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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS 2016 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN.	DOCKET NO. E-01933A-15-0239
IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY 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 TUCSON ELECTRIC POWER COMPANY DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA AND FOR RELATED APPROVALS.	DOCKET NO. E-01933A-15-0322 **WAL-MART STORES, INC.'S AND SAM'S WEST, INC.'S NOTICE OF FILING DIRECT TESTIMONY OF CHRIS HENDRIX AND GREGORY W. TILLMAN ON RATE DESIGN AND COST OF SERVICE**

Wal-Mart Stores, Inc. and Sam's West, Inc. (collectively, "Wal-Mart"), hereby provides notice of the filing of Chris Hendrix's and Gregory W. Tillman's direct testimony related to rate design and cost of service in the above-referenced matter.

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Arizona Corporation Commission
DOCKETED
JUN 24 2016
DOCKETED BY KG

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Dated this 24th day of June, 2016.

HIENTON & CURRY, P.L.L.C.

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR 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 TUCSON ELECTRIC POWER COMPANY DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA, AND FOR RELATED APPROVALS	**DOCKET NO. E-01933A-15-0322**

DIRECT TESTIMONY (RATE DESIGN) AND EXHIBITS OF

CHRIS HENDRIX

ON BEHALF OF

WAL-MART STORES, INC. AND SAM'S WEST, INC.

JUNE 24, 2016

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Exhibits

Exhibit CWH-1 – Witness Qualifications Statement

Introduction

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Chris Hendrix. My business address is 2001 SE 10th St., Bentonville, AR 72716-0550. I am employed by Wal-Mart Stores, Inc. as Director of Markets and Compliance.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?

A. I am testifying on behalf of Wal-Mart Stores, Inc. and Sam's West, Inc. (collectively, "Walmart").

Q. PLEASE DESCRIBE YOUR POSITION WITH WAL-MART?

A. In my role as Director of Markets & Compliance, I am responsible for directing and implementing regulatory and legislative policies for Walmart's retail and wholesale business interests related to electricity and natural gas in the competitive markets of the United States and the United Kingdom. In addition, I am accountable for all regulatory, legislative and market developments that effect the operation of Walmart's self-supply retail electricity provider; Texas Retail Energy, LLC in Connecticut, Illinois, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, and Texas, and Power4All, Ltd. in the United Kingdom.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I earned a Bachelors of Business Administration with a concentration in Accounting from the University of Houston in 1991 and a Masters of Business Administration

with a concentration in Finance and International Business from the University of Houston in 1994. I have more than 25 years of experience in all facets of the energy industry with the last 15 years specifically related to the competitive electric and natural gas markets. From 1990 to 1997, I was an Accountant, then an Accounting Analyst and later a Senior Rate Analyst with Tenneco Energy in Houston, Texas. My initial duties included various accounting functions for their regulated pipeline, Tennessee Gas Pipeline, and in my later position, the preparation of cost allocation and rate design studies. From 1997 to 2001, I was a Senior Specialist and later a Manager at Enron Energy Services in Houston, Texas. My duties included participating in gas and electric deregulation proceedings, performing cost of service analysis, and analyzing regulatory rules and utility tariffs. From 2002 to 2003, I was a Manager at TXU Energy in Dallas, Texas, where I supervised a pricing team for energy transactions. In 2003, I joined the Energy Department of Wal-Mart Stores Inc., as a General Manager and was promoted to my current position in 2009. My Witness Qualification Statement is found on Exhibit CWH-1.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE ARIZONA CORPORATION COMMISSION ("THE COMMISSION")?

A. Yes. I submitted testimony in Docket Nos. E-01345A-11-0224 and E-04204A-15-0142.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE OTHER STATE REGULTORY COMMISSIONS?

A. Yes. I have submitted testimony in one proceeding before the Oklahoma Corporation Commission. My testimony addressed the topic of natural gas competition. In

addition, I have been a contributor to numerous coalition groups and industry organizations in preparing and submitting testimony regarding natural gas and electricity competition and wholesale market rules.

Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?

A. Yes. I am sponsoring the exhibits listed in the Table of Contents.

Purpose of Testimony

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address Experimental Rider 14, Alternative Generation Service ("AGS") proposed by Tucson Electric Power Company. ("TEP" or "the Company").

Summary of Recommendations

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION TO THE COMMISSION.

A. My recommendation to the Commission is to approve AGS with the following modifications:

1) The Commission should reject the management fee as proposed by the Company and require the Company to file a cost-justified management fee proposal.

2) The Commission should reduce the minimum participation size to 1,000 KW and specify that a Customer can aggregate utility accounts within its corporate family to meet the participation limit.

3) The Commission should allow all rate classes to participate based on Recommendation 2 above.

4) The Commission should not make an AGS Customer responsible for any of the Company's generation related charges or any "lost revenues" since the AGS program is simply replacing wholesale market purchases that the Company would have to make.

The fact that an issue is not addressed herein or in related filings should not be construed as an endorsement of any filed position.

Experimental Rider 14, Alternative Generation Service

Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS WITHIN THE COMPANY'S SERVICE TERRITORY.

A. Walmart has 21 retail units that take electric service from TEP. Primarily, Walmart stores takes service under the Large General Service Time-of-Use Rate ("LGS-85").

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S AGS PROPOSAL?

A. My understanding is that the Company is proposing AGS as a buy-through tariff per the settlement agreement in the acquisition of the Company by Fortis, which settlement agreement was approved by the Commission in Decision No. 74689 (August 12, 2014). However, the Company is not supportive and states that they are opposed to the implementation of the AGS tariff.[1]

[1] See Direct Testimony of Craig A. Jones Page 6, Lines 16 to 17.

As proposed, AGS would be made available for a maximum of 30 MW of peak load for no more than four years from the effective date of the new rates in this docket. Only LPS-TOU and 138 kV ratepayers with peak demands of 3,000 KW or more would be allowed to participate.

Participating ratepayers would select their preferred generation service provider to sell power to the Company on the ratepayer's behalf. The Company would then take title to the power and provide it to the ratepayer. The Ratepayer would be responsible for all charges and adjustments in the retail rate schedule, except for the Power Supply Charges and the Purchased Power and Fuel Adjustment Charge ("PPFAC"). The Company would still supply transmission, delivery and revenue cycle services under the provisions of the retail rate schedule.[2]

Q. DOES THE COMPANY PROPOSE A MANAGEMENT FEE FOR THE AGS TARIFF?

A. Yes, TEP is proposing a management fee of $0.0040 per kWh.[3]

Q. IS THE MANAGEMENT FEE THAT THE COMPANY IS PROPOSING FOR THE AGS TARIFF COST BASED AND JUSTIFIED?

A. No. The Company states the amount of the management fee but does not provide any documentation for the amount. The Company should be allowed to recover the actual just and reasonable costs of providing the AGS services but those costs should be provided for review by the Commission and parties. As such, the Commission should

[2] See Direct Testimony of Craig A. Jones Page 62, Lines 6 to 22.
[3] See Direct Testimony of Craig A. Jones Page 62, Lines 24 to 26 and Page 63, Lines 1 to 2.

reject the management fee as proposed by the Company and require the Company to file a cost-justified management fee proposal.

Q. IS THE MINIMUM PARTICPATION SIZE (TO ONLY INCLUDE CUSTOMERS WITH PEAK DEMANDS GREATER THAN 3,000 KW) APPROPRIATELY SET?

A. No. The more appropriate minimum participation size would be 1,000 KW. This minimum size would ensure that the participant is sufficiently large enough to be a sophisticated user of electricity and not need any consumer protection requirements.

Q. SHOULD CUSTOMERS BE ALLOWED TO AGGREGATE SITES TO MEET THE PEAK DEMAND THRESHOLD?

A. Yes. A Customer should be allowed to aggregate utility accounts within its corporate family to meet the peak demand threshold. This will allow participating customers to leverage economies of scale to reduce their generation supply costs.

Q. SHOULD AGS BE AVAILABLE TO ADDITIONAL RATE CLASES?

A. Yes. As proposed the AGS program would only be available to customers that are served on either LPS-TOU or 138 kV rate classes.[4] Based on my recommendation to lower the peak demand threshold and allowing a customer to aggregate utility accounts, all commercial and industrial rate classes should be allowed to participate. This would allow a significant number of customers the opportunity to participate in AGS, which, in my experience, would attract more Generation Service Providers and result in lower costs to participating.

