Vista, Arizona 85650
kchapman@ssvec.com
Consented To Service By Email

Mark Holohan, Chairman
Arizona Solar Energy Industries Association
2122 W. Lone Cactus Dr., Suite 2
Phoenix, Arizona 85027

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

Vincent Nitido
Trico Electric Cooperative, Inc.
8600 West Tangerine Road
Marana, Arizona 85653
vnitido@trico.coop

Jason Y. Moyes
Jay I. Moyes
Moyes Sellers & Hendricks
1850 N. Central Ave., Suite 1100
Phoenix, Arizona 85004
jasonmoyes@law-msh.com
kes@drsaline.com
jimoyes@law-msh.com
Consented To Service By Email

By Jaclyn Howard

BEFORE THE ARIZONA CORPORATION COMMISSION

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 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 UNS ELECTRIC, INC.

MAY 11, 2016

TABLE OF CONTENTS

Exhibits:

I. INTRODUCTION.

The Initial Briefs of many of the parties reflect their goals of supporting a continuation of the status quo to benefit their particular business interests or request changes that would only benefit their particular interests. In both instances, achievement of these goals would come at the expense of UNS Electric, Inc. ("UNS Electric" or "Company") and a majority of its customers. Fortunately, the Arizona Corporation Commission ("Commission") has Constitutionally-mandated obligations to utilities and the customers they serve that should form the basis of the decision in this docket.

UNS Electric's objectives in filing this rate case are approval of a just and reasonable revenue requirement, and approval of an appropriate rate design that provides the Company a reasonable opportunity to collect the revenue requirement. Although there is little in dispute with respect to revenue requirement, much dispute remains about rate design. The Company has demonstrated throughout this proceeding that its proposals, taken as a whole and on balance, are fair to all its customers and not just select customer groups or interests. In doing so, the Company has been flexible in its approach and willing to put forth various options.

Through its application to the Commission in this docket, UNS Electric has made proposals that it believes are necessary to recover its revenue requirement and to provide safe and reliable service to all of its customers at just and reasonable rates. Proposals on rate design and net metering proffered by solar industry Intervenors were either designed to maintain the status quo or lacked mechanisms and specificity to address the distributed generation ("DG") cost shift and/or provide the Company a reasonable opportunity to recover its revenue requirement. It is now up to the Commission to consider the Company's proposals, as well as the proposals of the other parties in this docket, and decide what it believes to be in the public interest and results in just and reasonable rates.

Many Intervenors have inappropriately vilified the Company for attempting to take a fair and balanced approach and, in doing so, have mischaracterized evidence. This vitriolic rhetoric has not been constructive. For example, TASC's opening brief stated that "UNS Electric's motives" in this case are to "decimate" the solar industry. However, what the Company's proposals seek is to mitigate unfair and inequitable cost shifting that harms the vast majority of its customers; this motive is consistent with sound Commission policy and the public interest. TASC further stated, without any citation to the record, that the Company "testified that it would prefer to monopolize the solar industry through increased adoption of utility-scale solar at the expense of DG."[1] TASC also claims that the Company stated "it believe[s] that the transition for the customers [to three part rates] will be very difficult."[2] The cited transcript only stated that Mr. Hutchens did not perceive that the education process would be easy or simple, that the Company understands customers will need a tremendous amount of outreach, that the Company intends to provide such outreach and that much of the outreach would be to undo the scare tactics about what three-part rates is actually about.[3] And Vote Solar claims that UNS Electric "implies that Vote Solar and other parties have acted in bad faith by not proposing their own alternatives to net metering."[4] However, in the cited support, Mr. Hutchens states only that "The testimonies filed by the Alliance for Solar Choice ("TASC"), Vote Solar and the Arizona Utility Ratepayer Alliance ("AURA") ignore the very real cost shift that is occurring between DG and non-DG customers. Their testimonies also failed to offer any alternatives to the Company's net metering proposal."[5] And Mr. Dukes stated only that the Company was willing to consider other net metering proposals but that "with the exception of RUCO, none of the other parties in this proceeding provided any new net metering proposals or alternatives in their testimony."[6] He then went on to discuss that a new net metering tariff could be considered in this rate case.[7] Assertions or implications of bad faith are nowhere to be found.

Unlike most of the other initial briefs that were filed, the Company believes it has set forth a comprehensive and reasonable approach for the Commission to analyze the issues based

[1] TASC Brief at 3.
[2] TASC Brief at 15.
[3] Tr. (Hutchens) at 423:5-12.
[4] Vote Solar Brief at 11.
[5] Ex. UNSE-4 (Hutchens Rebuttal) at 4:9-12.
[6] Ex. UNSE-29 (Dukes Rebuttal) at 20:12-15.
[7] Ex. UNSE-29 (Dukes Rebuttal) at 20:16 to 21:4.

on the evidence and sound public policy. This Reply Brief primarily rebuts various positions taken by other parties, and also re-emphasizes key points that the Company believes are important for the Commission to consider.

However, the Company is not addressing every point or argument in its Initial Brief; and the Company relies on its Initial Brief for all points not modified or conceded in this Reply Brief.

II. REVENUE REQUIREMENT.

Based on initial briefing, there appear to be only two issues that potentially impact the revenue requirement: (i) TASC's position on the Return on Equity ("ROE") and (ii) SWEEP's request to include a portion of the cost of UNS Electric's energy efficiency programs in base rates. Although TASC's position could result in decreasing the revenue requirement, TASC has not expressly opposed the $15.1 million non-fuel revenue requirement increase that Staff, RUCO and UNS Electric have agreed upon. SWEEP's position would grow the proposed increase in the non-fuel revenue requirement by more than 30% and essentially eliminate any transparency to customers regarding UNS Electric's investments in energy efficiency ("EE") programs. For the reasons set forth in its Initial Brief, the Company opposes both positions.

A. Cost of Equity.

TASC proposes a cost of equity that is well below the range of authorized ROEs established for vertically integrated electric utilities. TASC's suggestion that the change in UNS Electric's credit rating should be reflected in the cost of equity is not substantiated in the data. Indeed, the authorized ROEs for the A-rated proxy companies in TASC witness Woolridge's proxy group were not lower than the average of the group and certainly not in the range of the 8.75% cost of equity TASC recommends.[8]

Moreover, contrary to TASC's assertions, interest rates are not falling. In fact, the exhibits to witness Woolridge's pre-filed testimony show that Moody's A rated and Baa rated utility bond rates are increasing.[9] Also, credit spreads are increasing.[10] Woolridge himself acknowledges that

[8] Ex. UNSE-44 (Table of Authorized ROEs).
[9] Ex. TASC-22 (Woolridge Direct), Ex. JRW-3.
[10] Ex. TASC-22 (Woolridge Direct), Ex. JRW-3 (Panel B)

interest rates will be increasing by relying on a 4% risk free rate in his CAPM analysis[11] when the data suggests that the risk-free rate was approximately 2.75% (A-rated utility bond yield at approx. 4.5% less 1.75% spread = 2.75% risk-free rate).[12] Applying the current risk free rate of 2.75% to Woolridge's CAPM would result in an cost of equity of 6.88%, which is so low as to be unreasonable, even by his standards.

In contrast, the cost of equity agreed to by the Company, Staff and RUCO of 9.50% is at the low end of the authorized ROEs for Woolridge's proxy group.[13] Furthermore, the 10.35% recommendation of UNS Electric witness Bulkley is well within the range established by the authorized ROEs for the Woolridge proxy group.[14] Accordingly, TASC's recommended cost of equity is not supported by the weight of the evidence. In contrast, the 9.5% cost of equity is supported by the testimony of Staff's, RUCO's, Wal-Mart's and the Company's witnesses.

B. Other Revenue Requirement Issues.

SWEEP proposes to add $5 million to base rates to fund a portion of the Company's EE programs.[15] UNS Electric believes that costs incurred to meet the EE Standard should continue to be recovered through the DSM surcharge, as is current practice. This increases transparency to customers about the energy efficiency costs they are paying, which would be lost if a significant portion of those costs were lumped into base rates. Any deviation from this practice should be considered a policy decision for the Commission.

III. REVENUE ALLOCATION.

It appears that the parties who addressed this issue support a transition towards class revenue allocations that reflect the actual class cost of service study. For example, Staff indicates that "rates should be based on costs, with a long-term goal of gradually moving all classes to cost of service."[16] Larger customer classes seek a greater movement towards such

---

[11] Ex. TASC-22 (Woolridge Direct), Ex. JRW-10.
[12] Ex. TASC-22 (Woolridge Direct), Ex. JRW-3.
[13] Ex. UNSE-24 (Bulkley Rejoinder), Ex. AEB-2.
[14] Ex. UNSE-24 (Bulkley Rejoinder), Ex. AEB-2; see UNSE-44 (Table of Authorized ROEs).
[15] SWEEP Brief at 23-25.
[16] Staff Brief at 8.

parity than either Staff or the Company.[17] The Company's proposal on class revenue allocation is somewhere between the proposals of Staff and the parties representing large customers. RUCO did not take a position on revenue allocation.

As set forth in its Initial Brief, UNS Electric believes its proposal takes the necessary first step in moving class cost of service allocations in the right direction and provides the best opportunity to reach parity in the next rate case. Ultimately, how quickly to move toward revenue allocation parity is a policy call for the Commission.

IV. RATE DESIGN.

There does not appear to be any dispute that, under current rate design, UNS Electric recovers a significant portion of its fixed costs through volumetric rates. Given the evolving use of UNS Electric's grid, the current rate design results in increasingly inequitable recovery of fixed costs from customers who rely upon the grid for safe and reliable service. Cross-subsidies result when some customers are not paying their fair share of fixed costs. UNS Electric's proposed rate design changes are intended to: (i) begin to reduce the amount of fixed costs recovered through volumetric rates; (ii) better align rate design with cost causation and reduce inter- and intra-class inequities; (iii) reduce the level of cross-subsidies among customers; (iv) enhance the Company's ability to recover its fixed costs; and (v) provide the Company with a more realistic opportunity to achieve it annual revenue requirement.

However, several parties resist any rate design changes that will begin to better match cost causation to cost recovery and to reduce the amount of fixed costs that are recovered through volumetric rates. Indeed, some parties argue for rate design that would recover <u>more</u> fixed costs through volumetric rates, which would only exacerbate the current inequitable recovery of fixed costs and resulting cross-subsidies. This mismatch between costs and revenues leads to inappropriate price signals and the inability of the Company to recover its revenue requirement due to declining kWh use per customer. UNS Electric believes its rate design proposals are a reasonable and gradual step towards more equitable fixed cost recovery and a

---

[17] See, e.g., Walmart Brief at 2-3; Nucor Brief at 12-13; Freeport/AECC/Noble Brief at 17-18.

more modern and appropriate rate structure. Staff has supported the key elements of this proposal as well.

