

ORIGINAL



0000170339

BEFORE THE ARIZONA CORPORATION

RECEIVED

2016 MAY 13 P 4: 37

AZ CORP COMMISSION  
DOCKET CONTROL

COMMISSIONERS

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

DOCKET E-01575A-15-0312

SSVEC'S NOTICE OF FILING  
REJOINDER TESTIMONY OF CREDEN  
HUBER AND DAVID HEDRICK

IN THE MATTER OF THE APPLICATION  
OF SULPHUR SPRINGS VALLEY  
ELECTRIC COOPERATIVE, INC., FOR A  
HEARING TO DETERMINE THE FAIR  
VALUE OF ITS PROPERTY FOR  
RATEMAKING PURPOSES, TO FIX A  
JUST AND REASONABLE RETURN  
THEREON, TO APPROVE RATES  
DESIGNED TO DEVELOP SUCH  
RETURN AND FOR RELATED  
APPROVALS.

CROCKETT LAW GROUP PLLC  
2198 E. Camelback Road, Suite 305  
Phoenix, Arizona 85016  
602.441.2775

Sulphur Springs Valley Electric Cooperative, Inc., hereby files the Rejoinder Testimony  
of Creden W. Huber and David W. Hedrick.

RESPECTFULLY submitted this 13<sup>th</sup> day of May, 2016.

CROCKETT LAW GROUP PLLC

Jeffrey W. Crockett, Esq.  
2198 E. Camelback Road, Suite 305  
Phoenix, Arizona 85016  
Attorney for Sulphur Springs Valley Electric  
Cooperative, Inc.

ORIGINAL and thirteen (13) copies filed  
this 13<sup>th</sup> day of May, 2016, with:

Docket Control  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

Arizona Corporation Commission

DOCKETED

MAY 13 2016

DOCKETED BY

1 COPY of the foregoing hand-delivered  
this 13<sup>th</sup> day of May, 2016, to:

2 Dwight D. Nodes, Chief Administrative Law Judge  
3 Hearing Division  
4 ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

5 Thomas M. Broderick, Director  
6 Utilities Division  
7 ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

8 COPY of the foregoing send via e-mail  
9 this 13<sup>th</sup> day of May, 2016, to:

10 Janice M. Alward, Chief Counsel  
11 Legal Division  
12 ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

[jalward@azcc.gov](mailto:jalward@azcc.gov)  
[rgeake@azcc.gov](mailto:rgeake@azcc.gov)  
[wwancleve@azcc.gov](mailto:wwancleve@azcc.gov)  
[mfinical@azcc.gov](mailto:mfinical@azcc.gov)

**Consented to Service by E-mail**

15 Thomas A. Loquvam  
16 Thomas L. Mumaw  
17 Melissa M. Krueger  
18 PINNACLE WEST CAPITAL CORPORATION  
P.O. Box 53999, MSW 8692  
Phoenix, Arizona 85072  
Attorneys for Arizona Public Service Company  
[thomas.loquvam@pinnaclewest.com](mailto:thomas.loquvam@pinnaclewest.com)  
**Consented to Service by E-mail**

20 Thomas A. Harris, Chairman  
21 ARIZONA SOLAR ENERGY INDUSTRIES ASSOCIATION  
22 2122 W. Lone Cactus Drive, Suite 2  
Phoenix, Arizona 85027  
[Tom.Harris@AriSEIA.org](mailto:Tom.Harris@AriSEIA.org)  
**Consented to Service by E-mail**

24 COPY mailed via First Class U.S. Mail  
this 13<sup>th</sup> day of May, 2016, to:

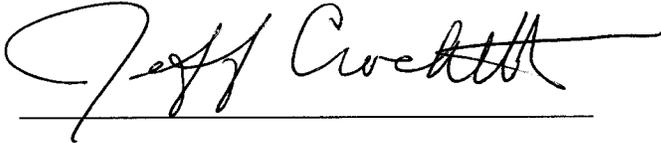
25 Garry D. Hays  
26 THE LAW OFFICES OF GARRY D. HAYS, P.C.  
27 2198 E. Camelback Road, Suite 305  
Phoenix, Arizona 85016  
28 Attorney for Arizona Solar Deployment Alliance

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

Michael W. Patten  
SNELL & WILMER, L.L.P.  
One Arizona Center  
400 E. Van Buren Street, Suite 1900  
Phoenix, Arizona 85004  
Attorney for Trico Electric Cooperative, Inc.

Kerri A. Carnes  
ARIZONA PUBLIC SERVICE COMPANY  
P.O. Box 53999, MS 9712  
Phoenix, Arizona 85072

Court S. Rich, Esq.  
ROSE LAW GROUP PC  
7144 E. Stetson Drive, Suite 300  
Scottsdale, Arizona 85251  
Attorney for Energy Freedom Coalition of America



---

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION  
OF SULPHUR SPRINGS VALLEY  
ELECTRIC COOPERATIVE, INC., FOR A  
HEARING TO DETERMINE THE FAIR  
VALUE OF ITS PROPERTY FOR  
RATEMAKING PURPOSES, TO FIX A  
JUST AND REASONABLE RETURN  
THEREON, TO APPROVE RATES  
DESIGNED TO DEVELOP SUCH  
RETURN, AND FOR RELATED  
APPROVALS.