Q. SHOULD THE CAP OF 30 MW OF PEAK LOAD BE EXPANDED?

[4] See Direct Testimony of Craig A. Jones Page 62, Line 8.

A. Yes. The cap should be raised to 250 MW of peak load. The 30 MW limit is completely arbitrary and not supported by the Company. The proposed cap, along with the limited number of customers that would be eligible for AGS, would severely restrict the amount of Generation Service Providers that would be interested in participating in the program.

Q. HOW DID YOU ARRIVE AT THE 250 MW OF PEAK LOAD CAP?

A. As noted in the Direct Testimony of Michael E. Sheehan, the Company plans to purchase 250 MW to 350 MW of capacity from the wholesale market to cover its near term load obligation.[5] I based the 250 MW cap as the lower end of the amount that the Company is planning on purchasing from the wholesale power market. This would significantly reduce the Company's reliance on the wholesale market and transfer the market risk to customers who are willingly participating in the AGS program. This will shelter TEP's other ratepayers from market risk and volatility related to the Company's wholesale purchases.

Q. SHOULD AGS CUSTOMERS BE RESPONISBLE FOR ANY OF THE COMPANY'S GENERATION RELATED CHARGES IN THE BASE RETAIL RATES?

A. No. Since the AGS Program would be replacing the Company's wholesale market purchases there should be no charges to the participating AGS Customers for the Company's generation related costs. In addition, the Company will be able to plan that the AGS Program will be a slice of its total resource mix on an ongoing basis.

[5] See Direct Testimony of Michael E. Sheehan, Pages 31 Lines 4 to 5.

Q. SHOULD THE AGS CUSTOMERS BE RESPONISBLE FOR ANY OF THE COMPANY'S CLAIMED LOST REVENUES OR EARNINGS?

A. No. Since the AGS Program would be replacing the Company's wholesale market purchases there would be no lost revenues or earnings related to AGS.

Q. SHOULD THE AGS PROGRAM BE LIMITED TO FOUR YEARS?

A. No. There should be no limit to the length of the program and the AGS program should not be designated as an "Experimental" or "Pilot" program. There is ample evidence in Arizona from the APS AG-1 program and in other states around the country including Connecticut, Illinois, Maryland, Massachusetts, New Hampshire, New Jersey, Maine, Ohio, Pennsylvania, Texas, and New York (including the service territory of Central Hudson which is also owned by Fortis) and other countries such as the United Kingdom and Canada (including the provinces of Alberta and Ontario where Fortis operates Distribution Utilities) that electric competition is an effective way for a customer to manage their electricity needs to better suit their business needs.

Q. DOES THE TERM AFFECT THE ABILITY OF CUSTOMERS TO CONTRACT FOR LARGE SCALE RENEWABLES?

A. Yes. Limiting the program to four years eliminates the ability of customers to purchase long-term contracts especially for off-site renewable contracts like solar and wind, due to the length of contract term needed by renewable developers to build new projects. Many Customers, including Walmart, would like to purchase more renewables than the amount included in the Company's resource mix. Eliminating the proposed program term will enable Customers to purchase large scale off-site

renewables if they desire and it fits their business needs. The purchase of any additional renewable amount would be at the AGS Customer's own choosing and cost and would not harm any other TEP customers. This would have the added benefit of increasing the renewable fuel mix for all of Arizona with no risk to any other non-AGS ratepayers.

Q. DOES THE EXISTENCE OF AGS HARM OTHER NON-AGS CUSTOMERS?

A. No. Contrary to the Company's contention that the existence of AGS allows certain customers to "cherry pick" available capacity resulting from current economic conditions and will ultimately result in costs being passed on to the non-AGS customers,[6] the existence of AGS does not harm any non-AGS customer. The AGS Program is replacing the Company's own wholesale market purchases with those of the Customers participating in AGS, thus shifting the risk of the Company's wholesale market purchases from the Company's ratepayers (the non-AGS Customers) to the AGS Customers.

Conclusion

Q. GENERALLY, WHAT IS YOUR RECOMMENDATION TO THE COMMISSION ON THE COMPANY'S PROPOSED ALTERNATIVE GENERATION SERVICE?

A. The Commission should approve the Alternative Generation Service Program with my proposed changes outlined above which would enable a Customer, if they were

[6] See Direct Testimony of Craig A. Jones Page 61, Line 26 and Page 62, Lines 1 to 2.

willing to participate to choose a wholesale generation product from an alternative service provider that suits their business needs.

Renewable Buy Through Generation Service (RGS)

Q. IS THERE A NEED FOR A PROGRAM FOR CUSTOMERS IF THEY DESIRE TO BE ABLE TO PURCHASE LARGE SCALE RENEWABLES?

A. Yes. Customers can and do have needs for a supply mix different from that offered by the utility, and a framework should be in place in which the customer can work with the utility to ensure delivery of that supply mix on a cost-effective basis.

Q. HAS WALMART ESTABLISHED CORPORATE RENEWABLE ENERGY GOALS?

A. Yes. Walmart has established aggressive and significant renewable energy goals, including: (1) to be supplied 100 percent by renewable energy[7] and (2) to drive, by 2020, the annual production or procurement of seven billion kWh of renewable energy across the globe.[8] Walmart recognizes that Arizona has tremendous renewable energy potential, and strongly encourages the Commission to consider ways for customers like Walmart to take advantage of that potential.

Q. IS THERE ADDITIONAL OPPORTUNITY FOR CUSTOMER ACCESS TO RENEWABLE POWER THAT IS NOT ADDRESSED BY THE COMPANY'S CURRENT OFFERINGS?

[7] http://corporate.walmart.com/global-responsibility/environmental-sustainability

[8] http://www.walmartgreenroom.com/2013/04/walmarts-next-big-step-on-renewable-energy-and-energy-efficiency/

A. Yes. Other states with vertically integrated utilities have begun to explore options that would allow large customers, within the context of cost-based ratemaking, to contract for renewable energy on a significant scale and have the utility manage the delivery and reliability of the contracted energy.

Q. PLEASE PROVIDE AN EXAMPLE.

A. In Utah, Rocky Mountain Power has Schedule 32 – Service From Renewable Energy Facilities, a tariff under which a customer contracts for renewable energy with one or more off-site generators. Rocky Mountain Power then purchases the power from the generator on behalf of the customer and delivers it to one or more customer sites. The proposed tariff is unbundled, with separate charges for administrative, delivery, and backup or shaping services, and all supplemental power and energy is priced at the otherwise applicable tariff rates.[9]

Q. HAVE OTHER STATES APPROVED STRUCTURES IN WHICH THE UTILITY OWNS OR PROCURES LARGE SCALE RESOURCES WHICH ARE USED TO SERVE SPECIFIC CUSTOMERS?

A. Yes. An example is the approval by the Alabama Public Service Commission of Alabama Power's proposal to construct or otherwise acquire renewable generation resources which are then paid for through agreements with specific customers, with no costs shifted to non-participating ratepayers. See Order, Alabama Public Service Commission Docket No. 32382, September 16, 2015. Additionally, Westar Energy in

[9] Walmart does not specifically endorse the rate structure within the tariff or the charges contained therein. The structure of the daily demand charges is a concern for many customers who are interested in taking service under the tariff.

Kansas has recently implemented a Wind Generation Service tariff under which customers can be served by the utility's wind fleet.

Q. PLEASE DESCRIBE THE RENEWABLE GENERATION SERVICE (RGS) PROGRAM THAT WALMART IS PRESENTING?

A. Participating RGS customers would select their preferred renewable generation service provider to sell power to the Company on the ratepayer's behalf. The Company would then take title to the power and provide it to the ratepayer. The participant would be responsible for all charges and adjustments in their retail rate schedule, except for the $/kWh Base Power Supply Charges and the Purchased Power and Fuel Adjustment Charge ("PPFAC"). The Company would still supply transmission, delivery and revenue cycle services under the provisions of the retail rate schedule.

Q. WHO COULD PARTICIPATE?

A. The RGS program would be available to all commercial and industrial Customers with a peak demand of 1,000 kW or greater. A Customer would be allowed to aggregate utility accounts within its corporate family to meet the peak demand threshold. This will allow participating customers to leverage economies of scale to reduce their renewable generation supply costs.