A. Monthly Customer Charge.

The uncontroverted evidence in this case establishes that the fixed monthly cost to serve the average residential customer is approximately $55.[18] The Company's proposed basic service charges are designed to recover costs that utilities incur each month, which includes meters, billing and collection, meter reading, the service line or drop and the other components needed to form the minimum system.[19] Staff agrees that recovery of these minimum system costs through the basic service charge is appropriate.[20] This proposal helps recover fixed costs through a fixed charge. Even with the Company's proposed increase in the basic service charge from $10 to $15 for residential customers, UNS Electric will still be recovering $40 per month of its fixed costs through volumetric rates.[21]

Several parties argue that the minimum system cost approach is improper and that the basic customer method be used. However, the basic customer method greatly underestimates the unavoidable fixed system costs needed to serve a customer. It also ignores the increasingly diverse use of the grid that makes recovery of fixed costs through volumetric rates inequitable. The basic customer method simply is not a method that uses accurate cost causation assumptions or information[22], which results in an under-recovery of customer-related costs.

Concerns that increasing the basic service charge will reduce customer incentives to conserve energy are simply a red herring. Because there is a revenue requirement increase, the increased basic service charge only covers a portion of the increase for the average customer. Indeed, the volumetric rate - which is asserted to be the driver for conservation – will actually be

---

[18] See UNSE-32 (Jones Direct) at 41; Ex. UNSE-2 (Schedule G-6-1 at Sheet 1 of 1), updated in April 4, 2016 Notice of Filing Updated Schedules.
[19] See Ex. UNSE-28 (Dukes Direct) at 17; Ex. S-5 (Solganick Rate) at 28; Ex. UNSE-35 (Overcast Rejoinder) at 8-9.
[20] See Ex. S-5 (Solganick Rate) at 28; Tr. (Solganick) at 2838; Tr. (Solganick) at 2839.
[21] See UNSE-32 (Jones Direct) at 41.
[22] Ex. UNSE-35 (Overcast Rejoinder) at 10.

slightly higher as well.[23] Customers will continue to have plenty of incentive to conserve even with the increased basic service charge.

B. Reducing the Number of Volumetric Tiers.

UNS Electric has proposed eliminating the third volumetric tier for its residential rates. While a third tier may have been appropriate during times of customer load growth and before the proliferation of DG and EE, it is no longer appropriate given the significant changes in circumstances in UNS Electric's service territory. Opponents of eliminating the third volumetric tier argue that doing would reduce the incentive for customers to adopt DG or EE. However, the record is clear that eliminating the third tier better aligns the rate design with cost-causation[24] and reduces the excess recovery of fixed costs from customers whose usage pushed into the third tier.[25] The third tier is a significant driver of intra-class cross-subsidization and has contributed to the Company's inability to earn its Commission-authorized revenue requirement.[26] Moreover, under the Company's standard residential rate proposal, the volumetric rate in the second tier is almost identical to the rate in the current third tier, so customers will have basically the same incentive to conserve.[27]

The record also shows that three-tiered rates are not helpful to customers. Staff witness Solganick believes that "the present three-tier rate structure offers bewildering steps to determine the value of energy saved by the customer's choice [to reduce consumption]."[28] UNS Electric receives many customer complaints, particularly in the summertime, when customers hit the third tier and see that they have to pay higher rates when they use more energy.[29] The Company is not proposing to eliminate all tiers at this time, but eliminating the third tier will mitigate issues about inequitable fixed cost recovery and cross-subsidies.

---

[23] See UNS Electric Initial Brief, Exhibit 1.
[24] Ex. UNSE-31 (Jones Direct) at 42.
[25] Ex. UNSE-31 (Jones Direct) at 42.
[26] See Ex. UNSE-29 (Dukes Rebuttal) at 16.
[27] See UNS Electric Initial Brief, Exhibit 1.
[28] Tr. (Solganick) at 2715; see also Tr. (Solganick) at 2755-56.
[29] Tr. (Smith) at 669-70.

Staff also has indicated that elimination of the third tier in a two-part rate would be appropriate if the Commission did not adopt three-part rates for all residential customers.[30]

C. Mandatory Three-Part Rates for DG Customers.

The solar advocates raise several concerns about demand rates, but offer no specific solutions to the challenges created by DG and other issues regarding inequitable and inadequate recovery of the fixed costs of the grid. In effect, they press to maintain the status quo on a rate design which is no longer reasonable or in the overall public interest.

1. Impacts of DG should be addressed now.

The solar advocates assert that the DG rate design issues do not need to be addressed now because only 2% of UNS Electric customers are solar DG customers and their impacts on the Company are minimal at this time. But the number of solar DG customers is rapidly growing, and a rate designed to recover a fair share of fixed costs from these customers should be approved in this case, before the problem gets further out of hand. Apparently, the solar advocates believe that the Commission should wait until the Company's next rate case before addressing fixed cost recovery from DG customers and the related cost shift. However, both Staff and RUCO agree with UNS Electric that we need to begin developing solutions in this rate case. Staff has proposed mandatory three-part rates (or modifications to net metering if DG customers remain on two part rates).[31] RUCO has proposed several DG-only rates that would begin to recover additional fixed costs from DG customers and mitigate the cost shift.[32] The Company has proposed mandatory three-part rates for DG customers.

Because DG customers are only a small portion of the Company's customers, this is an opportune time to address the related cost recovery and fairness issues while they remain manageable. The current level of lost fixed cost recovery and related cost shift allows some flexibility in how to handle economic decisions of current DG customers without unduly

[30] Tr. (Broderick) at 3713.
[31] Staff Brief at 5-7, 15-16.
[32] RUCO Brief at 10-15.

burdening non-DG customers. Indeed, RUCO also believes the Commission should act now while "the cost shift for these customers is still manageable."[33]

The record is clear that DG deployment is increasing exponentially.[34] And the size of the installed DG systems has been increasing.[35] If the Commission provides an additional window of time (between now and the next rate case) for customers to install DG with the potential of grandfathering, DG deployment may increase even more rapidly (similar to the spikes before the federal tax credit was due to expire).

The record is also clear that over 50% of DG customer bills reflect zero kWh usage (an average of 6.8 bills per DG customer per year), as opposed to less than 2% of non-DG customer bills).[36] Moreover, the Company's analysis shows that DG customers avoid paying their share of grid costs due to the two-part volumetric rate combined with net metering (and are thereby subsidized) by more than $642 per year for a 7kW solar PV system.[37] Ultimately, the 98% of customers that do not have DG systems must pay for this subsidy. It is common sense to adopt appropriate rate design sooner rather than later to mitigate this problem.

Solar advocates have urged this Commission in the past to address the cost shift resulting from DG in a rate case because there are more ratemaking tools, including rate design, available to the Commission. The Company, Staff and RUCO have proposed different solutions to the DG cost shift, using a variety of these tools. Solar advocates now simply urge the Commission to delay addressing the cost shift, presumably to the Company's next rate case.

Moreover, the solar advocates desire to kick the can down the road conflicts with their vehement insistence that any and all DG customers be grandfathered onto the current rate design and the current net metering tariff. Both TASC and Vote Solar are relatively vague as to what aspects of rate design should be grandfathered. For example, it is not clear if they expect to be

---

[33] RUCO Brief at 2.

[34] See Ex. UNSE-25 (Tilghman Direct) at 3.

[35] See Ex. UNSE-25 (Tilghman Direct) at 3.

[36] See Ex. UNSE-35 (Overcast Rejoinder) at 19.

[37] Ex. UNSE-34 (Overcast Rebuttal) at 15-19. Although Vote Solar witness Kobor repeatedly stated that the Company did not conduct a study, Dr. Overcast did conduct a study as set forth in his rebuttal testimony.

held harmless (now or in the future) from any increase in the monthly customer charge or from any modification of the volumetric tiers. This is also the appropriate time to clarify the proper scope of grandfathering for current DG customers and for future DG customers. Such guidance would include how long the subsidy under net metering will be permitted and whether it is reasonable for solar DG customers to continue to shift significant costs to other customers over the life of the solar DG investments. And such guidance would allow customers to make better informed decisions about DG and help avoid disputes over grandfathering with respect to DG customers in the future. As discussed below, the Company agrees to some level of grandfathering. However, if we wait to address these issues until there is a higher penetration of DG, grandfathering may no longer be an option unless the Commission is willing to lock in a much higher cost shift to non-DG customers.

2. DG Customers are different from Non-DG customers.

Solar advocates argue that many other customers also do not cover their fair share of fixed charges. Other rate design changes being proposed here, such as the increased monthly charge and fewer volumetric tiers, help move those customers closer to covering their fixed costs. However, as noted in the Company's Initial Brief, DG customers place different demands on the grid than other low-use customers and require additional steps to remedy inequitable fixed cost recovery. Indeed, the actual demands that these low usage homes are placing on the grid are minimal. Conversely, a DG customer that has a net zero consumption bill, or is otherwise considered low usage, uses the grid in a very different manner than the home that is seasonal or vacant. Vacant or seasonal homes have low, steady and predictable energy demand regardless of the weather or time of day. However, the utility must stand ready, willing and able to supply the full energy needs of DG users instantaneously if their systems cannot meet their energy needs.[38]

The low usage DG customer is heavily relying on the grid 24 hours a day, 7 days week. Not only do they take energy from the grid, <u>but they also push energy back onto the grid.</u>[39] DG

[38] Tr. (Tilghman) at 679-80.
[39] Ex. UNSE-25 (Tilghman Direct) at 4-6.

customers also place additional costs on the grid in many ways, including additional maintenance costs from reverse flow caused by excess energy being pushed back onto the grid, and increased ancillary services — such as load balancing, frequency support, voltage support, spinning reserves and non-spinning reserves — needed due to the intermittent nature of solar DG and the utility's inability to monitor and control the solar DG systems.[40]

3. Demand Rates are not unduly confusing or burdensome.

Commission Staff has proposed three-part rates for all residential customers and believes such rate design can be implemented with an adequate transition and customer education period. Other rate designs, such as a minimum bill, would also require extensive education and outreach. And the Company intends to conduct any transition and education that the Commission believes appropriate and necessary with respect to three-part rates.

