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BEFORE THE ARIZONA CORPORATION COMMISSION

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| IN THE MATTER OF THE APPLICAITON 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**<br><br>**STAFF'S CLOSING BRIEF** |

## I. INTRODUCTION.

Sulphur Springs Valley Electric Cooperative, Inc. ("Sulphur Springs" or the "Company") is a certificated Arizona-based non-profit rural electric distribution cooperative. Sulphur Springs provides electric service to more than 58,000 customers in Cochise County, and portions of Santa Cruz, Pima, and Graham Counties, Arizona.[1] The Company's current rates were approved on March 19, 2014 in Decision No. 74381.[2] That rate case was processed under A.A.C. R14-2-107, the Commission's rule governing streamlined rate cases for cooperatives.

Sulphur Springs filed its application requesting a permanent rate increase, under A.A.C. R14-2-103, using a December 31, 2014 test year.[3] The Company filed under this rule because of the changes it is seeking to rate design and adjustors that would not be permitted pursuant to the streamlined rate case rule. The Company proposed a $3,101, 498, or 3.17 percent revenue increase, from $97,703,142 to $100,804,640. The proposed revenue requirement would produce an operating margin after interest expense on long-term debt of $7,234,777, for a 6.41 percent rate of return on an

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[1] Ex. A-1, at pp. 1-2.
[2] *Id.* at 2.
[3] *Id.* at 2.

original cost rate base of $208,373,755, and an operating Times Interest Earned Ratio ("TIER") of 2.20.[4]

## II. REVENUE REQUIREMENT.

Staff initially recommended the same total annual revenue as the Company, $100,804,640.[5] However, as discussed below, Staff revised its initial recommendation on rate case expense, thereby ultimately recommending a revenue requirement of $100,874,563 (Ex. S-3, Sch. CSB-1, l. 10).[6] This revenue requirement will produce an operating margin of $7,234,777.[7]

## III. RATE BASE.

The Company's filing treated original cost rate base the same as fair value rate base. Staff supports this proposal.[8] Staff made no adjustments to rate base, and is recommending total rate base of $208,373,755.[9]

## IV. BASE COST OF POWER.

The Company proposed to change its base cost of power rate from $0.072127 per kWh to $0.065857.[10] Staff concluded that the base cost of $0.065857 is reasonable and more closely aligns with the Company's current cost of power, and Staff recommends the adoption of this base cost of power.[11] In addition, the Company agrees with Staff's recommendation.[12]

## V. DEBT SERVICE COVERAGE RATIO.

The Company calculated a debt service coverage ratio of 1.94, whereas Staff calculated a DSC of 1.85. Staff's calculation is different, as it excludes non-operating revenue from interest and capital credits. Non-operating revenue tends to vary from year to year, and Staff's calculation measures the Company's ability to make principal and interest payments based solely on the Company's core operating results. Because operating results are generally more consistent than non-operating results, Staff submits that its calculation of DSC provides a more reliable indication of the

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[4] Ex. S-1at 4-6.
[5] Ex. S-1 at 4.
[6] Tr. at 93.
[7] Ex. S-3, Sch. CSB-4.
[8] Ex. S-1 at 5
[9] Ex. S-1, Sch. CSB-2.
[10] Ex. S-1 at 7.
[11] Ex. S-5 at 2.
[12] Ex. A-6 at 3.

Company's ability to service its debt. Staff therefore recommends that it's DSC of 1.85 be adopted.[13] Moreover, the Company did not dispute Staff's recommendation.

## VI. ADJUSTOR MECHANISMS.

The Company's adjustor mechanisms include the Power Cost Adjustor, the Renewable Energy Standard Tariff Surcharge Adjustor ("REST Adjustor"), and the Demand-side Management Surcharge Adjustor ("DSM Adjustor").[14] Staff is not recommending any changes to any of the adjustors, except that:

(a). The DSM adjustor rate has been set at $0.00027 per kWh since June 27, 2013. Staff believes that it would be beneficial for the Company to file a new implementation plan in accordance with A.A.C. R14-2-2418(B), no later than June 1, 2017.[15] Staff also believes that the Company's next implementation plan should include an adjustor reset.[16]

(b). Staff is proposing that the Company file a comprehensive plan of administration ("POA") for each of its adjustor mechanisms. The purpose of a POA is to describe the intended functioning of the adjustor, including how the adjustor rate may be reset. In particular, POAs should include a specific list of the types of costs permitted to be recovered through each adjustor, to ensure that no inappropriate costs are recovered through the adjustors.[17]

The Company accepts Staff's recommendations with respect to the DSM adjustor rate and the implementation of a POA for each adjustor.[18] Indeed, the Company avows that it will work with Staff to devise acceptable POAs.[19] Staff recommends that these be approved by the Commission.