Q. WOULD THERE BE A CAP ON PARTICIPATION?

A. No. Any customer that meets the participation threshold would be allowed to participate. Total number of customers electing to participate in the RGS program will be relatively small due to the participation threshold, the term length of renewable contracts and credit required by the Customer.

Q. WOULD THERE BE A TERM LIMIT ON THE RGS PROGRAM?

A. No. By their very nature renewable projects require a sufficient contract term for the renewable developer to finance the project.

Q. SHOULD THE COMPANY RECEIVE AN ADMINISTRATIVE FEE FOR PROVIDING THE RGS PROGRAM?

A. Yes. The Company should be allowed an Administrative Fee to recover the actual just and reasonable costs of providing the RGS services of its costs of invoicing, scheduling, and managing the RGS Program but those costs should be provided for review by the Commission and parties.

Q. DOES THE EXISTENCE OF RGS HARM OTHER NON-RGS CUSTOMERS?

A. No. As stated in the Direct Testimony of Michael Sheehan the Company plans to increase its renewable energy commitments to 30 percent by 2030[10] recognizing the need of renewables. The purchase of renewables would be at the RGS Customer's own choosing and cost and would not harm any other TEP customers. In addition, the RGS program would partially replace the need for TEP to purchase all of the renewables to get to the increase to 30 percent. This would have the added benefit of increasing the renewable fuel mix for all of Arizona with no risk to any other non-RGS ratepayers.

Q. SHOULD YOUR PROPOSED RENEWABLE BUY THROUGH GENERATION SERVICE REPLACE THE COMPANY'S PROPOSED ALTERNATIVE GENERATION SERVICE?

A. No. My proposed RGS program would be a separate program from AGS.

[10] See Direct Testimony of Michael E. Sheehan, Pages 32 Lines 4 to 5.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION ON THIS ISSUE?

A. The Commission should approve Walmart's proposed RGS program and direct TEP to file tariff sheets implementing the program. At the minimum the Commission should require TEP to work with interested stakeholders to develop additional energy supply options, with a particular focus on renewables, based on the Company's underlying cost of service to be presented as a separate tariff filing.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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Manager – Retail Pricing (2002 –2003)

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Manager – Target Markets (2002 –2003)
Manager – Product Development/Structuring (1999 – 2001)
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Tenneco Energy, Houston, TX
Senior Rate Analyst (1994 – 1997)
Accounting Analyst (1992 – 1994)
Accountant (1991 – 1992)

EDUCATION

1994	**University of Houston**	M.B.A, Finance & International Business
1991	**University of Houston**	B.B.A, Accounting (Magna Cum Laude)

INDUSTRY ORGANIZATIONS

Arizona Independent Scheduling Administrator Association (AzISA)
Board Member (2014 – present)

Arizonans for Electric Choice & Competition (AECC)
Chairman (2013 – present)

COMPETE Coalition
Board Member (2008 – 2013)

Electric Reliability Council of Texas (ERCOT)
Technical Advisory Committee - TAC (2004 – 2006)

National Energy Marketers Association
Chairman (2015 – present)
Executive Committee and Policy Chair (2006 – present)

NEPOOL (ISO New England)
Participants Committee (2011 – present)
Markets Committee (2011 – present)
Consumer Liaison Group (2011 – present)

PJM Interconnection
Market Reliability Committee (2011 – present)
Members Committee (2011 – present)

TESTIMONY

1998

Oklahoma Corporation Commission Cause No. PUD 980000177: Joint Application of Oklahoma Natural Gas Company, A Division of Oneok, Inc., Oneok Gas Transportation, a Division of Oneok, Inc., and Kansas Gas Service Company, a Division of Oneok, Inc., for Approval of Their Unbundling Plan for Natural Gas Services Upstream of the Citygates or Aggregation Points.

2012

Arizona Docket No. E-01345A-11-0224: In the Matter of the Application of Arizona Public Service Company for a Hearing to Determine the Fair Value of the Utility Property of the Company for Ratemaking Purposes, to Fix a Just and Reasonable Rate of Return Thereon, and to Approve Rate Schedules Designed to Develop Such Return.

2015

Arizona Docket No. E-04204A-15-0142: 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.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR 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 TUCSON ELECTRIC POWER COMPANY DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA, AND FOR RELATED APPROVALS	DOCKET NO. E-01933A-15-0322

DIRECT TESTIMONY (RATE DESIGN) AND EXHIBITS OF

GREGORY W. TILLMAN

ON BEHALF OF

WAL-MART STORES, INC. AND SAM'S WEST, INC.

JUNE 24, 2016

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Exhibits

Exhibit GWT-1 – Witness Qualifications Statement

Exhibit GWT-2 – Calculation of the Change in TEP Weighted Average Cost of Capital

Exhibit GWT-3 – Calculation of Walmart Proposed Revenue Allocation

Exhibit GWT-4 – Annual Subsidy Reductions - Rate Support Rider

Exhibit GWT-5 – Walmart Proposed Changes to Rate LGS-85

Introduction

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Gregory W. Tillman. My business address is 2001 SE 10th St., Bentonville, AR 72716-0550. I am employed by Wal-Mart Stores, Inc. as Senior Manager, Energy Regulatory Analysis.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?

A. I am testifying on behalf of Wal-Mart Stores, Inc. and Sam's West, Inc. (collectively "Walmart").

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I earned a Bachelor of Science in Electrical Engineering from the University of Tulsa in 1987. I have more than 23 years of experience in the regulated and deregulated energy industry including roles in regulatory, pricing, billing, and metering information. After serving on active duty as a Signal Officer in the United States Army, I joined Public Service Company of Oklahoma ("PSO") where I was employed in various positions in the Information Services, Business Planning, Rates and Regulatory, and Ventures departments from 1990 through 1997. Within the Rates and Regulatory department I served as the Supervisor of Power Billing and Data Collection. In this position I managed the billing for large industrial and commercial customers and led the implementation of the company's real-time pricing program. I also managed the implementation of real-time pricing for three other utilities within the Central and South West Corporation – Southwestern Electric Power Company ("SWEPCO"), Central Power and Light ("CPL") and West Texas Utilities ("WTU"). Following my employment at PSO, I joined the Retail department of the Williams

Energy Company as the manager of systems for the retail gas and electric data and billing systems in 1997. During this time I also managed the customer billing function at Thermogas and billing and accounting systems support functions at Williams Communications. In 2000, I joined Automated Energy where I served as the Vice President of Energy Solutions for two years. Following several assignments as a consultant and project manager in various industries, I joined OG&E in 2008 as a senior pricing analyst, was promoted to Manager of Pricing in January 2010, and became the Product Development Pricing Leader in 2013. While at OG&E, I was instrumental in developing and managing OG&E's pricing strategy and products including the design and implementation of the OG&E's SmartHours™ rate. I have been in my current position as Senior Manager, Energy Regulatory Analysis at Walmart since November 2015. My Witness Qualification Statement is found in Exhibit GWT-1.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE ARIZONA CORPORATION COMMISSION ("THE COMMISSION")?

A. Yes, I submitted testimony in Docket No. E-04204A-15-0142.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE OTHER STATE REGULATORY COMMISSIONS?

A. Yes. I have submitted testimony in proceedings before the Oklahoma Corporation Commission and Arkansas Public Service Commission. My testimony addressed the topics of rate design, revenue allocation, pricing, customer impacts, tariffs and terms and conditions of service.

Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?

A. Yes. I am sponsoring the exhibits listed in the Table of Contents.

Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS IN ARIZONA.

A. Walmart operates 126 retail units and 4 distribution centers, employing 33,838 associates in Arizona. In fiscal year ending 2016, Walmart purchased $1.5 billion worth of goods and services from Arizona-based suppliers, supporting 25,731 supplier jobs.[1]

Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS WITHIN THE COMPANY'S SERVICE TERRITORY.

A. Walmart has 21 retail units that take electric service from Tucson Electric Power Company. ("TEP" or "the Company"). Primarily, Walmart stores take service under the Large General Service Time-of-Use Rate ("LGS-85").

Purpose of Testimony

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address TEP's proposed cost of service model, revenue allocation, and rate design. Specifically, I respond to the rate design proposals that affect the LGS rate class which are supported by TEP witnesses Dallas J. Dukes and Craig A. Jones.

[1] http://corporate.walmart.com/our-story/locations/united-states#/united-states/arizona

Summary of Recommendations

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE COMMISSION.

A. My recommendations to the Commission are as follows:

1) The Commission should approve TEP's proposed cost of service model.