**DOCKET NO. E-01575A-15-0312**

**REJOINDER TESTIMONY OF DAVID W. HEDRICK**

**ON BEHALF OF**

**SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**

**MAY 13, 2016**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**  
2 A. My name is David W. Hedrick and my business address is 5555 North Grand  
3 Boulevard, Oklahoma City, Oklahoma 73112-5507.  
4  
5 **Q. ARE YOU THE SAME DAVID HEDRICK WHO PREVIOUSLY**  
6 **SUBMITTED DIRECT AND REBUTTAL TESTIMONY ON BEHALF OF**  
7 **SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**  
8 **(“SSVEC” OR THE “COOPERATIVE”) IN THIS PROCEEDING?**  
9 A. Yes, I am.  
10  
11 **Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY?**  
12 A. I will respond to the surrebuttal testimony of Mr. Mark Fulmer on behalf of Energy  
13 Freedom Coalition of America and Utilities Division Staff (“Staff”) witnesses.  
14  
15 **Q. MR. FULMER CLAIMS THAT SSVEC’S OWN DATA DEMONSTRATES**  
16 **THAT CUSTOMERS WITH DISTRIBUTED GENERATION (“DG”) ARE**  
17 **NO DIFFERENT THAN OTHER RESIDENTIAL CUSTOMERS WITH**  
18 **RESPECT TO CONSUMPTION. IS THIS ACCURATE?**  
19 A. Not at all. Mr. Fulmer points to the bill frequency data for SSVEC which shows  
20 that the Cooperative does indeed have a significant number of low consumption  
21 customers. Mr. Fulmer’s premise is that a customer with low use is the same as a  
22 DG customer that generates a portion of its own power. They are not the same. The  
23 average consumption for a Residential SSVEC customer without installed DG is  
24 677 kWh per month. This represents the energy requirement for the average  
25 Residential customer without DG which is purchased from SSVEC. Mr. Fulmer

1 states that the average consumption for a customer with solar PV is 642 kWh. This  
2 is not accurate and is misleading. A customer with solar PV “purchases” a net 642  
3 kWh on average from SSVEC. As reflected on Exhibit DWH-8 of my direct  
4 testimony, the average customer with installed DG generates 1,026 kWh per month.  
5 That indicates that a residential customer with installed DG has an energy  
6 requirement in excess of 1,600 kWh per month (642 kWh + 1,026 kWh = 1,668  
7 kWh) which is much higher than the average residential customer without DG at  
8 677 kWh per month. Thus, the data clearly demonstrates that customers with  
9 installed DG are significantly different than the average SSVEC Residential  
10 customer.

11  
12 **Q. MR. FULMER AND STAFF CONTEND THAT BECAUSE SSVEC SERVES**  
13 **OTHER LOW USE CUSTOMERS, THERE IS NO BASIS FOR CREATING**  
14 **A SEPARATE PARTIAL REQUIREMENTS RATE FOR CUSTOMERS**  
15 **WITH DG. HOW DO YOU RESPOND?**

16 A. The issue at hand is the inadequacy of the existing rate design to provide an  
17 appropriate recovery of SSVEC’s fixed costs of providing service to customers with  
18 installed DG. Mr. Fulmer and Staff contend that because there is an under-recovery  
19 of fixed costs from other low use customers there is no basis for addressing the issue  
20 for customers with installed DG. However, there are relevant and meaningful  
21 differences with regard to the recovery of costs between customers with installed  
22 DG and other low use customers.

23  
24 SSVEC has historically reflected a significant number of low use customers.  
25 Recognizing the need to recover the fixed costs of providing service, SSVEC has

1 consistently advocated to increase its customer charges to the extent allowed by the  
2 Arizona Corporation Commission (“Commission”) in previous general rate cases  
3 and in accordance with the rules for streamlined rate cases for cooperatives. The  
4 point is that there has always been a general recognition that there is mismatch with  
5 regard to the recovery of fixed costs because the monthly minimum customer  
6 charges are not high enough. The Commission’s approach to a resolution of this  
7 issue has been to approve gradual increases in the customer charge over time and  
8 include the remaining fixed costs in the energy charge of the rate. Thus, while the  
9 existing Residential rate structure does not provide a full recovery of the fixed costs  
10 through the customer charge, the existing rate does provide for the recovery of all  
11 costs through the combination of the customer charge and energy charge for the  
12 customer base for which the rate was designed, which did not include the  
13 proliferation of customers with DG that has recently occurred in SSVEC’s service  
14 territory. The existing Residential rate was designed with a knowledge of the  
15 number of typical low use customers and how the rate would recover costs from  
16 those customers. The gradual approach of increasing customer charges employed  
17 by the Commission to address the cost shift for true low use customers without DG  
18 provides a slow resolution of the issue but is somewhat more understandable given  
19 the Commission’s concern regarding customer impact for low use and low income  
20 customers. However, given the magnitude of the lost fixed cost recovery for  
21 customers with installed DG, a gradual approach to correction of the issue is not  
22 appropriate and is not working. A separate rate for partial requirements members  
23 provides the mechanism for appropriately addressing the issue.