TASC's concern about customers being able to understand or manage energy usage under three-part rates is somewhat ironic, particularly with respect to DG customers. Many DG customers have signed a lengthy and detailed solar lease.[41] Is TASC asserting that DG customers can understand the solar lease but will not be able to understand how to manage their energy usage to reduce demand charges? Moreover, every DG customer has made a decision to invest thousands of dollars and make a long-term commitment in a rooftop system. As a result, DG customers are likely much more sensitized to their energy usage.

Finally, the record shows that at least two electric cooperatives – which are member-owned and member-governed -- have adopted mandatory three-part rates for all members, not just DG members.[42]

4. Other DG Rate Design Options.

The Company believes that DG customers are clearly different from non-DG customers. Accordingly, their rates should reflect that difference.

---

[40] Ex. UNSE-25 (Tilghman Direct) at 4-6.
[41] See Ex. UNSE-43 (SolarCity Lease).
[42] See Ex. UNSE-38 (Mid-Carolina Electric Cooperative materials regarding three-part rates); Ex. UNSE-34 (Overcast Rebuttal), Ex. HEO-5 (Butler Electric Cooperative materials regarding three-part rates).

RUCO, recognizing that DG customers are different from non-DG customers and should be subject to different rates, has proposed several rate options for DG customers. UNS Electric appreciates RUCO's proposals; however it believes they are either complicated as compared to the Company's three-part rate or do not sufficiently remedy the fixed cost recovery issues created by DG customers.

Other parties have urged the Commission to consider TOU rates or minimum bill proposals to address the fixed cost recovery problems created by DG customers. However, none of those proposals have been sufficiently detailed to be adopted here. Moreover, the proposals do not sufficiently remedy the fixed cost recovery issues created by DG customers. Energy based TOU rates or minimum bill proposals to not solve the fundamental fixed cost recovery issue because they perpetuate the problem of volumetric recovery of fixed costs.

Should the Commission decide to offer an option for DG customers in addition to three-part rates, the Company believes that such option should be the Company's proposed two-part TOU rate, coupled with the elimination of banking for DG customers and the implementation of a $6.95 additional metering charge.[43] Even the solar advocates have supported TOU rates for DG customers and have suggested that TOU rates would better address the Company's concerns.

Since the two-part TOU rate still recovers the majority of fixed costs through volumetric rates and substantially limit the fixed costs recovered from DG customers, and considering the fact that DG customers require an additional meter, the Commission should also approve an additional meter-related charge of $6.95 per month for DG customers under Section 2305 of the Net Metering Rules (A.A.C. R14-2-2305). The cost of service study for residential customers assumes only one meter per customer and the residential rates are based on that assumption. DG customers should pay for their fixed costs of the additional meter. As set forth in the Company's cost of service study, the fixed costs of a meter total $6.95 and cover: (i) the meter ($1.58); (ii) billing and collection ($4.37) (for DG production meters, the Company has costs of offsetting

[43] Any rate options for DG customers must, at a minimum, eliminate all kWh banking.

production from consumption and calculating credits); and (iii) meter reading ($1.00).[44] The second meter creates fixed cost caused solely by DG customers. A demand charge for DG customers arguably covers some of this DG-specific cost. Therefore, should the Commission desire a two-part rate option for DG customers, the DG customers would have a choice between: (i) the two-part TOU rate plus the $6.95/month charge or (ii) one of the two three-part rate options. Under either option, all kWh banking of excess DG system output should be eliminated as described below.

V. UNS Electric's Net Metering Tariff must be reformed.

A. The current net metering tariff is unfair to 98% of customers.

TASC argues that UNS Electric's—now withdrawn—rate design proposals are a "utility executive's dream."[45] In reality, the current flawed net metering tariff is a solar executive's dream. The export price for DG solar power sent to the grid is far higher than the wholesale or market cost of solar power. Indeed, the current export price is approximately double the wholesale cost. Who wouldn't want to charge twice the market rate if they could? The problem is that this inflated cost is borne by the non-DG customers receiving this electricity. About 98% of UNS Electric's customers are not solar DG customers.[46] It is this vast majority of customers that are being forced to pay double the market rate for solar electricity without compelling justification.

TASC argues that this twice-the-market rate is fair because it is the retail rate for energy. But the volumetric (kWh) rate for power includes a vast amount of fixed costs that do not change regardless of whether DG solar is purchased or not. The only costs that a purchase of DG energy avoids are the variable costs of power (fuel or purchased power). The fixed costs of power generation are not avoided, because those generation assets must stand ready to provide power when DG solar is not available. And the costs of poles, wires, transformers are not avoided by buying DG solar power. Because purchased solar DG power is simply a type of wholesale power

---

[44] See updated Schedule G-6-1, Sheet 1 of 1, docketed on April 4, 2016 (a copy of the pertinent sheet from the cost of service study is attached at **Exhibit R-1)**.
[45] TASC Brief at 1.
[46] Tr. (Huber) at 2267.

that does not avoid these fixed costs, the true comparison is to the wholesale cost of power. While the wholesale power costs included in the PPFAC would be a reasonable proxy, UNS Electric has proposed the higher cost of wholesale solar power to recognize the environmental benefits of solar. While wholesale solar power is still more expensive than conventional generation, it remains far less expensive than DG solar. Even Vote Solar concedes that utility scale solar is more "cost effective".[47]

B. DG solar is not more valuable than utility scale solar.

TASC and Vote Solar argue that the comparison to wholesale solar power prices is irrelevant because rooftop solar DG provides additional value to the grid beyond the value provided by utility scale solar. This supposed additional value is illusory.

For example, TASC argues that "environmental externalities" must be considered.[48] That would be a valid argument if the comparison were to the costs of fossil fuel generation. But the comparison here is to utility scale solar, which provides the same environmental benefits—no emissions, and thus no particulates added to the air and no contribution to global warming—as solar DG. There is simply no additional environmental value to a solar panel installed on a residential rooftop, as opposed to a utility scale site. If anything, rooftop solar has a lower environmental value. For example, a solar panel mounted on a single-axis tracker in a utility scale facility will have a higher output than the same panel mounted in a fixed position on a rooftop; the first panel will thus offset more generation and reduce more emissions. Even a fixed panel in a utility scale facility can have more value, as it can be oriented to the west to increase production during the system peak in late afternoon—peak power is the most expensive and least efficient (and thus highly carbon intensive). In short, putting a solar panel on a roof does not increase its environmental value.

TASC points to alleged savings in generation capacity, transmission capacity, and distribution capacity.[49] But these "savings" do not exist. Solar DG customers have similar

---

[47] Vote Solar Brief at 15.
[48] TASC Brief at 6-7.
[49] TASC Brief at 6-7.

demand (that is, they use similar amounts of capacity) as regular residential customers.[50] Although solar DG customers use less energy (kWh) generated by the utility's system, their peak use remains similar, so they need all the power plants, wires, poles and transformers that a regular customer needs. This is because rooftop solar output is low when the system peaks in the late afternoon and early evening.

TASC and Vote Solar point to a number of alleged differences between rooftop solar and utility scale solar.[51] Vote Solar claims DG solar is "different".[52] It is different—it is more expensive. But the differences suggested by Vote Solar and TASC do not withstand scrutiny. For example, they argue that solar DG has only one possible buyer. In reality, tens of thousands of regular customers are being forced to buy excess solar DG output at twice the market price. TASC and Vote Solar argue generation and transmission costs are lower. TASC and Vote Solar argue generation and transmission costs are lower. As shown above, that's not correct. Next, TASC and Vote Solar point to line losses. But line losses also occur when DG solar power is pushed onto the grid.[53]

TASC and Vote Solar argue that there is less need for ancillary grid services. In reality, solar DG requires a full suite of ancillary services to be integrated into the grid— such as load balancing, frequency support, voltage support, spinning reserves and non-spinning reserves —due to the intermittent nature of solar DG and the utility's inability to monitor and control solar DG systems.[54] While utility scale solar is also intermittent (at least for photovoltaic as opposed to CSP), the utility has the ability to monitor and control these systems. Thus, while both types of solar require ancillary services, those services are certainly not less expensive for DG solar.

TASC and Vote Solar tout the "geographic diversity" of solar DG as a benefit over utility scale solar. But utility scale solar facilities are not all clustered together; they are also spread out at various sites. Indeed, because utility scale solar power can be sent through the transmission

[50] See Ex. UNSE-34 (Overcast Rebuttal) at 9-12.
[51] Vote Solar Brief at 15; TASC Brief at 11.
[52] Vote Solar Brief at 15.
[53] See Ex. UNSE-26 (Tilghman Rebuttal) at 11.
[54] Ex. UNSE-25 (Tilghman Direct) at 4-6.

system, UNS Electric can purchase utility scale solar from providers outside its service territory. So utility scale solar power can be obtained from a much larger geographic area compared to UNS Electric's relatively small service areas in Mohave and Santa Cruz Counties. Further, if it is cloudy in Santa Cruz County, a sunny day for rooftop solar in Mohave County isn't going to help, because solar DG is not sent through the transmission system. Rather, rooftop solar is only pushed out to the local distribution system—in the same neighborhood and likely under the same clouds.

Next, TASC and Vote Solar extol the greater employment opportunities for rooftop solar compared to utility scale solar. While additional employment is a laudable goal, is it good public policy to support that goal through subsides paid by non-DG customers for the same resource that can be procured at a fraction of the cost of rooftop solar? For example, a recent ASU study concludes that solar DG could cost Arizona 76,308 job years of employment and would reduce gross state product by $21.6 billion over 30 years.[55]

Perhaps recognizing that the argument for rooftop solar will not be won with economics, Vote Solar uses analogies to suggest differences between utility scale solar and rooftop solar: "just as a local "mom-and-pop" restaurant is not identical to a chain restaurant, and a local brewery's beer is not the same as a Bud Light."[56] These analogies perhaps reveal too much about the class politics underlying the solar DG movement. But whatever your beer preferences, rooftop solar electricity cannot be compared to a craft beer. Electricity from rooftop solar is not artisanal electricity, it is just electricity. Indeed, as Vote Solar itself states "customers are indifferent to, and unaware of, whether the electrons they are consuming come from their neighbor's DG system or a distant power plant."[57] So why should rooftop solar cost regular customers twice as much as utility scale solar, when they have the same environmental benefits? There is no reason.