## VII. SERVICE CHARGES AND CONDITIONS.

The Company proposed several changes to its Service Charges and Conditions, and filed a redlined version of the changes on February 26, 2016. Staff confirmed with the Company that the February 26, 2016, filing reflects all of the Company's proposed changes to its Service Charges and

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[13] Ex. S-1 at 9.
[14] Ex. S-5 at 3.
[15] Ex. S-5 at 4.
[16] Id. at 4.
[17] Ex. S-5 at 5.
[18] Ex. A-6 at 4.
[19] *Id.*

Conditions.[20] The types of changes that the Company is proposing involve renumbering the sections, correcting typographical or other minor errors, and clarifying or updating existing language.[21] The Company is also proposing certain changes in some of its service charges. The Company and Staff did not initially agree on all of the Company's proposals, but eventually resolved all of these issues, as explained below.

The Company proposed the following changes with respect to its Service (or Miscellaneous Charges), to:

a. Increase the Service Call During Business Hours charge from $50.00 to $75.00,

b. Increase the Service Call After Hours charge from $75.00 to $100,

c. Increase the Non-Pay Collection During Business Hours charge from $40.00 to $60.00, and

d. Increase the Service Connect Callbacks charge from $40.00 to $50.00.[22]

Staff agreed with these proposed charges,[23] and recommended that the Company inform ratepayers who request these services in advance of the costs that they will incur. Ratepayers should also be informed that a current list of all service charges is available and is prominently located on the Company's website. Further, if a service issue occurs due to problems on the Company's side of the meter, or due to any maintenance for which the Company should be responsible, the ratepayer should not be charged service charges for such repairs.[24] In its rebuttal testimony, the Company agreed with Staff's recommendations concerning listing all service charges on its website. The Company also agreed that it should not charge ratepayers for problems that occur on the Company's side of the meter or for regular repairs and maintenance that the Company should undertake in the normal course of business.[25]

Regarding the Company's proposed changes to its service conditions, Staff initially agreed with all of the Company's proposed changes except relating to responsibility for meter socket

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[20] Ex. S-6 at 2.
[21] *Id.*
[22] S-5 at 6.
[23] *Id.*
[24] *Id.*
[25] A-6 at 3.

enclosures and recommended against the Company's proposed deletion of a table listing the costs relating to distribution line extensions.[26] However, after consideration of Mr. Huber's rejoinder testimony and discussion with the Company, Staff is now agrees with all of the Company's proposed changes, and finds them to be acceptable.[27]

## VIII. RATE CASE EXPENSE.

The Company originally requested $200,000 in rate case expense. However, in its rebuttal testimony, the Company increased its request by $209,770 to $409,770.[28] Prior to filing surrebuttal testimony, Staff had not reviewed the Company's invoices supporting its request for additional rate case expense. Therefore, Staff continued to recommend $200,000 for rate case expense, but reserved the right to update its recommendation at the hearing.[29] Before the hearing commenced on May 17, Staff reviewed the Company's supporting documents and then revised its recommendation for rate case expense to $409,770 at the hearing.[30]

## IX. ENGINEERING EVALUATION.

Staff concluded that the Company is operating and maintaining its system properly, completing system improvements and upgrades efficiently and reliably, and maintaining acceptable levels of system losses and service interruptions from 2010 through 2014.[31]

## X. NET ENERGY METERING.

The Company is proposing certain changes to its Net Metering (NM-1) tariff. Staff initially recommended some revisions to the Company's net metering tariff, but during the course of this case, Staff ultimately took no position regarding changes to the Company's net metering tariff.[32] Staff also believes that it will be helpful to recount the record evidence on this issue.