1 The magnitude of the lost fixed cost recovery for customers with installed DG is  
2 significantly greater than for other low use customers. In my direct testimony, I  
3 provide a calculation of the lost fixed costs for customers with installed DG. Again,  
4 Staff witness Eric Van Epps confirms that SSVEC has experienced an under-  
5 recovery associated with the proliferation of DG systems that equated to \$1,139,013  
6 annually. The under-recovery is caused by the loss of kWh sales from the 1,013  
7 customers with DG on SSVEC's system at the end of 2014. This under-recovery  
8 has recently become greater due to the rapid growth of this group of customers. The  
9 number of customers with installed DG is still a small percentage of the total  
10 customers served but the negative impact from such a small group is significant. As  
11 reflected on Exhibit DWH-8 of my direct testimony, a typical customer with  
12 installed DG generates and thus reduces kWh sales to SSVEC by 1,026 kWh per  
13 month, resulting in lost fixed costs of \$93.70 per customer per month. The other  
14 low use customers served by SSVEC do not demonstrate this level of kWh  
15 reduction. As evidence, I included in my rebuttal testimony examples of the level  
16 of reduction in kWh sold to customers that participate in SSVEC energy efficiency  
17 programs. The monthly kWh reductions for those programs is less than 100 kWh  
18 per month. SSVEC has demonstrated that the significant under-recovery for  
19 customers with installed DG is caused by a combination of the inadequacy of the  
20 existing Residential rate design and the reduction in sales that is specific and unique  
21 to the group of customers with installed DG. This under-recovery represents a real  
22 and tangible loss of revenue to cover fixed costs, which if not addressed, will require  
23 all customers to pay higher rates and require other customers to provide a significant  
24 subsidy to this specific identifiable group of customers with installed DG.  
25

1 **Q. STAFF WITNESS TOM BRODERICK CONTENDS THAT SSVEC HAS**  
2 **NOT PERFORMED A COST OF SERVICE STUDY ANALYSIS TO**  
3 **SUPPORT A SEPARATE RATE CLASS WITH A CUSTOMER CHARGE**  
4 **OF \$50. HOW DO YOU RESPOND?**

5 A. SSVEC's rate filing includes a cost of service study that has been accepted by Staff.  
6 The cost of service study includes a determination of the components of expense for  
7 the Residential rate class. SSVEC contends in its filing that the fixed costs of  
8 providing service to Residential customers with installed DG is the same as for other  
9 Residential customers. This is reflected by the use of the purchased power energy  
10 and demand components of expense for Residential from the cost of service study  
11 on Exhibit DWH-8 to calculate the lost fixed cost recovery as a result of member  
12 owned DG of \$1,139,013. Staff testimony confirmed that SSVEC had adequately  
13 presented its case that this under-recovery existed based on the data from the cost  
14 of service study.

15 On Schedule G-6.3, page 4 of 4, of the same cost of service study used to develop  
16 the lost fixed cost recovery analysis, the fixed components of cost for the Residential  
17 class are shown. The customer component of cost is \$25.36 per month, the  
18 distribution wires component of cost is \$24.46 per month and the purchased power  
19 demand component of cost is \$28.54 per month. The total fixed costs for the  
20 Residential class reflected in the cost of service study is \$78.36 per month. The sum  
21 of only the customer component and the wires demand component is \$49.82 per  
22 month. The fixed component of costs were subsequently revised by Staff resulting  
23 in a total fixed cost of \$80.24 per month. The proposed \$50 customer charge is a  
24 reflection of the customer and wires demand components of cost for the Residential  
25

1 class. SSVEC has provided a justifiable basis for the proposed customer charge for  
2 the Residential DG rate class.

3  
4 **Q. STAFF RECOMMENDS NO CHANGE BE MADE TO THE EXISTING NET**  
5 **METERING POLICY UNTIL THE VALUE COST OF DG PROCEEDING**  
6 **IS CONCLUDED AND A DECISION IS RENDERED. WHAT IS YOUR**  
7 **RESPONSE?**

8 A. SSVEC is disappointed that Staff has reversed its position. SSVEC has presented  
9 and supported its case that significant cost recovery issues exist with service  
10 provided to customers with installed DG through the application of existing rates  
11 and the existing net metering policy. The appropriate venue for dealing with the  
12 specific issues affecting SSVEC is in this rate case without further delay. There is  
13 no guarantee that a decision in the Value and Cost of DG Proceeding will be  
14 forthcoming or provide the direction anticipated by Staff. SSVEC agrees with Staff  
15 that the appropriate export rate or payment to customers with installed DG for  
16 excess energy generated is the quantifiable, known and measurable avoided cost.  
17 This definition provides a method for calculating the export rate based on the  
18 avoided cost components that are relevant to not only SSVEC, but to all utilities.  
19 SSVEC has demonstrated and supported that the only quantifiable, known and  
20 measurable component of avoided cost for SSVEC is the wholesale fuel and energy  
21 component of cost. SSVEC has no quantifiable avoided purchased power capacity  
22 costs, transmission costs or distribution costs. This definition of the export rate  
23 based on the quantifiable, known and measurable avoided cost is in keeping with  
24 long-established rate making policies of the Commission.

25

1 I note also that Staff pushed for dismissal of SSVEC's application in Docket E-  
2 01575A-15-0127 wherein SSVEC was seeking changes to its net metering tariff to  
3 address the serious problem of unrecovered fixed costs attributable to net metering.  
4 In that case, Staff stated that **"the issues raised in its Application are best  
5 addressed in a rate case"** and that **"processing the Application outside of a rate  
6 case may foreclose the Commission from developing an effective and fair  
7 solution to all aspects of the problem, not just those emphasized by the  
8 Company."**

9  
10 **Q. HAS ANY OTHER PARTY IN THIS PROCEEDING PROVIDED A  
11 CALCULATION OF THE QUANTIFIABLE AVOIDED COSTS FOR  
12 SSVEC?**

13 A. No. Only SSVEC has supported that the quantifiable avoided cost is the wholesale  
14 fuel and energy component of cost. Mr. Fulmer references potential unquantifiable  
15 future avoided costs and a reference to changes in transmission costs in California  
16 attributable to multiple factors. Neither of these references provide any quantifiable,  
17 known and measurable data that can be shown to be relevant in this proceeding.