---

[55] James, Evans and Mwaniki-Lyman, "The Economic Impact of Distributed Solar in the APS Service Territory, 2016-2035", L. William Seidman Research Institute, W. P. Cary School of Business, Arizona State University, February 16, 20016, at page 7. The figures are for the expected or medium case scenario. The study is attached to Ex. APS-1 (Brown Surrebuttal) as Attachment ACB – 2SR.

[56] Vote Solar Brief at 16.

[57] Vote Solar Brief at 18.

C. Banking is unreasonable and should be eliminated.

The "banking" feature of the net metering tariff is likewise unreasonable. It misleads customers about their true energy costs, and it gives the incorrect impression that energy produced today can be saved for use months later.[58] The solar Intervenors' support for banking is ironic, given their support for TOU pricing.[59] As TOU rates recognize, power costs vary dramatically throughout the day. Power costs also vary significantly by season. A kWh of power produced at noon on a bright spring day (when system use would be moderate and DG at its maximum production) has a very different value than a kWh produced at 5 p.m. on a hot August day (when solar DG output is low and the system is near its peak). Correspondingly, a kWh produced in the middle of winter, banked, and then used as an offset to a kWh consumed from the utility during the summer peak has a very different value than a kWh produced in the summer. Banking ignores these realities.

D. TASC's tax issue is speculative and unsupported.

TASC speculates that lowering the price of exported rooftop power could raise some type of tax issue.[60] TASC cites to the testimony of their witness, Mr. Fulmer, who states that "he understands there to be concerns around taxation."[61] Mr. Fulmer has engineering degrees and is "an energy consultant".[62] He is not a tax expert. He does not cite the Internal Revenue Code, nor the Treasury Regulations, nor any IRS guidance documents or Private Letter Rulings. Without any information about the basis of his "concerns", his testimony is unsubstantiated and carries no weight. The Commission should not adopt net metering policies on the basis of what the IRS *might or might not* do in the future.[63]

---

[58] Ex. UNSE-28 (Dukes Direct) at 20.
[59] See TASC Brief at 34-35; Vote Solar Brief at 46.
[60] TASC Brief at 12.
[61] Ex. TASC-20 (Fulmer Rate) at 6; see also Tr. (Fulmer) at 3375-76.
[62] Ex. TASC-19 (Fulmer Direct) at 6.
[63] If the IRS were to adopt positions that impacted net metering, there is nothing that precludes a party from asking the Commission to address any such impacts should the need ever arise.

E. **The time to fix the net metering tariff is now.**

TASC and Vote Solar argue that any changes to the net metering tariff should not be decided in this case, and should instead wait for the outcome of the Value of Solar case. Yet these are the same parties that vociferously argued that changes to the net metering tariff could only be heard in a rate case. For example, TASC argued that net metering changes "cannot be heard outside a rate case."[64] Likewise, Vote Solar argued that net metering issues "should be addressed in a rate case, where a comprehensive examination of cost allocation across all customer classes and rate designs of all types can occur and the full value of DG can be considered."[65] The Company relied on these statements in withdrawing the applications to change TEP's and UNS Electric's net metering tariffs, and to pursue those changes in rate cases instead. Undoubtedly, if UNS Electric were to wait until after the Value of Solar proceedings to request a change in a new docket, TASC and Vote Solar would rediscover the importance of the comprehensive review that only a rate case can provide. This about-face must be rejected. A rate case provides a comprehensive look at the Company and is certainly an appropriate forum to set a net metering rate.

Further, the timing and outcome of the Value of Solar proceeding is unknown. The Commission is not required to take any action in such generic dockets, and there is no "time clock" rule that applies. The Commission may adopt a specific generic value of solar, or specific values for each company, or a specific methodology for determining the value of solar, or perhaps only general guidelines, or could say these issues should be resolved in rate cases, or it could do nothing. Regardless, if the Commission does make some type of decision in the Value of Solar docket, that decision can be applied to UNS Electric's future rate cases. This rate case has been pending for more than a year, and has been delayed long enough. The net metering issue and the other issues in this case should be decided on the record before the Commission in this docket.

---

[64] TASC Initial Brief in the TEP Net Metering Docket (Docket No. E-01933A-15-0100) dated May 15, 2015 at page 1 (emphasis in original).

[65] Vote Solar Brief in the TEP Net Metering Docket (Docket No. E-01933A-15-0100) dated May 15, 2015 at pages 1-2

F. The proposed Renewable Credit Rate (RCR) is reasonable.

TASC argues that UNS Electric's proposed mechanism for calculating the Renewable Credit Rate (RCR) creates uncertainty because the rate will be reset periodically (perhaps once a year).[66] TASC argues that utility scale PPAs are typically long term. Similarly, Vote Solar suggests that if the RCR is adopted, customers should be able to lock in their rate for 20 years.[67] UNS Electric is open to this suggestion, and would not oppose allowing such an option to customers. Alternatively, the RCR could be reset in each rate case. UNS Electric's concern is not how often the net metering export rate is set, but rather that the rate should reflect the reality that exported DG solar is a wholesale power resource that should be priced at a wholesale rate. Moreover, Staff witness Broderick testified that banking should be eliminated and replaced with an RCR of at least $0.07 per kWh which is near the mid-point between the retail rate and the short-term avoided cost rate for UNS Electric.[68]

G. The net metering rules do not require a one-for-one offset.

TASC and Vote Solar argue that the net metering rules require the retail rate to be used for exported power, i.e. a one-for-one offset to DG customers' bill.[69] For example, Vote Solar witness Kobor argues that rules require a "one-to-one retail rate offset",[70] citing A.A.C. R14-2-2306(C). Ms. Kobor's interpretation should be rejected. Rule 2306(C) requires that the "net kWh supplied by the Electric Utility" shall be billed in accordance with the "standard rate schedule." It says nothing about the whether the offset should be done on a one-to-one basis, or at some other ratio.

Likewise, Ms. Kobor contends that the definition of "net metering" requires a one-to-one offset,[71] citing A.A.C. R14-2-2302(11). But this definition merely states that "net metering" means "service to an Electric Utility Customer under which energy generated by [the customer] …

---

[66] TASC Brief at 10.
[67] Vote Solar Brief at 19.
[68] Staff Brief at 15-16
[69] TASC Brief at 9; Vote Solar Brief at 3.
[70] Ex. Vote Solar-6 (Kobor Direct) at 32:3-17, citing R14-2-2306(C).
[71] Ex. Vote Solar-6 (Kobor Direct) at 24:4-16.

may be used to offset electric energy provided by the Electric Utility".[72] While this clearly contemplates some type of offset, the offset ratio or rate is not specified.

In short, the Net Metering Rules do not expressly require a one-for-one offset. Indeed, Ms. Kobor testified that "I am not sure exactly what would be considered net metering, not net metering."[73] Further, the rules contemplate that other ratios may be employed. For example, the rules specify that net metering tariffs "may include seasonally and time of day differentiated Avoided Cost rates for purchases from Net Metering Customers, to the extent that Avoided Costs vary by season and time of day.[74]

Ms. Kobor also argues that separate rates for DG customers would violate A.A.C. R14-2-2305.[75] This rule simply requires that rate changes applying only to net metering customers "shall be fully supported with cost of service studies and benefit/cost analyses." The rule does not even require such changes to be filed in a rate case. Here, UNS Electric submitted the proposed changes in a full general rate case, and included in its filing a full cost of service study as well as extensive testimony on the costs and benefits of DG systems.[76] UNS Electric has complied with Rule 2305.

For these reasons, with the exception of the banking provision, UNS Electric's net metering proposals—including Riders R-10 and R-11—are consistent with the Commission's net metering rules. UNS Electric requests a waiver of the banking provision of Rule 2306. However, to the extent the Commission agrees with Ms. Kobor's interpretations of Rules 2302, 2305 or 2306, UNS Electric also requests a waiver of those rules, and a waiver of any other rules needed to allow these riders to take effect.

---

[72] A.A.C. R14-2-2302(11).
[73] Tr. (Kobor) at 2158:1-4.
[74] A.A.C. R14-2-2307(C).
[75] Ex. Vote Solar-6 (Kobor Direct) at 50:7-19.
[76] See, e.g., Ex. UNSE-25 (Tilghman Direct) at 4-8; Ex. UNSE-31 (Jones Direct) at 8-31; Ex. UNSE-28 (Dukes Direct) at 19-23.

H. The Commission has the authority to waive the net metering rules.

TASC and Vote Solar argue that the Commission has no power to waive the net metering rules. They point to the lack of any specific provision in the rules for a waiver.[77] However, the Commission does not require a specific rule to grant a waiver.

Historically, to avoid any doubt on the matter, the Commission included a waiver rule or subsection in each of its sets of rules.[78] However, beginning with the slamming and cramming rules in 2004, Attorney General Goddard began to refuse to certify rules that contained waiver provisions.[79] While the Commission removed the waiver language from the rule, it continued to assert authority to grant waivers of the slamming and cramming rules, and the Commission has in fact issued dozens of waivers of these rules.[80] For example, the Commission discussed the lack of a waiver provision in connection with a reorganization of Qwest Corp. and determined that a waiver should nevertheless be granted.[81] The Commission Staff has also taken the position that "case law supports the proposition that the Commission can always waive application of its own rules", even if there is no express rule allowing a waiver.[82]

Due to the Attorney General's opposition, the Commission for a number of years did not include express waiver provision in new rules. The net metering rules were adopted in this timeframe and thus did not include a waiver rule. But the Commission made clear that waivers would still be allowed. For example, during the open meeting on net metering, the Commission's Chief Counsel, Chris Kempley, explained that "but as you know the Commission retains the

---

[77] TASC Opening Brief at 7-8; Vote Solar Br. at 12.

[78] See e.g. A.A.C. R14-2-103(B)(6); R14-2-212(I); R14-2-312(I); R14-2-411(F); R14-2-510(I); R14-2-610(F); R14-2-702(C); R14-2-806; R14-2-909; R14-2-1014; R14-2-1115(I); R14-2-1202(C), (D); R14-2-1311; R14-2-1614(C).

[79] See Decision No. 66967 (May 11, 2004) at Findings of Fact No. 8 and 9 (approving amendments to rules requested by Attorney General); Letter from Attorney General Terry Godard dated May 20, 2004, attached to May 26, 2004 letter from Chairman Spitzer in Docket No. RT-0000J-99-0034.