2) At the Company's proposed revenue requirement, the Commission should order TEP to eliminate the disparity in the allocation of revenue requirement associated with the subsidies between the current subsidizing classes. For subsidized classes, the Commission should accept the Company's proposed allocation to the subsidized classes; and, for the subsidizing classes, the Commission should adopt a spread of the remaining deficiency proportionate to the class revenue at each class' full cost of service as proposed within my testimony. Further, the Commission should order the Company to implement a subsidy mitigation method to provide a meaningful reduction in the existing subsidies prior to the Company's next rate case.

3) The Commission should order that any reduction in the revenue requirement as a result of the decisions made in this proceeding is used to reduce the inter-class subsidies and mitigate the rate impact to all classes as outlined within my testimony.

4) The Commission should order a rate design for Rate LGS-85 that reduces intra-class subsidies through a more accurate reflection of the underlying cost structures as proposed within my testimony.

5) The Commission should approve the Economic Development Rider subject to the development of guidelines for the recovery and allocation of the costs and/or any revenue deficiencies associated with the EDR.

The fact that an issue is not addressed herein or in related filings should not be construed as an endorsement of any filed position.

General Rate Design

Q. WHAT IS WALMART'S POSITION ON SETTING RATES BASED ON THE COST OF SERVICE?

A. Walmart advocates that rates be set by regulatory agencies based on the utility's cost of service. A regulatory policy that supports the fair-cost-apportionment objective ensures that rates reflect cost causation, send proper price signals and minimize price distortions. In addition to the fairness objective, Walmart supports rate structures that encourage the efficient use of electricity in a manner that seeks to minimize the long-term costs of electric service.

Q. WHAT ARE THE COMPANY'S GOALS FOR ITS PROPOSED RATE DESIGN?

A. According to the testimony of Mr. Dukes, TEP is seeking to establish rates which generally follow the principles set forth in Dr. James C. Bonbright's "Principles of Public Utility Rates" to drive a reasonable rate design. Mr. Dukes further explains

that the foundational or primary principle is that of cost-causation.[1] Mr. Jones elaborates on the goal by explaining the "Company's primary objective is to modify existing rates to recover costs in a more equitable manner from all similarly situated customers.[2]" Additionally, Mr. Jones expresses secondary objectives: (1) to initiate movement to updated rate design standards that are more aligned with the Company's need for fixed cost recovery; and (2) to reduce existing cross-subsidies within and between customer classes.[3]

Q. DO YOU AGREE WITH THE STATED GOALS OF THE COMPANY'S RATE DESIGN?

A. Yes, I agree with the stated objectives. However, as I will discuss later within my testimony, the Company fails to adhere to these objectives with respect to the Large General Service ("LGS") customer class on two major fronts. First, the Company's proposed revenue allocation does not equitably distribute the revenue increase and related subsidy among the major rate classes; and second, the Company's proposed rate design for the LGS class further exacerbates the existing subsidy issue by inappropriately applying the allocated subsidies to variable rate components.

[1] Direct Testimony of Dallas J. Dukes, page 8, line 22 to page 9, line 19.
[2] Direct Testimony of Craig A. Jones, page 32, lines 14-15.
[3] Ibid, page 33, lines 21-23.

Cost of Service Study

Q. WHAT IS THE PURPOSE OF A COST OF SERVICE STUDY?

A. The cost of service study is foundational in establishing distribution of the utility's authorized revenue requirement amongst the various customer classes. This is accomplished by identifying, classifying, and allocating total costs to each of the rate classes in a manner that is consistent with how costs are incurred by each rate class.

Q. HAS THE COMPANY PROPOSED ANY MAJOR CHANGES TO THE ALLOCATION OF COSTS COMPARED TO THAT APPROVED IN ITS MOST RECENT RATE CASE?

A. Yes. The Company proposes to modify its method of allocating plant demand related costs from a Peaks and Average to an Average and Excess methodology.[1]

Q. DOES WALMART OPPOSE THIS CHANGE IN THE ALLOCATION METHODOLOGY AS PROPOSED BY THE COMPANY?

A. Walmart does not oppose this modification to the allocation methodology used by the Company.

Q. DO YOU HAVE ANY CONCERNS WITH THE COST OF SERVICE MODEL PRESENTED BY THE COMPANY?

A. No. However, to the extent that alternative cost of service models or modifications to the Company's model are proposed by other parties, Walmart reserves the right to address any such changes in surrebuttal testimony.

[1] Ibid page 25, line 24 through page 26, line 17.

Revenue Allocation

Q. HAS THE COMPANY PROPOSED A CLASS REVENUE ALLOCATION?

A. Yes. TEP's proposed rates establish the allocation to each of the major rate classes defined within the Company's cost of service study. The proposed revenue requirement for each class is presented within Schedule G-2, sponsored by Mr. Jones.[1]

Q. WHAT METRIC DO YOU USE TO DETERMINE IF RATES ACCURATELY REFLECT THE UNDERLYING COST CAUSATION?

A. I employ the relative rate of return ("RROR"), which is a measure of the relationship of the rate of return for an individual rate class to the total system rate of return. A RROR greater than 100 percent means that the rate class is paying rates in excess of the costs incurred to serve that class, and a RROR less than 100 percent means that the rate class is paying rates less than the costs incurred to serve that class. As such, when rates are set such that each class does not have a RROR equal to 100 percent there are inter-class subsidies, as those rate classes with a RROR greater than 100 percent shoulder some of the revenue responsibility burden for the classes with a RROR less than 100 percent.

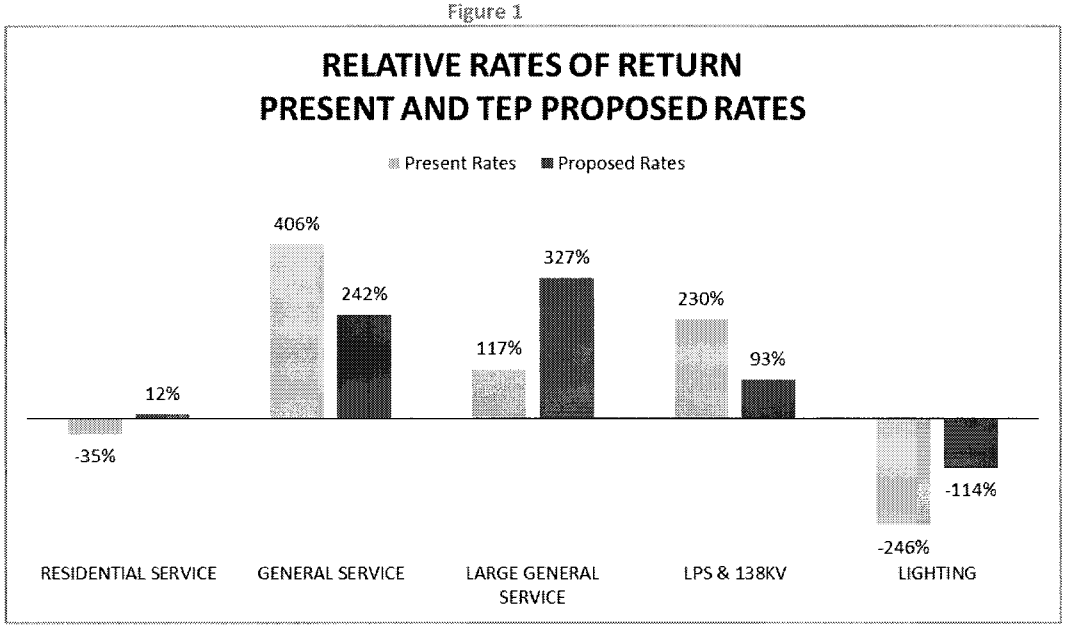
Q. WHAT ARE THE PROPOSED RATES OF RETURN FOR THE TOTAL COMPANY AND INDIVIDUAL RATE CLASSES?

A. The Company has proposed a total return of 7.88 percent. The Company's proposed individual class rates of return and the calculated RROR for each class can be found

[1] Ibid, page 3, line 11.

in Exhibit GWT-2 and are graphically shown in Figure 1[1]. This graphic shows the change in the RROR from the present rates to the Company's proposed rates. For example, the RROR under the present rates for the LGS class is 117 percent; and, under the Company's proposal is increased to 327 percent.