18  
19 **Q. MR. FULMER SUGGESTS THAT SSVEC HAS NOT ADEQUATELY  
20 CONSIDERED, QUANTIFIED OR VALUED THE COSTS AND BENEFITS  
21 OF DG. HOW DO YOU RESPOND?**

22 A. SSVEC has supported that its quantifiable avoided cost is the wholesale fuel and  
23 energy component of cost. SSVEC has further provided testimony that there are no  
24 avoided capacity, transmission or distribution costs. SSVEC has further stated that,  
25 in keeping with established rate-making principles, it is inappropriate to consider

1 any future changes in avoided cost in the development of the current export rate.  
2 SSVEC is not aware of any potential quantifiable future cost or benefit. The fact  
3 that there are no other quantifiable costs or benefits that can be identified does not  
4 constitute a lack of analysis. It simply means that other than the avoided wholesale  
5 fuel and energy costs, there is no quantifiable data upon which to perform an  
6 analysis. SSVEC's analysis is sufficient to determine an appropriate course of  
7 action in this case and we need not wait for the outcome of the Value and Cost of  
8 DG Proceeding, whenever or whatever that may be.  
9

10 **Q. STAFF WITNESS ERIC VAN EPPS SUGGESTS THAT ADDITIONAL**  
11 **ANALYSIS IS NEEDED TO DETERMINE THE NET METERING POLICY.**  
12 **HOW DO YOU RESPOND?**

13 A. SSVEC has provided analysis and support showing the impact of the existing net  
14 metering policy on SSVEC. SSVEC has shown that the only quantifiable  
15 component of avoided cost is the wholesale fuel and energy component of cost. To  
16 the extent that SSVEC pays more in the export rate than the avoided cost, other  
17 members of the Cooperative are providing a subsidy to customers with installed DG.  
18 It has been clearly demonstrated that an export rate equal to the full retail rate, as is  
19 the case with the existing net metering policy, constitutes a vast over-payment.  
20 SSVEC has proposed a net metering policy that eliminates banking and pays  
21 avoided cost for excess energy generated in a billing period. Exhibits DWH-8  
22 through DWH-10 of my direct testimony provide the analysis of the change in lost  
23 fixed costs that result from the application of the existing net metering policy and  
24 proposed net metering policy in conjunction with the proposed rates. The analysis  
25 on Exhibit DWH-10 in comparison with the analysis on Exhibits DWH-8 and

1 DWH-9 shows that the lost fixed costs that result with the application of the new  
2 net metering policy in conjunction with the new Residential DG rate are much lower  
3 than under the existing net metering policy. The impact on other customers is  
4 implicit—a reduction in the lost fixed costs from customers with installed DG  
5 results in less of a subsidy provided by other customers and overall lower rates.  
6 SSVEC has provided sufficient analysis to support the proposed changes in the net  
7 metering policy.

8  
9 I would add also that there are two methods for recognizing generation exports from  
10 customer with installed DG. The first method is to recognize exports in excess of  
11 purchases in a monthly billing period. This method allows the customer to utilize  
12 the customer's own generation during the billing period. This is the method  
13 proposed by SSVEC. The second method is instantaneous recognition of purchases  
14 and exports. This method recognizes all energy generated and not consumed by the  
15 customer and exported to the grid in real time as the excess. This method does not  
16 allow the customer to offset its purchases during the monthly billing period with  
17 energy generated at times when there is no load. This method is not being proposed  
18 by SSVEC. This second method is more restrictive and results in a lower level of  
19 compensation for customers with installed DG. No additional analysis is necessary  
20 regarding this method as it has not been proposed and is more restrictive than what  
21 SSVEC has proposed.

1 **Q. STAFF WITNESS RANELLE PALADINO RECOMMENDS THAT**  
2 **SSVEC's TIME OF USE ("TOU") RATES NOT BE FROZEN. HOW DO**  
3 **YOU RESPOND?**

4 A. Given the inadequacy of the TOU rates, as recognized by Staff, SSVEC believes  
5 that it is inappropriate to offer to its members rates which provide no benefit. In  
6 fact, customers could pay more on the TOU rate than on the standard rate. SSVEC  
7 recently reviewed the accounts of customers served on the TOU rates and  
8 determined that many of those customers would be better off on the standard rate  
9 and has subsequently moved those customers. SSVEC would prefer not to offer  
10 the TOU rates to its members. With regard to Decision No. 69736, the modified  
11 version of the PURPA standard adopted states, "[w]ithin 18 months of Commission  
12 adoption of this standard, each electric distribution utility shall offer to appropriate  
13 classes...." The reference to "appropriate classes" indicates a measure of flexibility  
14 with regard to offering TOU rates. For SSVEC, there are clearly no rate classes for  
15 which a TOU rate is appropriate. Therefore, I do not believe that SSVEC would be  
16 operating contrary to the provisions in Decision No. 69736 if it no longer offers  
17 TOU rates.