[80] See e.g. Decision No. 67460 (Jan. 4, 2005); Decision No. 67827 (May 5, 2005); Decision No. 68347 (Dec. 9, 2005); Decision No. 68606 (March 23, 2006); Decision No. 68965 (Sept. 21, 2006); Decision No. 75159 (July 15, 2015); Decision No. 75410 (January 19, 2016).

[81] Decision No. 70706 (Jan. 20, 2009) at Findings of Fact Nos. 45-49.

[82] "Staff's Filing Regarding the Applicants' Request for a Limited Waiver of the Slamming Rules", Docket No. T-01051B-07-0527, filed June 11, 2008.

authority to waive its rules or to impose in specific instances specific requirements that might be at variance with the rules."[83] He also noted:

> You retain the ability to waive your rule where appropriate or to approve specific proposals from the utilities that are at variance with your rules, and that can -- you know, that can affect how costs are recovered. Again, I think it's important to think about the rules more as the big picture guidelines that you are setting up rather than trying to think of every individual possibility that might occur. Because you will always have those special cases that are brought to you for waiver … .[84]

The Commission's ability to waive the rules was also made clear during the rules hearing:

> ALJ WOLFE: Would Staff entertain the possibility of a request for a waiver from the rules if someone found that to be necessary?
>
> MR. ABINAH: …
>
> Any company can come to the Commission and ask for a waiver, and at that point we would review the waiver and make our recommendation. That's not precluding TEP or any other company to seek for a waiver, if that's necessary. We look at the waiver and we look at the conditions. So the answer is, yes, if the company believes a waiver is necessary, they can come to the Commission and request for one.[85]

Thus, the Commission has been clear from the onset that it may waive the net metering rules.

In addition, the net metering rules provide for a net metering tariff. Tariffs have the force of law and bind the utility and the public at large, not just customers. *US Airways, Inc. v. Qwest Corp.*, 722 Ariz. Adv. Rep. 12, ¶¶ 11-16, 361 P.3d 942, 945-47 (App. 2015). Because both tariffs and rules have the force of law, the Commission has typically treated the tariff as controlling. *See e.g.* A.A.C. R14-2-212(I). Indeed, UNS Electric's Rules and Regulations Tariff provides that "In case of any conflict between these Rules and Regulations and the Arizona Corporation

[83] May 11, 2008 Open Meeting Transcript, Docket RE-00000A-07-0608 at pages 24-25.
[84] May 11, 2008 Open Meeting Transcript, Docket RE-00000A-07-0608 at page 32.
[85] June 5, 2008 Hearing Transcript, Docket RE-00000A-07-0608 at page 95.

Commission's rules, these Rules and Regulations will apply."[86] The principle that a tariff trumps a rule is presumably based on tariffs typically being more specific and more recent than the corresponding rule. In fact, in this very rate case, as it has routinely in past rate cases for UNS Electric and TEP, the Company is seeking changes to its Rules and Regulations which are in effect, waivers of the provisions of the Arizona Administrative Code.

I. Grandfathering.

There is widespread agreement that if the net metering rate is changed, some DG customers should be grandfathered. UNS Electric supports grandfathering and has proposed the grandfathering date of June 1, 2015. This is because as of three months prior to this date and thereafter, new DG customers were provided a written notice that they were required to sign, acknowledging that the rate could be changed in the future. This date is also supported by RUCO.[87]

Vote Solar claims that using this as the grandfather date is somehow retroactive ratemaking.[88] Vote Solar has confused the grandfathering date with the effective date of new rates. The new rates, including any new net metering tariff, will only take effect on a specific effective date stated in the rate order, after the rates are approved at open meeting. The grandfathering date provides the cut-off for customers that are exempt from the new rate. No customer will be charged the new net metering rate until after the Commission approves the new rate and not until the effective date specified by the Commission.

Staff recommends two mitigation measures for DG customers in lieu of grandfathering.[89] The Company believes its grandfathering proposal provides more appropriate relief to pre-June 1, 2015 DG customers than Staff's 15% bill credit.[90] The Company also opposes Staff's post-June 1,

---

[86] UNS Electric, Inc. Rules and Regulations, Section 1(F), Original Sheet 901, Effective January 1, 2014.
[87] RUCO Brief at 17.
[88] Vote Solar Brief at 25-31.
[89] Staff Brief 14-15.
[90] Ex. UNSE-33 (Jones Rejoinder) at 12-13.

2015 mitigation of a $400 per kW subsidy, which would be paid by non-DG customers through the REST or some other similar mechanism.[91]

VI. BUY-THROUGH TARIFF.

UNS Electric continues to oppose approval of the "buy through" tariff, even with modifications suggested by the parties that will benefit from the tariff. Freeport[92] and Wal-Mart continue to push for a special deal for themselves under the "buy through" tariff. They seek to use this tariff to hoard much of UNS Electric's low-cost purchased power resources for themselves, while forcing other customers to rely on higher-cost resources. Yet when the market turns and prices increase, they expect UNS Electric to stand ready to provide them all the power they need. This scheme is not in the public interest and should be rejected.

Freeport argues that a buy through tariff is needed to retain large customers.[93] But a buy through tariff is a poor economic development tool. It shifts costs to other customers, and it does not generate new revenue or increased efficiency for the system. In contrast, UNS Electric's proposed Economic Development Rider is specifically designed to shield customers from the costs, while boosting revenue and increasing system efficiency by attracting high load factor customers.

If competitiveness is the concern, reducing the subsidy the commercial and industrial classes pay by adopting a more balanced class revenue allocation that moves all classes towards parity (a unitized rate of return of 1.00) is the best solution. This will broadly benefit all commercial and industrial customers, and indeed, in the long run all customers benefit from a rate structure where costs and prices are matched. Further, the Commission should continue its policies that have allowed Arizona to retain lower power prices than California, such as avoiding costly government mandates, allowing necessary facilities to be built, and opposing federal rules

[91] See Ex. UNSE-33 (Jones Rejoinder) at 13; Tr. (Broderick) at 3709-11.
[92] Freeport Minerals Corporation, Arizonans for Electric Choice and Competition and Noble Americas Energy Solutions, LLC (collectively, "Freeport").
[93] Freeport/AECC/Noble Brief at 7.

that increase costs. A balanced rate structure combined with low underlying power prices will allow Arizona to stay competitive.

Moreover, the buy through tariff will benefit only a select few customers, with other customers picking up the bill. Freeport tries to sidestep this issue with its convoluted funding mechanism. Freeport claims that "all cost responsibility for a buy-through" falls on "program-eligible customers."[94] Translated, this means other commercial and industrial customers will pay more—as Freeport concedes, noting that "it is true that customers in the MGS, LGS and LPS [classes] would receive a slightly lower rate absence the funding proposed for the buy-through program."[95] As Staff witness Solganick and UNS Electric witness Jones explain, Freeport's funding mechanism increases rates for other customers in these classes.[96]

Wal-Mart's funding mechanism is no better. Wal-Mart would simply allocate UNS Electric's lowest cost resource—purchased power—to itself thus increasing the average cost of power for all other customers, including residential customers.[97]

Freeport claims that a competitive electric market is required in Arizona under A.R.S. § 40-202(B). Freeport's reliance on A.R.S. § 40-202(B) is mistaken. Assuming that this statute does not intrude into the Commission's exclusive constitutional ratemaking powers, the Legislature has allowed competition only to entities certificated by the Commission. A.R.S. §§ 40-207(A); 40-208. No entities have the required certificates. All previous competitive certificates issued by the Commission were declared unconstitutional because the Commission failed to consider fair value in approving the certificates. *Phelps Dodge Corp. v. Arizona Elec. Power Co-op., Inc.,* 207 Ariz. 95, 105-06, ¶¶ 23-24, 83 P.3d 573, 583-84 (App. 2004), as amended on denial of reconsideration (Mar. 15, 2004). It is undisputed that no new certificates have been issued. Thus, no entities may provide competitive services.

---

[94] Freeport/AECC/Noble Brief at 12.
[95] Freeport/AECC/Noble Brief at 13.
[96] Ex. UNSE-32 (Jones Rebuttal) at 49; Tr. (Solganick) at 2741.
[97] Tr. at (Solganick) at 2741.

Wal-Mart argues that all commercial and industrial customers should be eligible for the buy-through tariff.[98] It also argues that the cap should be increased from 10 MW to 150 MW.[99] Both changes expand a deeply flawed tariff. If this experimental tariff is approved, it should be strictly limited to staunch the harm to other customers.

Wal-Mart argues that an increased cap will shelter other customers from the market—even though Wal-Mart spends much of its brief extolling the benefits of the market.[100] In short, Wal-Mart and Freeport want to reap the benefits of current, low market prices for themselves, while retaining the right to return to regulated rates if prices go up—a flawed game they win no matter what happens.

Approval of the buy-through tariff puts the Commission in a position of picking "winners" and "losers". UNS Electric firmly opposes the buy through tariff, and it should be rejected by the Commission.

VII. ECONOMIC DEVELOPMENT RATE.

In the opening briefs, three parties expressly supported the Economic Development Rate ("EDR").[101] Two parties (Nucor and FPAA) appeared to support the EDR but recommended modifications to the tariff. FPAA has requested that the Company consider reducing the qualifying load factor to provide more flexibility in the EDR's applicability.[102] Although the Company may consider such flexibility in the future, it prefers the current tariff structure for this new program. Depending on the success of the EDR, future changes may be appropriate. Nucor has requested clarification to certain provisions of the EDR tariff. The Company believes that the tariff language provides sufficient guidance regarding applicability. Should the Company experience difficulties in administering the EDR, it will seek modification of the tariff before the Commission.

---

[98] Wal-Mart Brief at 5.
[99] Wal-Mart Brief at 6.
[100] Wal-Mart Brief at 6 ("sheltering") and 5 (touting benefits of market).
[101] Staff Brief at 16; Walmart Brief at 7; AIC Brief at 29.
[102] FPAA Brief at 10.