Figure 1



Q. THE COMPANY CLAIMS TO STRIVE TO ACHIEVE PARITY[2] AS IT RELATES TO EACH CLASS' CONTRIBUTION TO PLANT, DO YOU AGREE WITH THIS CHARACTERIZATION OF THE COMPANY'S PROPOSED REVENUE ALLOCATION?

A. Absolutely not. As depicted in Figure 1, the Company's proposal clearly makes no effort to move the LGS closer or limit its movement away from its fair portion of the

[1] Within this view of class based information and throughout my testimony, I have combined the Large Power Service ("LPS") and Transmission ("138KV") Classes ("LPS & 138KV") to conceal competitively sensitive confidential data.
[2] Jones, page 25, line 12.

costs. Currently, the LGS class RROR is 117 percent, indicating that it is about 17 percent higher than the target rate of 5.52 percent. As can be seen, the Company proposes to apply an excessive rate increase to the LGS class, raising its RROR to 327 percent, 227 percent above the target rate of 7.88 percent. Put in perspective, the LGS class is being asked to pay a premium nearly 32 percent above its cost-based rates. The lack of the proper attention to achieving equitable treatment for all classes in the Company's proposed revenue allocation is further highlighted by the Company's proposal, not only to propose a favorable allocation of the increase to the LPS & 138KV classes, but, in fact, propose a decrease to the rates for these customers that results in charges below their full cost of service. This brings them from the historical position of bearing a portion of the subsidy burden to a position of having a portion of their costs transferred to other customers. The GS and LGS classes are left to bear, not only their current share of the burden, but the additional share proposed to be removed from the LPS customers.

Q. HAVE YOU CALCULATED THE SUBSIDY LEVELS ASSOCIATED WITH THE COMPANY'S PROPOSAL?

A. Yes. The total proposed subsidy is $88.1 million as shown in Figure 2. Under TEP's proposal, the subsidizing classes, GS and LGS, share the burden of these subsidies at the level of $49.7 million and $38.4 million, respectively. The impact of subsidies on these two classes creates premiums of 23.3 percent and 31.6 percent, above their respective full costs of service.

Figure 2

SUBSIDY LEVELS AT PROPOSED RATES						
	TOTAL	RESIDENTIAL SERVICE	GENERAL SERVICE	LARGE GENERAL SERVICE	LPS & 138KV	LIGHTING
REVENUE AT COST OF SERVICE	$ 1,050,587,667	$ 574,245,028	$ 213,316,383	$ 121,425,810	$ 132,570,739	$ 9,029,708
PROPOSED ELECTRIC SALES REVENUE	$ 1,050,587,667	$ 490,327,443	$ 263,045,442	$ 159,835,280	$ 131,269,623	$ 6,109,879
SUBSIDY PAID/(RECEIVED)	$ 88,138,529	$ (83,917,585)	$ 49,729,059	$ 38,409,470	$ (1,301,116)	$ (2,919,829)
SUBSIDY AS A % OF REVENUE AT COST	8.39%	-14.61%	23.31%	31.63%	-0.98%	-32.34%

Q. DO YOU AGREE WITH THE PROPOSED REVENUE ALLOCATION AND RESULTING SUBSIDIES?

A. No. The change in the proposed return of the LGS class is extreme, especially when compared to movement in the other classes. This action, in light of the Company's proposal to move the other currently subsidizing classes toward their respective costs of service and, in the case of the combined LPS & 138KV class, a net reduction in rates that results in revenue allocation below full cost, is not accompanied by any explanation or justification from the Company. This violation of the Company's own stated objective, the lack of supporting evidence or justification, and the significance of the impact on the LGS customer class appears to be a capricious application of the proposed revenue increase among the various classes.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE REVENUE ALLOCATION AS PROPOSED?

A. The Commission should reject the proposed allocation of revenue and order the Company to ensure that the existing subsidy burden is shared by the GS, LGS, LPS and 138KV classes in a manner that is consistent with the goal of equitable rate design.

Q. HAVE YOU DEVELOPED AN ALTERNATIVE REVENUE ALLOCATION, AT THE COMPANY'S PROPOSED REVENUE REQUIREMENT THAT MORE CLOSELY ALIGNS WITH THE COMPANY'S STATED GOALS?

A. Yes. The allocation proposed by the Company for the Residential and Lighting class conforms to the Company's objectives as stated. After allocation of the proposed increases to these classes, I recommend that the Commission allocate the remaining revenue requirement among the remaining classes proportioned on the revenue requirement at each class' full cost of service. This ensures the burden of the subsidy is equitably shared among, and minimally burdensome to the subsidizing classes.

Q. WHAT ARE THE RESULTS OF YOUR PROPOSED ALLOCATION AT THE COMPANY'S PROPOSED REVENUE REQUIREMENT?

A. The individual class revenue allocations and resulting subsidies under this method are calculated in Exhibit GWT-3. The results are summarized in Figure 3.

Figure 3
Walmart Recommended Revenue Allocation

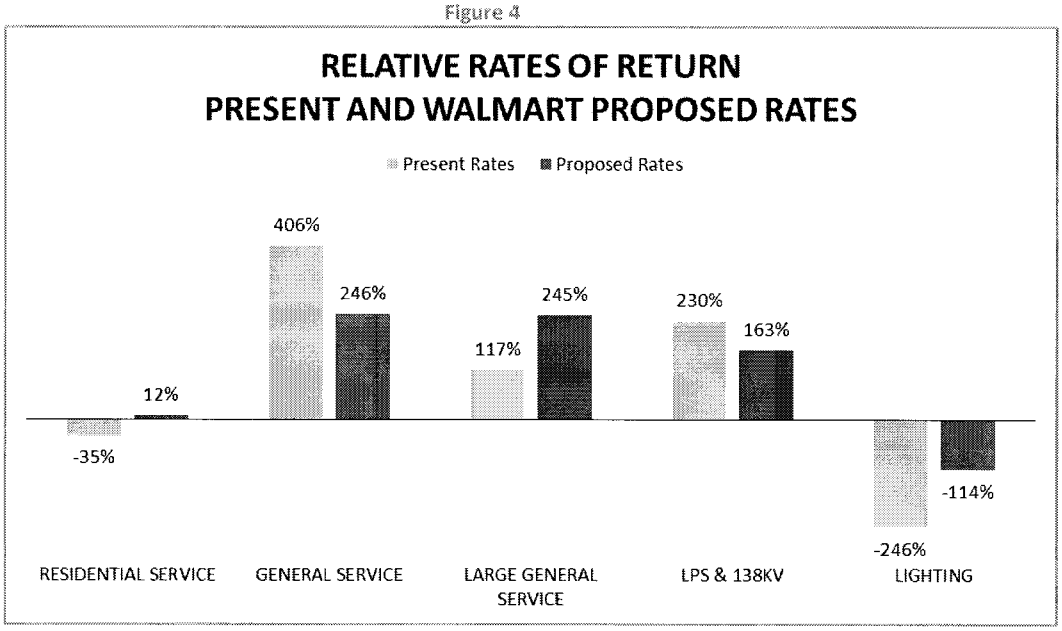
	TOTAL	RES	GS	LGS	LPS & 138KV	LIGHTING
TOTAL REVENUE	**$ 1,050,587,667**	**$ 490,327,443**	**$ 264,619,063**	**$ 145,867,033**	**$ 143,664,249**	**$ 6,109,879**
OPERATING INCOME	$ 165,898,315	$ 11,135,488	$ 86,364,065	$ 41,328,413	$ 28,626,293	$ (1,555,944)
RATE BASE	$ 2,104,677,691	$1,205,895,803	$ 444,808,100	$ 214,240,229	$ 222,430,561	$ 17,302,998
RATE OF RETURN	7.88%	0.92%	19.42%	19.29%	12.87%	-8.99%
RELATIVE RATE OF RETURN		11.7%	246.3%	244.7%	163.3%	-114.1%
RESULTING SUBSIDY	$ 86,837,414	$ (83,917,585)	$ 51,302,681	$ 24,441,223	$ 11,093,510	$ (2,919,829)

Q. DOES YOUR RECOMMENDATION MOVE ALL CLASSES TOWARD THEIR RESPECTIVE COST OF SERVICE?

A. No. The extent of the subsidization that exists and limitations on increases to the subsidized classes prevents movement toward the cost of service for all classes. This recommended revenue allocation will, however, mitigate the undue burden to which

the LGS class is subjected under the Company's proposal. My recommendation maintains TEP's proposed levels of subsidies in favor of the residential and lighting classes ($83.9 million and $2.9 million, respectively); it merely redistributes the burden of paying for those subsidies among the three remaining customer classes. The resulting changes to the rates of return are much more evenly distributed as can be seen in Figure 4.