18  
19 **Q. HOW DOES THE TESTIMONY OF STAFF WITNESS YUE LIU FACTOR**  
20 **INTO THE DEVELOPMENT OF RETAIL RATES FOR SSVEC?**

21 A. While the testimony is informative, none of the information provided should have  
22 any impact on the rates that are designed and approved for SSVEC. In addition, the  
23 testimony does not reflect all the years that SSVEC paid 50% of the members' solar  
24 system installation costs. The majority of DG customers had SSVEC members pay  
25 half of their DG system costs. This makes the existing return substantially higher

1 and payback substantially shorter. SSVEC's rates are developed to recover the costs  
2 of providing service to its members including a reasonable level of margin. Rates  
3 are based on known and measurable costs and are designed to be fair and equitable.  
4 The primary objective is to provide safe and reliable service to members at the  
5 lowest reasonable rates. SSVEC is always concerned about the impact that energy  
6 prices have on the personal economics of its members. However, it would be  
7 entirely inappropriate for SSVEC or the Commission to include in its criteria for  
8 determination of electric rates and credits, whether those rates allow customers with  
9 installed DG to earn an acceptable return on their investment. It is not the  
10 responsibility of the members of SSVEC or ratepayers of any other utility to  
11 subsidize customers with installed DG or to guarantee the rate of return on their  
12 investments in DG.

13  
14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 **A. Yes.**  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25





1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14

**INTRODUCTION**

15  
16  
17  
18

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

19  
20  
21  
22

A. My name is Creden W. Huber. My business address is 350 N. Haskell Avenue, Willcox, Arizona 85643.

23  
24  
25  
26

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

27  
28  
29  
30

A. I am the Chief Executive Officer (“CEO”) of Sulphur Springs Valley Electric Cooperative, Inc. (“SSVEC” or the “Cooperative”).

31  
32  
33  
34

**Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS DOCKET?**

35  
36  
37  
38

A. Yes. I filed direct testimony with the rate case application on August 31, 2015.

39  
40  
41  
42

**Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY?**

43  
44  
45  
46  
47  
48

A. The purpose of my Rejoinder Testimony is to respond to statements contained in the Surrebuttal Testimonies of Eric Van Epps, Crystal Brown and Julie McNeely-Kirwan.

49  
50  
51  
52

**NET METERING STATUS QUO**

53  
54  
55  
56  
57  
58

**Q. HOW DO YOU RESPOND TO THE FOLLOWING RECOMMENDATION SET FORTH AT PAGE 5, LINES 10-15, OF MR. VAN EPPS’ SURREBUTTAL TESTIMONY:**

59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70

**STAFF RECOMMENDS THAT THE STATUS QUO FOR NET METERING BE MAINTAINED IN SSVEC’S SERVICE TERRITORY UNTIL SUCH TIME AS A DECISION HAS BEEN MADE IN THE VALUE AND COST OF DG DOCKET. FURTHER, STAFF RECOMMENDS THAT SSVEC’S RATE CASE BE HELD OPEN FOR 12-MONTHS TO ADDRESS ANY FUTURE CHANGES TO THE NET METERING TARIFF. STAFF RECOMMENDS THAT SUCH CHANGES TO NET METERING BE MADE BY THE COMPANY BY FILING THE APPROPRIATE REQUEST, AND PERFORMING THE APPROPRIATE ANALYSIS WITHIN 3 MONTHS OF THE CONCLUSION OF THE VALUE OF DG DOCKET.**

71  
72  
73  
74  
75  
76  
77  
78

A. Staff’s change of course is both stunning and disappointing. Starting in 2014, SSVEC began to recognize the extent to which it was under-recovering fixed costs due to the proliferation of rooftop solar distributed generation (“DG”) systems in

1 its service territory. By the end of 2014, SSVEC provided service to 1,013  
2 residential members with DG. The Cooperative's unrecovered fixed costs due to  
3 net metering for those customers totaled \$1,139,013 in 2014, a number which has  
4 been confirmed by Mr. Van Epps in his testimony. The number of net metered  
5 customers has grown since the end of 2014 and the current level of unrecovered  
6 fixed costs is even higher. Thus, the problem of unrecovered net costs from net  
7 metered customers is growing larger over time.

8 Recognizing this quickly growing financial threat to the Cooperative,  
9 SSVEC filed an application in Docket E-01575A-15-0127 (the "Net Metering  
10 Docket") on April 14, 2015 requesting: (i) to modify and rename its current Net  
11 Metering Tariff Schedule NM; (ii) to add a new Net Metering Tariff Schedule NM-  
12 2; and (iii) for related waivers of provisions of the Commission's Net Metering  
13 Rules. The objective of that net metering application was to attempt to immediately  
14 arrest the growing problem of unrecovered fixed costs related to the installation of  
15 DG systems.

16 **Q. DID THE COMMISSION ACT UPON SSVEC'S APPLICATION IN THE**  
17 **NET METERING DOCKET?**

18 A. No. The application was dismissed at the request of Staff. In its brief filed July 31,  
19 2015, Staff stated:

20 Staff believes that the issues raised by the Company in its Application are  
21 best addressed in a rate case, in part because the Application appears to  
22 exclude several key issues. While the Company's requested relief may not  
23 require a rate case *per se*, processing the Application outside of a rate case  
24 may foreclose the Commission from developing an effective and fair solution  
25 to all aspects of the problem, not just those emphasized by the Company.  
26 Simply stated, the Company is proposing a short-term, specific, narrow  
27 solution to its problem that would be more effectively addressed through a  
28 combination of thoroughly evaluated solutions.<sup>1</sup>

---

<sup>1</sup> Staff's Brief Pursuant to July 10, 2015 Procedural Order (Docket E-01575A-15-0127) at 3, lines 4-10.