VIII. OTHER TARIFF ISSUES.

A. LPS TOU Tariff.

Nucor has two complaints about the Company's LPS TOU tariff. First, Nucor seeks to modify how UNS Electric calculates the demand charges applied to industrial customers which would have the effect of lowering its electric bill at the expense of the other three customers in the LPS rate class. UNS Electric is not proposing any changes to the methodology for demand charges approved in the Company's last rate case. As Nucor acknowledges, the Company evaluated Nucor's proposal to use a 4CP method to determine billing demand;[103] however, the Company continues to believe that industrial demand rates should combine costs based on both the system's non-coincident peak and coincident peak.[104] Nucor may be confusing the billing determinants used for setting rates within a customer class with the method for allocating revenues among customer classes. As Mr. Jones explained, once the revenue is allocated to a customer class (the Company has proposed a reduced allocation of revenue to this class), billing determinants are used to derive the rates for that class – and you look at coincident peak and non-coincident peak costs.[105] UNS Electric's demand rate calculation appropriately uses both.[106]

Second, Nucor does not like the differential between the on-peak and off-peak energy rates. UNS Electric has proposed to reduce the differential between on-peak and off-peak energy rates to better reflect the difference between the marginal cost of energy purchased on-peak versus off-peak.[107] The Company does not incur a substantial difference in the marginal cost of such purchases.[108] Nucor requests that the Commission retain the current, higher differential between on-peak and off-peak energy rates. However, Nucor's proposal ignores the actual differential between the marginal costs; indeed, the differential should be even less than the Company is proposing.[109] Moreover, as UNS Electric witness Jones explained, the current off-

---

[103] Nucor Brief at 4.
[104] Ex. UNSE-34 (Jones Rebuttal) at 32.
[105] Tr. (Jones) at 2613-16.
[106] See Ex. UNSE-33 (Jones Direct), Ex. CAJ-3, Sheet No. 302-1.
[107] Ex. UNSE-34 (Jones Rebuttal) at 32.
[108] Ex. UNSE-34 (Jones Rebuttal) at 32.
[109] Ex. UNSE-34 (Jones Rebuttal) at 32.

peak energy rate is basically the same as the current marginal cost of energy and, as a result, there was no contribution to the Company's margin from LPS TOU off-peak energy sales.[110] The Company's proposal is fair to all customers, whereas Nucor's proposal would allow Nucor to pay less than the marginal cost of energy during off-peak periods and push such recovery onto other customers.

B. Interruptible Tariff Option.

As set forth in its Initial Brief, UNS Electric has proposed a new Interruptible Rider and to freeze the current Interruptible tariff.[111] Staff supports this proposal.[112] However, Nucor seeks to modify the proposed Interruptible Rider in a manner that would benefit Nucor but not provide any material benefits for the Company and its other customers.[113]

C. FPAA Rate Design.

As described in UNS Electric's Initial Brief, the Company is sympathetic to the issues raised by the Fresh Produce Association of the Americas ("FPAA") and has worked with FPAA to find solutions to the demand ratchet applied to its class of service. FPAA maintains that it is entitled to relief because "its members generally do not contribute to UNSE's overall system peak demand the same way the rest of the businesses in the Large General Service (and newly proposed Medium General Service) class do."[114] However, as more fully described in the Company's Initial Brief, FPAA's argument is mistaken as evidenced by FPAA's President, Lance Jungmeyer, who testified that their "season is growing, the vegetable produce season is growing greatly" and that the grape season extends through the first week of July.[115] Company witness Jones testified that the FPAA group peak is in June which is the same as the typical system peak in the Santa Cruz area.[116] FPAA witness Simer confirmed that these members have a June peak and that June is part

---

[110] See Tr. (Jones) at 2620-23.
[111] See UNS Electric Initial Brief at 38.
[112] Ex. S-5 (Solganick Rate) at 41.
[113] See Ex. UNSE-34 (Jones Rebuttal) at 32-33.
[114] FPAA Brief at 4-5.
[115] Tr. (Jungmeyer) at 3014.
[116] Ex. UNSE-32 (Jones Rebuttal) at 37.

of the summer cooling season for UNS Electric.[117] Given these facts, it is difficult for the Company to justify an intra-class subsidy to FPAA members when their load characteristics in terms of their impact to the system peak are similar to other customers in the class.

In its Initial Brief conclusion, FPAA states "Whether UNSE elects to treat FPAA members as a distinct rate class, offer FPAA economic incentives, eliminate the ratchet based on load-factor measurements, or otherwise modify the demand ratchet in some manner to more equitably reflect FPAA member contributions to the overall system peak, FPAA will continue to work with UNSE to consider all reasonable options.[118] Despite the Company's appreciation of FPAA's situation, each of the above alternatives outlined by FPAA would result in lower rates for FPAA members as a result of a cost shift to other UNS Electric customers. However, in its Initial Brief, the Company proposed to create a MGS rate tariff that would result in an under recovery of its revenue requirement by approximately $300,000. In order to recover this lost revenue, the Company proposed to treat this as a capacity purchase and be eligible for recovery through the PPFAC.[119] If the Commission chooses to provide FPAA with this option as a matter of policy, it will result in a cost shift to all UNS Electric customers since the lost revenue will be collected through the PPFAC.

IX. <u>The LFCR is constitutional and should be expanded to cover fixed generation costs.</u>

A. The LFCR is constitutional.

A key issue throughout this case has been UNS Electric's inability to recover fixed costs due to a rate design that relies heavily on volumetric energy charges to recover nearly all fixed costs from some customer classes and additional fixed costs from other classes. As volumetric use falls—partially in response to Commission requirements such as EE programs and solar DG–– these fixed costs, including those related to production and distribution, are not recovered. The Commission has for a number of years recognized this problem, and in its 2010 Policy Statement,

---

[117] Tr. (Simer) at 3029; see also Ex. FPAA-1 (Simer Direct) at 9, chart 1.
[118] FPAA Brief at 11.
[119] UNS Electric Initial Brief at 43.

the Commission approved the use of decoupled rate structures to address this problem.[120] Notably, the Commission recognized that decoupling mechanism were only part of the solution: "Utilities are encouraged to develop customer rate designs that support energy efficiency and work well in tandem with decoupling (or alternative mechanisms)."[121] Thus, a properly constructed rate design works together with a decoupling mechanism to allow a reasonable opportunity to recover fixed costs. Here, the Lost Fixed Cost Recovery Mechanism ("LFCR") is a partial decoupling mechanism. While the LFCR does not address all of the fixed cost problem, it is a key part of ensuring that UNS Electric has the opportunity to recover the fixed costs of providing its regulated services.

TASC argues that the LFCR "is likely unconstitutional."[122] Under the Arizona Constitution, "the commission is required to find the fair value of the company's property and use such finding as a rate base for the purpose of calculating what are just and reasonable rates." *Simms v. Round Valley Light & Power Co.*, 80 Ariz. 145, 151, 294 P.2d 378, 382 (1956). The LFCR was established in a rate case with a full fair value finding, and it is being reviewed and modified in this rate case, which will also include a full fair value finding. Thus, the LFCR complies with all constitutional requirements.

And by partly helping UNS Electric recover its fixed costs, the LFCR helps ensure that the Commission meets its constitutional obligation to approve just and reasonable rates, which "should meet the overall operating costs of the utility and produce a reasonable rate of return." *Consol. Water Utilities, Ltd. v. Arizona Corp. Comm'n*, 178 Ariz. 478, 482, 875 P.2d 137, 141 (App. 1993)(quotation marks and citation omitted). The Commission would risk error if it adopted rate schedules knowing that they would result in unrecovered fixed costs. *Consol. Water Utilities, Ltd* , 178 Ariz. at 485, 875 P.2d at 144 (rate schedules must be designed to meet the revenue requirement).

---

[120] "Final ACC Policy Statement regarding Utility Disincentives to Energy Efficiency and Decoupled Rate Structures", December 29, 2010, Docket Nos. E-00000J-08-0314 and G-00000C-08-0314.
[121] Id., at page 31, Policy Statement No. 7.
[122] TASC Brief at 36-37.

To the extent the LFCR is considered to be an adjustor mechanism, it meets all the requirements established in prior court decisions—it was established in a rate case, is based on specific costs, and it does not change the rate of return. *Scates v. Arizona Corp. Comm'n*, 118 Ariz. 531, 535, 578 P.2d 612, 616 (App. 1978)("When courts have upheld such automatic adjustment provisions, they have generally done so because the clauses are initially adopted as part of the utility's rate structure in accordance with all statutory and constitutional requirements and, further, because they are designed to insure that, through the adoption of a set formula geared to a specific readily identifiable cost, the utility's profit or rate of return does not change.")

B. The recent *RUCO v. ACC* decision does not invalidate the LFCR.

TASC suggests that the LFCR runs afoul of the recent Court of Appeals decision in *Residential Util. Consumer Office v. Arizona Corp. Comm'n*, 238 Ariz. 8, ¶ 50, 355 P.3d 610, 620 (App. 2015), review granted (Feb. 9, 2016). That decision found that the System Improvement Benefit ("SIB") mechanism this Commission approved for certain water companies violated the fair value section of the Arizona Constitution. *Id.* The Arizona Supreme Court granted review and heard oral argument on March 22, 2016. UNS Electric has joined in asking the Arizona Supreme Court to overrule the Court of Appeals.[123]

But an overruling is not needed to preserve the LFCR. The LFCR is far different from the SIB mechanism rejected by the Court of Appeals. The SIB mechanism involved utility plant added between rate cases, with annual surcharges increasing rates based on the additional rate base. Thus the SIB mechanism involved changes to rate base, as well as increases to revenue requirement. The LFCR does not have either of features. Indeed, the whole point of the LFCR was that it does not change the revenue requirement—instead, it is designed to help UNS Electric actually recover some of the fixed cost portion of the authorized revenue requirement. The Company's rate base, authorized expenses, rate of return and overall revenue requirement all remain unchanged by the LFCR. All the LFCR does is to adjust the volumetric rates to adjust for

[123] See Amicus Curiae Brief of Tucson Electric Power Company, UNS Gas, Inc. and UNS Electric, Inc., filed December 14, 2015 in Arizona Supreme Court Case No. CV-15-0281-PR.

some of the reduced kWh volume, in order to allow UNS Electric a better chance to recover *some* of the fixed costs already validated and approved in the rate order. Thus, to the extent the SIB mechanism is flawed, the LFCR does not share those flaws.

The Commission takes the same view. After the Court of Appeals opinion was issued, the Commission stayed all the pending SIB mechanisms.[124] In contrast, the LFCR mechanisms have remained in effect. For example, at the May 3, 2016 Open Meeting, the Commission approved an LFCR adjustment for APS.[125] The order approved by the Commission included the following Conclusion of Law:

> The LFCR does not implicate fair value considerations because it is a type of rate design mechanism intended to assist in the recovery of a previously authorized revenue requirement.[126]

As Commission Staff explained in that case:

> The LFCR mechanism is a rate design mechanism developed to ensure that the Company recovers a portion of its authorized fixed costs which it would otherwise not recover because of certain Commission policies which have the effect of lowering kwh consumption by customers, i.e., DG and EE. It does not implicate fair value considerations because it is a type of rate design mechanism intended to assist in the recovery of a previously authorized revenue requirement. There are also strict limits on the amount that is subject to the mechanism each year.... The fact that the LFCR is a rate design apparatus sets it apart and outside of the RUCO case, in Staffs opinion.[127]

Thus, the LFCR remains valid, regardless of whether the Arizona Supreme Court approves or rejects the SIB mechanism.