Figure 4



Q. HAVE YOU TESTIFIED TO THE OVERALL RATE OF RETURN BEING PROPOSED BY THE COMPANY?

A. Yes. In my direct non-rate design testimony filed June 3, 2016 I proposed that the Commission order a return on equity ("ROE") of no more than 9.5 percent.[1]

[1] Direct Testimony (Non-Rate Design) of Gregory W. Tillman, page 4, line 21.

Q. IF THE COMMISSION ORDERED A RATE OF RETURN LOWER THAN THAT PROPOSED BY THE COMPANY, HOW SHOULD THE RESULTING REDUCTION IN REVENUE BE APPLIED TO THE CLASSES?

A. In the event that the Commission approves an overall rate increase that is lower than that requested by the Company, I recommend that one-half of the resulting reduction in revenue be used to directly reduce the subsidy at equal percentages across all of the subsidizing classes. The remainder of the reduction in the authorized revenue should be applied across all rate classes in equal percentages, reducing the increase for all classes.

Subsidy Mitigation

Q. BASED ON THE COST-CAUSATION OBJECTIVES, WOULD YOU RECOMMEND A MORE AGGRESSIVE MOVEMENT TO COST OF SERVICE THAN CAN BE ACCOMPLISHED AT THIS TIME?

A. Yes. It is important to bring all classes to their respective cost of service as quickly as possible. The Company claims that due to the current levels of subsidy in the rates and rate increase limitations introduced within the gradualism principle, it will take a few more rate cases to achieve parity.[1] Depending on the timing of future rate cases, the desired movement to full cost could take decades to achieve. A more aggressive movement to cost of service which implements more gradual, pre-determined annual movements authorized in this rate case might provide a better solution to the existing inter-class subsidies and address any rate shock concerns.

[1] Jones, page 25, lines 12-22.

Q. PLEASE DESCRIBE A METHOD THAT WOULD BE EFFECTIVE IN ACCOMPLISHING THE DESIRED RESULT IN A MORE SUCCINT TIME-FRAME?

A. One such method would be to implement a rate support rider. If the revenue allocation and rate design were modified to reflect each class' full cost of service, the rate support rider could be used to ensure that no class receives an unduly burdensome increase as a result of this case. The rate support rider would take the form of a credit applied against the billing for each subsidized class. That total revenue credit would be equivalent to the subsidies resulting from the recommended allocations within my testimony. The credit to the subsidized classes would be funded through a corresponding charge applied to the billings for each subsidizing class. Following the initial implementation, annual pre-determined offsetting reductions to the credits for subsidized classes and reductions to the charges to subsidizing classes would reduce the subsidy by a specified amount each year until the subsidy has been eliminated.

Q. IF THE COMMISSION WERE TO IMPLEMENT THE RATE SUPPORT RIDER WITH THE GOAL OF ELIMINATING THE SUBSIDY AFTER EIGHT YEARS, WHAT WOULD BE THE ANNUAL INCREASE FOR RESIDENTIAL CUSTOMERS?

A. Assuming the Company's proposed revenue requirement and Walmart's proposed revenue allocation, applying the rate support rider to the resulting class revenue as recommended in my testimony with a goal of eliminating the subsidy after the eighth year (a subsidy reduction of 12.5 percent per year) would produce an annual increase

averaging $2.27 per month until the subsidy is eliminated. See Exhibit GWT-4. Compare this to an immediate increase of over $32 per month to fully eliminate the proposed revenue deficiency within the Residential class.

Q. DOES THE SUGGESTED METHOD IMPACT THE APPROVED REVENUE REQUIREMENT IN THIS CASE?

A. No. The total revenue requirement will not change as the annual changes to the rate support rider credits and charges are implemented over time. The changes would serve to re-proportion the revenue collection between classes each year. In order to ensure that each class receives the appropriate total credits or pays the appropriate total charges, the rate support rider should include a true-up provision.

Q. HAS THIS TYPE OF RATE EQUALIZATION METHOD BEEN APPROVED IN OTHER JURISDICTIONS?

A. Yes. A similar rider currently in effect is Pacific Power Corporation's Rate Mitigation Adjustment (Schedule 299) approved by the Oregon Commission to reduce the impact of rate changes resulting from the allocation of revenues at their full cost of service.[1]

[1] See https://www.pacificpower.net/content/dam/pacific_power/doc/About_Us/Rates_Regulation/Oregon/Approved_Tariffs/Rate_Schedules/Rate_Mitigation_Adjustment.pdf

LGS-85 Rate Design

Q. HAS THE COMPANY PROPOSED CHANGES TO THE METHOD OF APPLYING DEMAND CHARGES IN RATE LGS-85?

A. Yes. The Company is proposing a structural change to how the rate applies demand charges to match the method used in Rate LPS-90.[1]

Q. DOES WALMART OPPOSE THIS CHANGE?

A. No. Walmart does not oppose the change to the method of applying demand charges.

Q. DOES WALMART HAVE ANY ISSUES WITH THE PRICING PROPOSED BY THE COMPANY FOR RATE LGS-85?

A. Yes. While TEP has proposed demand charges that are consistent with the unit costs for demand components[2], the Company proposed pricing for the energy components is not consistent with its stated objective of equitable rate design. According to the unit cost study, the only energy based components are fuel and uncollectibles. Fuel costs are fully collected through the base power charges in the rate, therefore the only applicable charges for the delivery components applicable to energy is $223,000 in uncollectible costs. However, the pricing for the kWh component for LGS rates have been designed to collect about $30 million. These charges appear to be intended to collect the majority of the subsidy allocated to the LGS class. Subsidies should not be collected through the variable energy bill components, but should instead be collected through demand components.

[1] Jones, page 35, lines 11-13.
[2] See Schedule G-6-1 Unit Cost Proposed.

Q. WHY SHOULD SUBSIDIES BE COLLECTED THROUGH FIXED CHARGE RATE COMPONENTS, SUCH AS DEMAND CHARGES, AS OPPOSED TO THE VARIABLE CHARGE COMPONENTS PROPOSED BY THE COMPANY?

A. By its very nature, revenue subsidization exists to recover fixed costs and should be collected through billing components consistent with collection of fixed costs. The subsidy exists to collect return on capital that would otherwise be collected from other classes. It should therefore apply to the rates as any fixed cost would. Additionally, the collection of these costs through the energy rate serves to create intra-class subsidies that benefit lower load factor customers within the class. As discussed previously, the Company's stated objectives are to update its rate design to be more aligned with its need for fixed cost recovery and to reduce existing subsidies within and between customer classes. Collection of subsidies through the kWh rate is contrary to both of these objectives.

Q. HAVE YOU DEVELOPED A PRICING PROPOSAL THAT BETTER SERVES THE COLLECTION OF THE SUBSIDY AMOUNTS THROUGH THE FIXED COST COMPONENTS?

A. Yes. I have detailed the appropriate changes to Rate LGS-85 in exhibit GWT-5. To summarize the changes, kWh delivery charges should be adjusted downward to collect only the costs associated with the Energy Uncollectibles item in line 9 of Schedule G-6-1 and replace the revenue with increased the Summer on-peak and Winter on-peak demand charge components. At TEP's proposed rates, the increase in the demand charges would be $9.41 per kW.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING THE DESIGN OF RATE LGS-85?

A. I recommend that the Commission should order a rate design for the LGS-85 rate that reduces intra-class subsidies through a more accurate reflection of the underlying cost structures as proposed within my testimony.

Q. IF THE COMMISSION ORDERS THE IMPLEMENTATION OF A RATE SUPPORT RIDER AS PREVIOUSLY PROPOSED IN YOUR TESTIMONY, HOW SHOULD THE CREDITS AND CHARGES BE APPLIED TO CUSTOMER BILLS?

A. To the extent possible, as per my previous testimony regarding fixed cost collection through fixed cost billing components, the credits and charges should be attached to fixed cost rate components, such as demand charges in the demand based rates.