1 **Q. DID ANY OTHER PARTY JOIN STAFF IN ARGUING THAT SSVEC'S**  
2 **NET METERING APPLICATION SHOULD BE DISMISSED AND THE**  
3 **ISSUES RAISED IN A RATE CASE?**

4 A. Yes. The Alliance for Solar Choice ("TASC") argued in its brief filed July 31,  
5 2015, that "Arizona's Constitution is clear that the Application must be heard in the  
6 context of a full rate proceeding,"<sup>2</sup> adding:

7 The Commission should deal with this issue in a forum that allows it to truly  
8 consider and implement any and all options it deems appropriate after  
9 reviewing the mater. The only forum that permits that process is a general  
rate case.<sup>3</sup>

10 I would note that at least three of the members of TASC are also members of the  
11 Energy Freedom Coalition of America which is an intervenor in this docket,  
12 including SolarCity Corporation, Silevo, LLC, and Zep Solar, LLC.

13 **Q. NOW THAT SSVEC HAS FILED A RATE CASE, WHAT IS YOUR**  
14 **RESPONSE TO STAFF'S RECOMMENDATION THAT THE**  
15 **COMMISSION MAINTAIN THE *STATUS QUO* FOR NET METERING IN**  
16 **SSVEC'S SERVICE TERRITORY UNTIL SUCH TIME AS A DECISION**  
17 **HAS BEEN MADE IN THE VALUE AND COST OF DG DOCKET?**

18 A. I feel like we are shooting at a constantly moving target, which may be Staff's  
19 attempt to delay a decision addressing the under-recovery of the Cooperative's  
20 fixed costs and the cost shift associated with net metering and DG. Mr. Van Epps  
21 acknowledges in his Surrebuttal Testimony that "[t]he Company supported its  
22 contention that is has experienced an under-recovery associated with the  
23 proliferation of DG systems that equated to \$1,139,013." Yet, SSVEC is now being  
24 told once again that it must wait for the results of the cost and value of DG docket  
25 and that its rate case may be held upon for 12 months to address future changes to  
26 its net metering tariff. SSVEC filed its application in the net metering docket in

27  
28 <sup>2</sup> Alliance for Solar Choice Brief (Docket E-01575A-15-0127) at 2, lines 9-10.

<sup>3</sup> *Id.* at 10, lines 13-16 (emphasis added).

1 good faith and then spent considerable time and money on that application, only to  
2 have Staff short circuit the effort. Then, the Cooperative filed this rate case in good  
3 faith, only to have Staff once again seek to delay our efforts to address the DG cost  
4 shift. As I discuss later in my testimony, SSVEC will spend in excess of \$400,000  
5 on outside consultants and attorneys in this rate case. Now, Staff is advocating  
6 further delay. That is not right. The Commission should hear the case we filed  
7 based upon the evidence presented in this docket. Everything that the Commission  
8 needs to decide this case is in the docket.

9 **Q. DO YOU KNOW WHETHER OR NOT THE VALUE AND COST OF DG**  
10 **DOCKET WILL PROVIDE THE GUIDANCE THAT STAFF IS SEEKING?**

11 A. No, and neither does Staff nor anyone else at this point. The evidentiary portion of  
12 that case has not even concluded and we do not know when a decision may be  
13 rendered or if that decision will be appealed. More importantly, we do not know  
14 what the decision might say with regard to the value and cost of DG. The  
15 appropriate venue for dealing with the specific issues affecting SSVEC is in this  
16 rate case now and without further delay. Chairman Little expressed his view  
17 regarding the irreplaceability of rate cases in addressing the issues raised in the  
18 Value and Cost of DG Docket in a December 22, 2015 letter to the other  
19 commissioners and interested parties:

20 Since the specifics of each rate case are different and can vary widely  
21 for each utility and service area, the methodology [from the Value and  
22 Cost of DG Docket] would not assign specific values, but rather  
23 provide guidance as to how values would be determined in the context  
of an individual rate case.

24 [T]he hearing [in the Value and Cost of DG Docket] should be thought  
25 of more in the context of a precursor to “rulemaking” instead of  
26 “ratemaking” and should not be thought of as having any direct impact  
on rates for any participating utility.

1 **Q. HOW DO YOU RESPOND TO STAFF'S PROPOSAL TO LEAVE THE**  
2 **SSVEC RATE CASE OPEN FOR A YEAR?**

3 A. There is an old maxim which says that "justice delayed is justice denied." SSVEC  
4 has identified a serious problem associated with the proliferation of DG in its  
5 service territory. We filed an application to address the problem in the Net Metering  
6 Docket but that effort was halted by Staff. We then filed a rate application in this  
7 docket and now Staff is recommending further delays. The time is now to address  
8 the legitimate issues that have been raised in SSVEC's application.

9 **Q. YOU MENTIONED BEFORE THAT STAFF'S CHANGE OF COURSE IS**  
10 **DISAPPOINTING. WHAT DO YOU MEAN?**

11 A. In my opinion, Staff applied a heavy hand to try to pressure SSVEC into agreeing  
12 to wait for a final resolution of the Value and Cost of DG Docket to fully address  
13 the net metering issues raised in this rate case and in the net metering case before  
14 that. Staff went so far as to threaten to delay the hearing in this case and to add a  
15 new witness at the eleventh hour before backing off. SSVEC has always tried to  
16 work cooperatively with Staff. I have been disappointed that that cooperation has  
17 not been reciprocated on this issue.