Finally, it is ironic and counter-intuitive that TASC is arguing for elimination of the LFCR as it is the mechanism that facilitates (in part) shielding solar DG customers from these fixed costs. If the Commission were to eliminate the LFCR, the Commission would need to take much

---

[124] See, e.g., Decision No. 75319 (Oct. 29, 2015)(staying SIB mechanism of Willow Valley Water Co., which had not been appealed).
[125] Docket No. E-01345A-11-0224.
[126] Staff Proposed Order, page 5, Conclusion of Law No. 4, as adopted by the Commission on May 3, 2016. The signed decision has not yet been docketed.
[127] Staff's Response to the Energy Freedom Coalition of America's Motion for Procedural Conference, filed March 7, 2016, Docket No. E-01345A-11-0224.

larger steps to require DG customers to pay their fair share of the fixed costs currently being paid by other customers through the LFCR.

C. Fixed generation costs should be included in the LFCR.

Because fixed generation costs are significant, and because falling volumetric use is resulting in unrecovered fixed generation costs, these costs should be included in the LFCR. Staff does not address this issue in its brief, and TASC simply notes, without explanation, that "the solar industry, Commission staff and RUCO all agree" that fixed generation costs should not be included.[128] The only party that provided a substantive argument against including generation costs in the LFCR in its brief was RUCO.[129] On brief, RUCO argues that UNS Electric can adjust its purchased power purchases, and that "purchased power is fungible". But UNS Electric is not seeking to recover purchased power costs through the LFCR; those costs are a simple flow through under the PPFAC. Rather, UNS Electric's proposal is to recover lost fixed costs of generation which "is necessary to meet current and anticipated load"; UNS Electric is obligated to meet this load as a regulated, vertically integrated utility.[130] These unrecovered fixed generation costs have been rising.[131] Any wholesale sales from these generation assets are already credited against the PPFAC.[132] Moreover, as indicated in the Company's Initial Brief, if there is any concern about double recovery as a result of the LFCR, the Company would simply credit any excess back to customers.

RUCO argues that including fixed generation costs would turn the LFCR into "a full decoupler", which "shifts the risk to the residential customers."[133] This issue is not about risk, but the recovery of costs. It is fundamental that the prudent costs of providing regulated utility service must be included in rates. These fixed generation costs should be recovered. With falling use by customers, these fixed costs will not be recovered unless those costs are included in the LFCR (or

---

[128] TASC Brief at 36.
[129] RUCO Brief at 17-18.
[130] Ex. UNSE-31 (Jones Direct) at 75.
[131] Ex. UNSE-31 (Jones Direct) at 74-75.
[132] Ex. UNSE-31 (Jones Direct) at 75.
[133] RUCO Brief at 18.

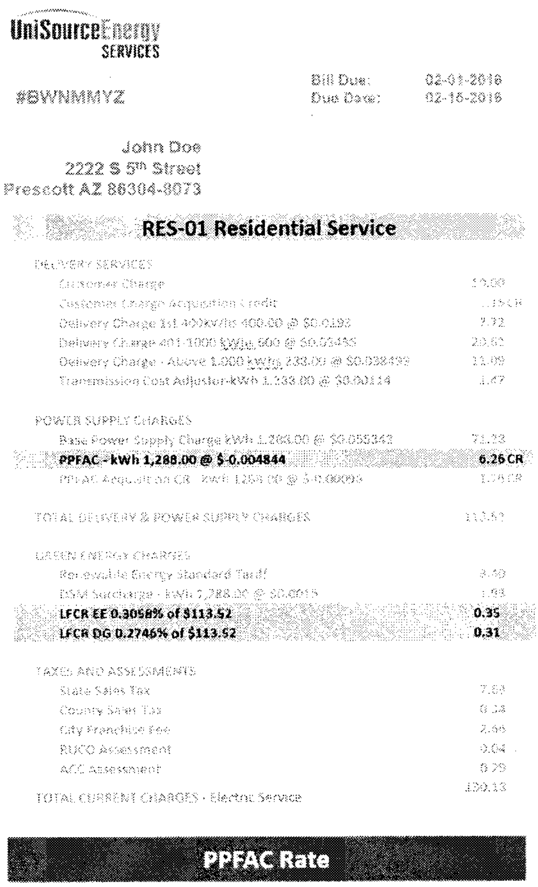
shifted to some non-volumetric type of rate, which has not been proposed here). And while there is nothing wrong with a full decoupling mechanism per se—and indeed SWEEP has proposed one in this case[134]—UNS Electric has not requested a full decupling mechanism in this case. Even if fixed generation costs are included in the LFCR, the LFCR will remain a partial decoupling mechanism.

X. PPFAC.

Staff confirms that a single issue remains regarding the PPFAC – the application of PPFAC recovery on a kWh basis vs. percentage rates.[135] Staff's concern is that the percentage rate adds unnecessary complexity and may shift costs.[136] First, the Company does not believe the percentage method adds complexity. The PPFAC will remain as a line item on the bill. *And other surcharges, such as the LFCR, are already assessed on a percentage basis.* The sample bills below provide a comparison between the PPFAC kWh rate and the PPFAC percentage rate and how they would be shown on customers' bills.

---

[134] Ex. SWEEP-2 (Schlegel Rate) at 12-14.
[135] Staff Opening Brief at 17.
[136] Staff Opening Brief at 17.



UniSource Energy SERVICES

#BWNMMYZ

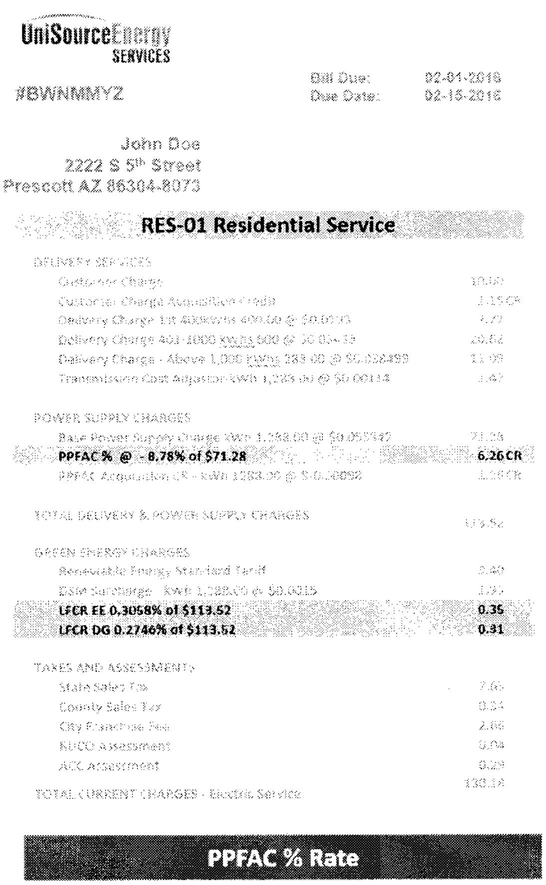
Bill Due: 02-01-2016
Due Date: 02-16-2016

John Doe
2222 S 5th Street
Prescott AZ 86304-8073

RES-01 Residential Service

DELIVERY SERVICES	
Customer Charge	10.00
Customer Charge Acquisition Credit	1.15 CR
Delivery Charge 1st 400kWh 400.00 @ $0.0193	7.72
Delivery Charge 401-1000 kWhs 600 @ $0.03435	20.62
Delivery Charge - Above 1,000 kWhs 288.00 @ $0.038499	11.09
Transmission Cost Adjustor-kWh 1,288.00 @ $0.00114	1.47
POWER SUPPLY CHARGES	
Base Power Supply Charge kWh 1,288.00 @ $0.055342	71.23
PPFAC - kWh 1,288.00 @ $-0.004844	**6.26 CR**
PPFAC Acquisition CR - kWh 1288.00 @ $-0.00098	1.26 CR
TOTAL DELIVERY & POWER SUPPLY CHARGES	113.52
GREEN ENERGY CHARGES	
Renewable Energy Standard Tariff	3.40
DSM Surcharge - kWh 1,288.00 @ $0.0015	1.93
LFCR EE 0.3058% of $113.52	**0.35**
LFCR DG 0.2746% of $113.52	**0.31**
TAXES AND ASSESSMENTS	
State Sales Tax	7.63
County Sales Tax	0.34
City Franchise Fee	2.66
RUCO Assessment	0.04
ACC Assessment	0.29
TOTAL CURRENT CHARGES - Electric Service	130.13

PPFAC Rate



UniSource Energy SERVICES

#BWNMMYZ

Bill Due: 02-01-2016
Due Date: 02-15-2016

John Doe
2222 S 5th Street
Prescott AZ 86304-8073

RES-01 Residential Service

DELIVERY SERVICES	
Customer Charge	10.00
Customer Charge Acquisition Credit	1.15 CR
Delivery Charge 1st 400kWhs 400.00 @ $0.0193	7.72
Delivery Charge 401-1000 kWhs 600 @ $0.03435	20.62
Delivery Charge - Above 1,000 kWhs 288.00 @ $0.038499	11.09
Transmission Cost Adjustor-kWh 1,288.00 @ $0.00114	1.47
POWER SUPPLY CHARGES	
Base Power Supply Charge kWh 1,288.00 @ $0.055342	71.28
PPFAC % @ - 8.78% of $71.28	**6.26 CR**
PPFAC Acquisition CR - kWh 1288.00 @ $-0.00092	1.18 CR
TOTAL DELIVERY & POWER SUPPLY CHARGES	113.52
GREEN ENERGY CHARGES	
Renewable Energy Standard Tariff	3.40
DSM Surcharge - kWh 1,288.00 @ $0.0015	1.93
LFCR EE 0.3058% of $113.52	**0.35**
LFCR DG 0.2746% of $113.52	**0.31**
TAXES AND ASSESSMENTS	
State Sales Tax	7.65
County Sales Tax	0.34
City Franchise Fee	2.66
RUCO Assessment	0.04
ACC Assessment	0.29
TOTAL CURRENT CHARGES - Electric Service	130.18

PPFAC % Rate

Second, the Company agrees that the percentage methodology will impose PPFAC costs slightly differently among customer classes – but in a more equitable manner. The current PPFAC rate methodology is applied on a dollar per kWh basis equally across all customer classes and rate schedules and has no relationship to the customer's original base power supply rate. In contrast to the Company's proposed PPFAC percentage rate methodology, the changes to the PPFAC are applied equitability across all rate classes, consistent with cost-of-service ratemaking principles. Finally, the Company will need to file a revised PPFAC POA to reflect both resolution of certain PPFAC issues between Staff and UNS Electric and the Commission's ultimate resolution of the issue regarding the form of the PPFAC rate. UNS Electric requests that the revised POA be required as a compliance filing in this docket.