Economic Development Rider

Q. HAS THE COMPANY PROPOSED AN ECONOMIC DEVELOPMENT RIDER ("EDR")?

A. Yes. TEP has proposed the implementation of a discount based economic development program that reduces the electric billing for existing or new customers that add or expand their load within the Company's service territory.

Q. DOES WALMART OPPOSE THE INTRODUCTION OF THE EDR?

A. Under a revenue allocation methodology that is consistent with Walmart's recommendation made previously in my testimony, Walmart is receptive to the

approval of the EDR and does not oppose the underlying drivers and need for the program.

Q. DO YOU HAVE ANY CONCERNS WITH THE APPROVAL OF THIS RIDER AS PRESENTED BY THE COMPANY?

A. Yes. Under the revenue allocation proposed by the Company, the EDR serves only to extend the subsidies proposed for the largest classes of customers by adding discounts to rates that are already discounted. Additionally, the Company has not provided information on the disposition of any additional subsidies, the costs, or the future treatment of any revenue deficiencies created by the use of the rider.

Q. WHAT ARE YOUR RECOMMENDATIONS FOR CHANGES TO THE ECONOMIC DEVELOPMENT RIDER IN ORDER TO BE SUPPORTIVE OF ITS APPROVAL?

A. Prior to Commission approval, the Company should be required to provide a cost recovery plan that provides guidelines for the recovery and allocation of the costs and/or any revenue deficiencies associated with the EDR.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes

Gregory W. Tillman

Senior Manager, Energy Regulatory Analysis
Wal-Mart Stores, Inc.
Business Address: 2001 SE 10th Street, Bentonville, AR, 72716-0550
Business Phone: (479) 204-7993

EXPERIENCE

November 2015 – Present
Wal-Mart Stores, Inc., Bentonville, AR
Senior Manager, Energy Regulatory Analysis

November 2008 – November 2015
Oklahoma Gas & Electric, Oklahoma City, OK
Product Development Pricing Leader
Manager, Pricing
Senior Pricing Analyst

May 2006 – November 2008
LSG Solutions, Oklahoma City, OK
Project Manager, International Registration Plan/Interstate Fuel Tax Agreement Systems Development

August 2002 – May 2006
OnPeak Utility Solutions, Oklahoma City, OK
Owner/Consultant

May 2000 – August 2002
Automated Energy, Inc., Oklahoma City, OK
Vice President, Utility Solutions

November 1997 – May 2000
Williams Energy, Tulsa, OK
Sr. Manager Accounting Services
Process Manager, Customer Billing and Accounting
Retail Systems Manager, Billing and Electricity

May 1990 – November 1997
Public Service Company of Oklahoma, Tulsa, OK
Manager, Software Development and Support
Supervisor, Data Translation and Power Billing
Administrator, Disaster Recovery and Research and Development
Programmer/Analyst

June 1987 – May 1990
United States Army, Signal Command, Ft. Monmouth, NJ
Project Officer, Joint Tactical Information Distribution System

EDUCATION

1991-1994	**The University of Tulsa**	Graduate Coursework, M.B.A.
1987	**The University of Tulsa**	B.S., Electrical Engineering

TESTIMONY BEFORE REGULATORY COMMISSIONS

2015

Arizona Corporation Commission Docket No. E-04204A-15-0142: 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.

2012

Arkansas Public Service Commission Docket No. 12-067U: In the Matter of the Application of Oklahoma Gas and Electric Company for an Order Approving a Temporary Surcharge to Recover the Costs of a Renewable Wind Generation Facility.

2011

Oklahoma Corporation Commission Cause No. PUD 201100087: In the Matter of the Application of Oklahoma Gas and Electric Company for an Order of the Commission Authorizing Applicant to Modify its Rates, Charges, and Tariffs for Retail Electric Service in Oklahoma.

2010

Arkansas Public Service Commission Docket No. 10-067U: In the Matter of the Application of Oklahoma Gas and Electric Company for Approval of a General Change in Rates and Tariffs

Relative Rate of Return at Proposed Rates

	TOTAL	RESIDENTIAL	GENERAL	LARGE	LPS & 138KV	LIGHTING
TOTAL RATE BASE	$2,104,677,691	$1,205,895,803	$444,808,100	$214,240,229	$222,430,561	$17,302,998
OPERATING INCOME	$165,898,315	$11,135,488	$84,790,444	$55,296,661	$16,231,666	($1,555,944)
RATE OF RETURN ON RATE BASE	7.88%	0.92%	19.06%	25.81%	7.30%	-8.99%
RETURN AT PRESENT RATES	$165,898,315	$11,135,488	$84,790,444	$55,296,661	$16,231,666	($1,555,944)
RELATIVE RATE OF RETURN	**100%**	**12%**	**242%**	**327%**	**93%**	**-114%**

Relative Rate of Return at Present Rates

	TOTAL	RESIDENTIAL	GENERAL	LARGE	LPS & 138KV	LIGHTING
TOTAL RATE BASE	$2,104,677,691	$1,205,895,803	$444,808,100	$214,240,229	$222,430,561	$17,302,998
OPERATING INCOME	$116,218,763	($23,216,006)	$99,636,897	$13,854,830	$28,297,496	($2,354,455)
RATE OF RETURN ON RATE BASE	5.52%	-1.93%	22.40%	6.47%	12.72%	-13.61%
RETURN AT PRESENT RATES	$116,218,763	($23,216,006)	$99,636,897	$13,854,830	$28,297,496	($2,354,455)
RELATIVE RATE OF RETURN	**100%**	**-35%**	**406%**	**117%**	**230%**	**-246%**

Calculation of Walmart Proposed Revenue Allocation

		TOTAL	RES	GS	LGS	LPS & 138KV	LIGHTING
1	MARGIN AT EQUALIZED ROR	$ 714,933,100	$ 425,207,972	$ 142,739,612	$ 68,057,607	$ 71,463,388	$ 7,464,522
2	TEP PROPOSED MARGIN	$ 714,933,100	$ 341,290,387	$ 192,468,671	$ 106,467,077	$ 70,162,273	$ 4,544,693
3	TEP PROPOSED SUBSIDY **(=2-1)**		$ (83,917,585)	$ 49,729,059	$ 38,409,470	$ (1,301,116)	$ (2,919,829)
4	ESTIMATED CURRENT RATE REVENUE (See Note 1	$ 627,818,282	$ 275,887,975	$ 183,692,354	$ 87,564,025	$ 77,375,144	$ 3,298,783
5	ESTIMATED INCREASE TO CURRENT RATE **(=2-4)**	$ 87,114,819	$ 65,402,412	$ 8,776,317	$ 18,903,052	$ (7,212,871)	$ 1,245,909
	RECOMMENDED ALLOCATION						
6	**(=5 FOR ALL SUBSIDIZED CLASSES)**	$ 66,648,322	$ 65,402,412				$ 1,245,909
7	**(=1/SUM OF 1 FOR ALL SUBSIDIZING**			50.57%	24.11%	25.32%	
8	**(=7*REMAINDER OF INCREASE)**	$ 20,466,497		$ 10,349,938	$ 4,934,804	$ 5,181,755	
9	$ INCREASE RECOMMENDED **(=6 + 8)**	$ 87,114,819	$ 65,402,412	$ 10,349,938	$ 4,934,804	$ 5,181,755	$ 1,245,909
10	**RECOMMENDED MARGINS (=4 + 9)**	**$ 714,933,100**	**$ 341,290,387**	**$ 194,042,293**	**$ 92,498,829**	**$ 82,556,899**	**$ 4,544,693**
11	FUEL REVENUE **(SEE H2-2)**	$ 303,925,690	$ 128,678,471	$ 64,710,927	$ 50,743,086	$ 58,436,997	$ 1,356,208
12	OTHER REVENUE	$ 31,728,877	$ 20,358,585	$ 5,865,844	$ 2,625,117	$ 2,670,353	$ 208,978
13	**TOTAL REVENUE**	**$ 1,050,587,667**	**$ 490,327,443**	**$ 264,619,063**	**$ 145,867,033**	**$ 143,664,249**	**$ 6,109,879**
14	OPERATING EXPENSE	$ 884,689,352	$ 479,191,955	$ 178,254,998	$ 104,538,620	$ 115,037,957	$ 7,665,823
15	OPERATING INCOME **(=13-14)**	$ 165,898,315	$ 11,135,488	$ 86,364,065	$ 41,328,413	$ 28,626,293	$ (1,555,944)
16	RATE BASE	$ 2,104,677,691	$ 1,205,895,803	$ 444,808,100	$ 214,240,229	$ 222,430,561	$ 17,302,998
17	RATE OF RETURN	7.88%	0.92%	19.42%	19.29%	12.87%	-8.99%
18	RECOMMENDED SUBSIDY		$ (83,917,585)	$ 51,302,681	$ 24,441,223	$ 11,093,510	$ (2,919,829)
19	RROR		11.7%	246.3%	244.7%	163.3%	-114.1%

Current Rate Revenue Estimation

Note Estimation of Current Rate Revenue After Migration

In order to determine the revenue allocation, the current rate margins are estimated for the proposed classes after migration. Due to the high number of migrations, the adjusted test year revenues do not reflect the starting point for rate change determination in the affected classes.