18 **Q. WILL A DELAY IN REACHING A FINAL RESOLUTION IN THE RATE**  
19 **CASE HARM THE COOPERATIVE?**

20 A. Yes. SSVEC will be harmed by a delay in the issuance of a decision resolving the  
21 issues in this case. In its rate application, SSVEC explained the serious problem it  
22 is facing as a result of unrecovered fixed costs resulting from net metering:

23 The principal reasons for filing this Application at this time is to make  
24 critical changes to SSVEC's rate design which will enable the  
25 Cooperative to better recover the fixed costs associated with providing  
26 service to its members. \*\*\* Since implementing Net Metering Tariff  
27 Schedule NM, SSVEC has experienced a dramatic increase in the  
28 number of customer installing roof solar photovoltaic ("PV") systems,  
the most common form of distributed generation ("DG"). The  
proliferation of PV systems in SSVEC's service territory has caused

1 a large increase in unrecovered fixed costs attributable to the 1,013  
2 net metered members. The estimated annual lost fixed costs  
3 attributable to the 1,013 net metered members at the end of the 2014  
4 test year under the existing residential rate is \$1,139,013....

5 I would also like to point out that under A.A.C. R14-2-103(B)(11)(d), the  
6 Commission must issue a final order in a rate case within 360 days of the date of  
7 sufficiency, or by September 24, 2016 in this case. I do not believe that this  
8 requirement will be met if the case is left open for a year as Staff recommends.

9 **SERVICE CHARGES**

10 **Q. AT PAGE 3 OF STAFF WITNESS JULIE MCNEELY-KIRWAN'S**  
11 **SURREBUTTAL TESTIMONY, SHE RECOMMENDS AGAINST**  
12 **APPROVING REVISIONS TO SSVEC'S SERVICE CONDITIONS**  
13 **PERTAINING TO CUSTOMER CHARGES FOR METER SOCKET**  
14 **ENCLOSURES, METER TEST SWITCHES, AND METER SOCKETS ON**  
15 **THE GROUNDS THAT SSVEC PROVIDED INSUFFICIENT**  
16 **EXPLANATION AND DOCUMENTATION TO JUSTIFY THE**  
17 **PROPOSED CHARGES. HOW DO YOU RESPOND?**

18 **A.** SSVEC did try to explain and document its rationale behind the changes to the  
19 Service Conditions. In its response to Staff Data Requests JMK 7.1, the  
20 Cooperative stated as follows:

21 Exhibit C #4 (regarding Meter Socket Enclosures), Exhibit D #5,  
22 Exhibit D #6, and Exhibit E #13B and 13C – Meter Test Switches and  
23 Meter Sockets. These items are used in conjunction with each other  
24 and/or individually depending on the service type. The proposed  
25 changes remedy a subsidy that exists today for a small number of  
26 services. Other types of services are required to provide this  
27 equipment. Another reason for the change is that when SSVEC  
28 provides the equipment, there can be coordination issues with the  
members' electricians or contractors that can cause problems with  
completing the work. The cost shift associated with these issues is  
estimated to be \$21,000 and affects approximately 80 members  
annually. Thus, the financial impact to a customer would be  
approximately \$262.50 on average. The proposed changes would  
result in a \$21,000 reduction to SSVEC's expenses.

1 **Q. CAN YOU PROVIDE ANY ADDITIONAL EXPLANATION TO ADDRESS**  
2 **MS. MCNEELEY-KIRWAN'S COMMENTS?**

3 A. Yes. SSVEC provides meter bases, sockets and test switches for only certain types  
4 of installations which include large commercial, agricultural services and, on rare  
5 occasion, a very large residential service. Historically, SSVEC has provided this  
6 equipment to ensure compatibility with its own metering equipment. However,  
7 over the years, the need for SSVEC to provide the equipment has been eliminated  
8 and depending on the design of the service entrance the member may already be  
9 required to provide this equipment. The revisions to the service conditions ensure  
10 that all members are treated the same. The provision of this equipment to a  
11 relatively few customers (approximately 80 annually) effectively creates a subsidy  
12 for those customers in the amount of approximately \$21,000, or approximately  
13 \$262.50 per customer. This change to the Service Conditions eliminates that  
14 subsidy.

15 In addition, it should be noted that Arizona Administrative Code ("A.A.C.")  
16 R14-2-206(B)(1)(a) states that "[e]ach applicant for services shall be responsible  
17 for all insider wiring including the service entrance and meter socket." Thus, the  
18 Commission's rules specifically provide that the customer must pay for the meter  
19 socket. For the reasons that I have discussed, SSVEC believes that the requested  
20 revisions to the Service Conditions are appropriate and should be approved.

21 Finally, I would also point out that SSVEC previously removed any free  
22 distance or free equipment allowance from its line extension policy thereby  
23 eliminating those subsidies. The meter bases, sockets and test switches are the last  
24 items of free equipment remaining and we are trying to correct that oversight.