XI. CARES.

ACAA sets forth several requests in its opening brief. First, ACAA requests that the Company streamline the CARES enrollment process by automatically enrolling customers who are already enrolled in other low income assistance programs and by increasing certain training for its Customer Service Representatives. The Company believes the proposals are worth further study.

Second, ACAA requests a separate CARES rate, instead of the proposed discount off standard residential rates. As set forth in the record and the Initial Brief, the Company's proposed discount will more than double the annual discount provided to CARES customers, assuming no change in CARES enrollment.[137] UNS Electric believes that its rate design proposal is simpler and easier to understand than the current structure of the CARES rate. Moreover, keeping the same rate structure (and thus bill format) will make it easier for these customers to understand their bills when they transition back to the standard residential tariff. Staff has indicated they support this method of providing discounts to the CARES customers.[138]

Third, ACAA misconstrues the Fortis Settlement in arguing that the settlement required UNS Electric to "hold harmless" all low income customers from any rate increase. The ACAA brief accurately quotes the Settlement Agreement, which does not say anything about holding low income customers harmless from rate increases. In the Fortis settlement, UNS Electric committed to "support . . . low income assistance programs at or above current levels." As set forth in the record, the proposed CARES discount more than doubles the assistance provided to CARES customers and clearly meets (and exceeds) the intent of the Fortis Settlement.

Fourth, the Company disagrees that CARES customers should be treated differently than other customers with respect to deposits.

Fifth, the Company believes that all customers should fund Commission-mandated energy efficiency through the DSM surcharge. Contrary to the assertion in the ACAA brief, low

---

[137] See Ex. UNSE-33 (Jones Rejoinder) at 5-6; Ex. UNSE-34 (Jones Rebuttal) at 37-39.
[138] See Staff Brief at 17.

income customers can participate in the Company's energy efficiency programs. UNS Electric has several residential programs and certainly does not exclude low income customers from participating in those program. However, whether to exempt CARES customers from the DSM surcharge is a policy decision for the Commission.

Finally, the Company stands by its positions set forth in its Initial Brief with respect to any potential expansion of CARES eligibility.

XII. DSM.

SWEEP requests that the Commission: (i) authorize the recovery of $5 million in EE program costs (nearly 80% of UNS Electric's $6.4 million annual budget) through base rates; (ii) require modifications to UNS Electric's customer bills, including the removal of the DSM line item; and (iii) modify the cost-effectiveness test for EE. First, as noted above in the Revenue Requirement section, recovery of EE costs through base rates is a policy issue for the Commission. Moreover, the Company already includes in base rates the cost of the employees that administer the EE programs. UNS Electric strongly opposes the inclusion of any additional EE program costs in base rates. Second, as long as UNS Electric has a DSM adjustor, it is obligated to include a line item for the related surcharge. SWEEP also has not provided sufficient detail on how the bill format should change. Third, UNS Electric believes that any modification to the EE cost-effectiveness test probably should be done in a generic docket or in an EE implementation plan docket.

XIII. PROPERTY TAX DEFERRAL.

In its opening brief, RUCO states (at page 18) that tax rates in Mohave County have not increased. This appears to be based solely on a review of the change in the Mohave County primary tax rate between 2014 and 2015. This assertion, however, ignores the trend of increasing rates from 2010-2014[139] as well as all other components of the Company's overall Mohave county property tax rates. The Mohave County primary tax rate is just one of numerous taxing jurisdictions which also include school districts, state equalization, community college, flood

---

[139] Ex. UNSE-14 (Rademacher Direct) at 16.

control, library, fire, joint technical, lighting, and irrigation districts. The Company's composite tax rate, which includes all of these taxing jurisdictions, has increased 15.5% from 2012 to 2015.[140] Therefore, for the reasons set forth in UNS Electric's Initial Brief, the Commission should authorize for future recovery both (1) one hundred percent of the property taxes above or below the test year amount of property taxes, caused by increases or decreases to UNS Electric's composite property tax rates; and (2) all property tax savings derived from appealing the property tax value of Gila River Unit 3, together with all attorney's fees, taxable costs, legal expenses and all other costs associated with the appeal process.

XIV. CONCLUSION.

UNS Electric requests that the Commission grant the relief set forth in its Initial Brief.

RESPECTFULLY SUBMITTED this 11th day of May, 2016.

UNS ELECTRIC, INC.

By ______________________

Bradley S. Carroll
UNS Electric, Inc.
88 East Broadway, MS HQE910
P.O. Box 711
Tucson, Arizona 85702

and

Michael W. Patten
Timothy J. Sabo
Jason D. Gellman
Snell & Wilmer L.L.P.
One Arizona Center
400 East Van Buren Street
Phoenix, Arizona 85004

Attorneys for UNS Electric, Inc.

[140] Ex. UNSE-14 (Rademacher Direct) at 17.

Exhibit R-1

SCHEDULE G-6-1
SHEET 1 OF 1
REVISED 4-01-16

UNS ELECTRIC, INC.
CLASS COST OF SERVICE STUDY - UNIT COST AT PROPOSED RATES
FOR THE TEST PERIOD ENDING DECEMBER 31, 2014

LINE NO.	REVENUES	TOTAL	TOTAL COMPANY	RESIDENTIAL	SMALL GENERAL SERVICE	MED./LRG. GENERAL SERVICE	LARGE POWER SERVCIE	LIGHTING
1	DEMAND COMPONENTS	$62,945,975	$62,945,975	$38,717,263	$5,381,136	$16,523,690	$1,936,491	$387,395
2	DEMAND PRODUCTION		29,019,837	17,676,925	2,507,484	7,525,561	1,229,490	80,378
3	DEMAND TRANSMISSION EXPENSE		14,511,531	8,775,515	1,248,374	3,849,842	614,192	23,609
4	DEMAND DISTRIBUTION PRIMARY		17,186,259	10,956,992	1,555,241	4,495,889	65,645	112,492
5	DEMAND DISTRIBUTION SECONDARY		2,228,348	1,307,831	70,039	652,399	27,164	170,915
6								
7	ENERGY COMPONENTS	85,303,918	85,303,918	44,744,079	6,324,606	29,939,312	4,254,913	41,009
8			85,303,918	44,744,079	6,324,606	29,939,312	4,254,913	41,009
9	CUSTOMER COMPONENTS	$21,738,080	$21,738,080	$15,235,699	$2,216,221	$4,005,758	$104,273	$176,130
10	CUSTOMER DELIVERY		12,850,816	8,345,513	1,164,679	3,237,276	45,664	57,683
11	CUSTOMER METERS		2,324,882	1,568,357	438,898	299,469	12,843	5,315
12	CUSTOMER BILLING & COLLECTIONS		5,354,775	4,330,620	498,645	382,506	37,344	105,660
13	CUSTOMER METER READING		1,207,607	991,208	113,999	86,507	8,422	7,471
14	**TOTAL COMPANY**	**$169,987,974**	**$169,987,974**	**$98,697,041**	**$13,921,963**	**$50,468,760**	$6,295,676	**$604,534**
15	PER UNIT COST		Per kW	Per kW	Per kW	Per kW	Per kW	Per Watt
16	DEMAND COMPONENTS	$15.2200	$15.22	$19.20	$19.42	$9.95	$11.26	$0.0517
17	DEMAND PRODUCTION		$7.02	$8.77	$9.05	$4.53	$7.15	$0.0107
18	DEMAND TRANSMISSION EXPENSE		$3.51	$4.35	$4.51	$2.32	$3.57	$0.0032
19	DEMAND DISTRIBUTION PRIMARY		$4.16	$5.43	$5.61	$2.71	$0.38	$0.0150
20	DEMAND DISTRIBUTION SECONDARY		$0.54	$0.65	$0.25	$0.39	$0.16	$0.0228
21	ENERGY COMPONENTS	$0.0533	$0.0533	$0.0543	$0.0533	$0.0532	$0.0459	$0.0145
22	ENERGY FUEL DIRECT ($/kWh)		$0.0533	$0.0543	$0.0533	$0.0532	$0.0459	$0.0145
			Per Customer	Per Customer	Per Customer	Per Customer	Per Customer	Per Customer
23	CUSTOMER COMPONENTS	$19.0397	$19.04	$15.37	$21.09	$240.67	$2,172.35	$6.15
24	CUSTOMER DELIVERY		$11.26	$8.42	$11.08	$194.50	$951.34	$2.01
25	CUSTOMER METERS		$2.04	$1.58	$4.18	$17.99	$267.56	$0.19
26	CUSTOMER BILLING & COLLECTIONS		$4.69	$4.37	$4.74	$22.98	$777.99	$3.69
27	CUSTOMER METER READING		$1.06	$1.00	$1.08	$5.20	$175.47	$0.26
28	TOTAL COMPANY ($/kW)	$34.3130	$41.12	$48.94	$50.25	$30.38	$36.61	$76.79
29	TOTAL THRUPUT (kWh)	1,600,809,167	1,600,809,167	823,953,185	118,683,796	562,579,661	92,765,274	2,827,250
30	TOTAL ANNUAL CUSTOMERS	95,144	95,144	82,607	8,758	1,387	4	2,388
31	Wattage							7,490,450
32	TOTAL CUSTOMER ($/ CUSTOMER)		$19.04	$15.37	$21.09	$240.67	$2,172.35	$6.15
33	TOTAL DEMAND & CUSTOMER ($/ CUSTOMER)		$74.17	$54.43	$72.29	$1,233.44	$42,515.90	$19.66
34	DEMAND DETERMINANTS FOR APPLICABLE CLASSES		4,134,406	2,016,521	277,072	1,660,992	171,949	7,872