Migration adjustment was estimated based on the change in bill count multiplied by the current rate average bill. This adjustment was added to the TY Margin to estimate the current rate revenue.

		RES	GS	LGS	LPS & 138KV	LIGHTING
ADJUSTED TEST YEAR MARGIN	$ 605,398,982	$ 275,887,975	$ 184,448,887	$ 68,460,569	$ 73,302,768	$ 3,298,783
TY BILL COUNT		4,624,515	462,775	6,931	216	207,267
ADJUSTED TY MARGIN PER BILL		$ 59.66	$ 398.57	$ 9,877.12	$ 339,364.67	$ 15.92
PROPOSED MARGIN	$ 714,933,100	$ 341,290,387	$ 192,468,671	$ 106,467,077	$ 70,162,273	$ 4,544,693
PROPOSED BILL COUNT		4,624,515	460,877	8,865	228	207,267
PROPOSED MARGIN PER BILL		$ 73.80	$ 417.61	$ 12,009.36	$ 307,729.27	$ 21.93
MIGRATION ADJUSTMENT		$ -	$ (756,533)	$ 19,103,456	$ 4,072,376	$ -
ESTIMATED CURRENT RATE REVENUE	$ 627,818,282	$ 275,887,975	$ 183,692,354	$ 87,564,025	$ 77,375,144	$ 3,298,783

Annual Subsidy Reductions - Rate Support Rider

	Total	Residential	GS	LGS	LPS & 138 KV	Lighting
Margin at Full Cost		$ 425,207,972	$ 142,739,612	$ 68,057,607	$ 71,463,388	$ 7,464,522
Estimated Current Rate Revenue		$ 275,887,975	$ 183,692,354	$ 87,564,025	$ 77,375,144	$ 3,298,783
Change Required		$ 149,319,997	$ (40,952,742)	$ (19,506,419)	$ (5,911,756)	$ 4,165,738
Proposed Increase to Current Rate		$ 65,402,412	$ 10,349,938	$ 4,934,804	$ 5,181,755	$ 1,245,909
Resulting Subsidy	$ 86,837,414	$ (83,917,585)	$ 51,302,681	$ 24,441,223	$ 11,093,510	$ (2,919,829)
Bill Count		4,624,515	460,877	8,865	228	207,267
Annual Change	12.5%	$ 10,489,698	$ (6,412,835)	$ (3,055,153)	$ (1,386,689)	$ 364,979
Average Monthly Impact - Annually		$ 2.27	$ (13.91)	$ (344.62)	$ (6,081.97)	$ 1.76
First Year Rate Support	$ 86,837,414	$ (83,917,585)	$ 51,302,681	$ 24,441,223	$ 11,093,510	$ (2,919,829)
First Year Bill Impact		$ (18.15)	$ 111.32	$ 2,756.94	$ 48,655.75	$ (14.09)
Second Year Rate Support	$ 75,982,737	$ (73,427,886)	$ 44,889,845	$ 21,386,070	$ 9,706,822	$ (2,554,850)
Second Year Bill Impact		$ (15.88)	$ 97.40	$ 2,412.32	$ 42,573.78	$ (12.33)
Third Year Rate Support	$ 65,128,060	$ (62,938,188)	$ 38,477,010	$ 18,330,917	$ 8,320,133	$ (2,189,872)
Third Year Bill Impact		$ (13.61)	$ 83.49	$ 2,067.71	$ 36,491.81	$ (10.57)
Fourth Year Rate Support	$ 54,273,383	$ (52,448,490)	$ 32,064,175	$ 15,275,764	$ 6,933,444	$ (1,824,893)
Fourth Year Bill Impact		$ (11.34)	$ 69.57	$ 1,723.09	$ 30,409.84	$ (8.80)
Fifth Year Rate Support	$ 43,418,707	$ (41,958,792)	$ 25,651,340	$ 12,220,611	$ 5,546,755	$ (1,459,915)
Fifth Year Bill Impact		$ (9.07)	$ 55.66	$ 1,378.47	$ 24,327.87	$ (7.04)
Sixth Year Rate Support	$ 32,564,030	$ (31,469,094)	$ 19,238,505	$ 9,165,458	$ 4,160,066	$ (1,094,936)
Sixth Year Bill Impact		$ (6.80)	$ 41.74	$ 1,033.85	$ 18,245.91	$ (5.28)
Seventh Year Rate Support	$ 21,709,353	$ (20,979,396)	$ 12,825,670	$ 6,110,306	$ 2,773,378	$ (729,957)
Seventh Year Bill Impact		$ (4.54)	$ 27.83	$ 689.24	$ 12,163.94	$ (3.52)
Eighth Year Rate Support	$ 10,854,677	$ (10,489,698)	$ 6,412,835	$ 3,055,153	$ 1,386,689	$ (364,979)
Eighth Year Bill Impact		$ (2.27)	$ 13.91	$ 344.62	$ 6,081.97	$ (1.76)
Ninth Year Rate Support	$ -	$ -	$ -	$ -	$ -	$ -
Ninth Year Bill Impact		$ -	$ -	$ -	$ -	$ -

Impacts are relative to a bill at the full cost of service

Walmart Proposed Changes to Rate LGS-85

		TEP Proposed			Walmart Proposed Change		
TE-LG85	Large General Service TOU	Price	Quantity	Amount	Price	Quantity	Amount
	Basic Service Charge Per Month	$ 1,000.00	1,561	$ 1,560,849	$ 1,000.00	1,561	$ 1,560,849
	Demand Summer On-Peak per kW	$ 20.00	284,305	$ 5,686,101	$ 29.41	284,305	$ 8,361,411
	Demand Summer Off-Peak Per kW	$ 10.92	-	$ -	$ 10.92	-	$ -
	Demand Winter On-Peak Per kW	$ 17.50	349,652	$ 6,118,904	$ 26.91	349,652	$ 9,409,126
	Demand Winter Off-Peak Per kW	$ 9.10	-	$ -	$ 9.10	-	$ -
	Summer On-Peak kWh	$ 0.02510	28,902,050	$ 725,441	$ 0.00015	28,902,050	$ 4,365
	Summer Off-Peak kWh	$ 0.01690	118,205,536	$ 1,997,674	$ 0.00015	118,205,536	$ 17,854
	Winter On-Peak kWh	$ 0.02510	42,275,584	$ 1,061,117	$ 0.00015	42,275,584	$ 6,385
	Winter Off-Peak kWh	$ 0.01690	131,823,817	$ 2,227,823	$ 0.00015	131,823,817	$ 19,911
	Primary Metering Discounts			$ (5,485)			$ (5,485)
	Miscellaneous Revenue			$ (633)			$ (633)
	Subtotal Delivery (Margin) Revenue			$ 19,371,790			$ 19,373,784
	Base Power Summer On-Peak kWh	$ 0.06080	28,902,050	$ 1,757,245	$ 0.06080	28,902,050	$ 1,757,245
	Base Power Summer Off-Peak kWh	$ 0.02570	118,205,536	$ 3,037,882	$ 0.02570	118,205,536	$ 3,037,882
	Base Power Winter On-peak kWh	$ 0.05600	42,275,584	$ 2,367,433	$ 0.05600	42,275,584	$ 2,367,433
	Base Power Winter Off-peak kWh	$ 0.02210	131,823,817	$ 2,913,306	$ 0.02210	131,823,817	$ 2,913,306
	PPFAC Revenue			$ -			$ -
	Subtotal Fuel Revenue			$ 10,075,866			$ 10,075,866
	Total Revenue			$ 29,447,656			$ 29,449,650
				Revenue Change from Proposed			$ (1,994)