25 **Q. MS. MCNEELEY-KIRWAN ALSO RECOMMENDS THAT SECTION 4.4**  
26 **OF THE SERVICE CONDITIONS BE AMENDED TO INCLUDE A TABLE**  
27 **LISTING THE COSTS RELATING TO DESIGN ESTIMATES,**  
28 **INCLUDING THE APPROXIMATE COSTS OF EXTRA SITE VISITS**

1           **THAT MAY BE REQUIRED FOR SOME DESIGN ESTIMATES. DO YOU**  
2           **AGREE WITH THIS RECOMMENDATION?**

3           A.    No. The intent behind the revisions to Section 4.4 was to provide the Cooperative  
4           with greater flexibility in addressing a wide range of line extension situations.  
5           When SSVEC designs a line extension, the cost of the design has very little to do  
6           with the customer's rate classification and everything to do with the complexity  
7           and size of the line extension. We have seen residential jobs that cost \$50,000 and  
8           commercial jobs that cost \$3,000. Under the current version of Section 4.4, the  
9           Cooperative charges a \$100 design fee for residential and a \$1,000 fee for  
10          commercial. However, we don't think it is reasonable or appropriate to charge  
11          fixed rates when there is so much room for variability. For example, the current  
12          provision which allows us to collect only a \$100 deposit for a residential design  
13          leaves SSVEC vulnerable to spreading unnecessary costs to other Cooperative  
14          members when we spend time and money designing a large project that does not  
15          get built. That is the basis for the proposed revisions to Section 4.4. Including a  
16          table of estimated costs works against the very flexibility we are seeking.

17                 In preparing the revision, we were trying to get away from the "one-size-  
18                 fits-all" table and calculate a separate fee for each job. We surveyed what other  
19                 electric utilities in the state are doing and tried to pattern our provision after theirs.  
20                 In addition, we attempted to closely follow the language in A.A.C. R14-2-  
21                 207(A)(3). We believe that the proposed revision to Section 4.4 is a reasonable  
22                 and balanced approach to line extension estimates and is fair to all of the  
23                 Cooperative's members.

24                                 **ADDITIONAL RATE CASE EXPENSE**

25           Q.    **AT PAGES 25-26 OF MR HEDRICK'S REBUTTAL TESTIMONY, HE**  
26           **TESTIFIES THAT THROUGH MARCH 2016, SSVEC HAD INCURRED**  
27           **OUTSIDE LEGAL AND CONSULTING SERVICES FOR THE RATE CASE**  
28           **TOTALLING \$309,770, WHEREAS, THE COOPERATIVE HAD**

1 INCLUDED ONLY \$200,000 IN RATE CASE EXPENSE IN ITS RATE  
2 APPLICATION. MR. HEDRICK FURTHER TESTIFIED THAT SSVEC  
3 ANTICIPATES AN ADDITIONAL \$100,000 IN RATE CASE EXPENSE TO  
4 COMPLETE THE CASE FOR A TOTAL ESTIMATED COST OF \$409,770.  
5 MR. HEDRICK TESTIFIED THAT RECOVERY OF THE ADDITIONAL  
6 RATE CASE EXPENSE IN RATES IS APPROPRIATE. HAS SSVEC  
7 PROVIDED DOCUMENTATION TO STAFF SUPPORTING THE  
8 ADDITIONAL REQUESTED RATE CASE EXPENSE?

9 A. Yes. In Staff Data Request CSB 15.1, Staff asked SSVEC to provide invoices and  
10 a detailed schedule to support the \$309,770 in actual rate case expense through the  
11 end of March 2016 as discussed in Mr. Hedrick's Rebuttal Testimony. SSVEC  
12 responded to Staff's data request on May 11, 2016, by providing hard copies of  
13 invoices (excluding legal invoices)<sup>4</sup> totaling \$320,511.41 in actual rate case  
14 expense. The Cooperative also provided two detailed schedules showing total rate  
15 case expenses generally and total rate case expenses broken down by vendor. In  
16 addition, invoices for rate case legal expenses totaling \$102,484.29 through March  
17 2016 and totaling \$40,954.02 for April and May 2016 were made available for  
18 inspection at our attorney's office in Phoenix, and Ms. Crystal Brown from Staff  
19 reviewed those legal invoices on May 11, 2016. On May 12, 2016, SSVEC  
20 supplemented its response to Staff by providing an additional invoice from Mr.  
21 Hedrick's firm for April time in the amount of \$12,167.61. Thus, SSVEC provided  
22 invoices (or Staff reviewed invoices in the case of the legal bills) totaling  
23 \$373,633.04.

24  
25  
26  
27  
28 

---

<sup>4</sup> Because the legal invoices contain information that is subject to attorney-client privilege, copies were made available for review by Staff but Staff was not allowed to keep a copy of the invoices.

1 **Q. DO YOU EXPECT THAT SSVEC WILL INCUR ADDITIONAL EXPENSES**  
2 **FOR OUTSIDE LEGAL AND CONSULTING SERVICES IN ORDER TO**  
3 **COMPLETE THE RATE CASE?**

4 A. Yes. We still have a hearing to complete, post-hearing briefing, possible  
5 exceptions, and Open Meeting. SSVEC will easily surpass the estimated rate case  
6 expense of \$409,770 in Mr. Hedrick's Rebuttal Testimony.

7 **Q. TO BE CLEAR, WHAT AMOUNT IS SSVEC SEEKING FOR RATE CASE**  
8 **EXPENSE?**

9 A. SSVEC is seeking \$409,770 in rate case expense amortized over a three-year  
10 period.

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 A. Yes.

13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28