The Company is proposing to revise its Tariff NM-1 to be applicable to existing net metering customers only.[33] Existing NM customers will continue to be eligible to receive full retail rate

[26] S-6 at 3.
[27] Tr. at. 229:7-13, 235: 9-11, 538:1-10, 540:2-20.
[28] Ex. A-6 at 25-26.
[29] Ex. S-2, p. 2.
[30] Tr. at 229:1-6.
[31] Ex. S-4 at 3.
[32] Tr.at 556:10-35, 739, 741, 749-50.
[33] Ex. A-5 at 17.

compensation for all excess distributed energy. Existing Residential DG customers would have the option of taking service under the Company's new Residential Distributed Generation rate and utilizing the new DG tariff for compensation of excess generation.[34] Initially, Staff recommended that the existing NM-1 tariff be frozen, and that a new rider be proposed for new DG customers.[35] Staff also initially recommended the elimination of banking for the Company's DG customers, and recommended that the export rate should be set higher than avoided cost and lower than the retail rate.[36]

Through its surrebuttal testimony, Staff explained its change in recommendations regarding net metering. Staff's initial recommendations on NM were based on the assumption that a decision in the Value and Cost of DG proceeding[37] (the "VOS" docket) would be entered before the conclusion of the Company's case.[38] Direct testimony was filed in Sulphur Springs' rate case before the VOS hearings began. Staff reviewed information and testimony from the VOS case, regarding areas that might directly impact Staff's initial NM recommendation in the rate case. Staff determined that, based in part on the status of the VOS docket, it does not want to formulate a policy direction in this case before the conclusion of the VOS case.[39] Staff also initially recommended that this case be held open for 12 months to address any future changes to net metering, but withdrew this recommendation at the hearings.[40]

The Director of the Utilities Division explained at the hearing that the purpose of his surrebuttal testimony was to further clarify the interrelationship of Staff's NM and rate design testimonies, and to continue to urge the parties to this case to settle all issues.[41] He noted that the VOS docket, which was on-going at the time of the hearings in this case, has rooftop DG as a focus area, and proposed changes to NM from that case are a possibility. In addition, the Commission is considering several other electric utility cases that address NM and residential rate design as it relates

[34] Ex. A-5 at 17.
[35] Ex. S-9 at 5.
[36] *Id.* at 7.
[37] Docket No. E-00000J-14-0023.
[38] Ex. S-10 at 4-5.
[39] Ex. S-11 at 5.
[40] Tr. at 552.
[41] Ex. S-11 at 1.

to alleged under recovery of fixed costs.[42] He also explained how the Company's request for separate DG tariffs could have possible adverse impacts on payback and internal rate of return for DG customers.[43]

As Staff witness Thomas Broderick testified in his surrebuttal testimony, Staff is unable, without further policy direction from the Commission, to support changes to NEM in this case.[44] In short, Staff believes that it would be premature for it to make more specific recommendations in this case.

## XI. RATE DESIGN.

Rate design is the most contested issue in this case. The Company proposed numerous changes to its tariffs, including two new tariffs that would apply only to distributed generation customers. The Company has proposed these changes to correct its alleged failure to adequately recover its fixed costs. The Company is also proposing a change to its tariff for residential customers without distributed generation, and proposes to freeze its time-of-use tariff so that it will not be open for any future customers. Staff agrees with certain aspects of the Company's proposed changes to rate design. Specifically, Staff agrees that the monthly service availability charge in the standard residential rate should be increased from $10.25 to $25.00 in four steps over four years.[45] However, Staff disagrees with the Company's proposed creation of new residential rate schedules for customers who have installed DG and new customers who may install DG.[46]

### A. New Distributed Generation Tariffs.

The Company is proposing two distributed generation tariffs, each of which would have a customer charge of $50.00 per month; the customer charge for each new tariff would be phased in over a four year period. The energy charge for the proposed tariff (Tariff DG-E) for existing DG customers would be fixed at the existing energy charge. The energy charge for the proposed tariff for

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[42] *Id.*
[43] *Id.*
[44] Ex. S-11 at 3; Tr. at 1-4, 23-25, 749-750.
[45] Ex. A-5 at 16; Ex. S-8 at 5.
[46] Ex. S-8 at 3, 8.

new Residential Customers with Distributed Generation installed after April 14, 2015 (Tariff DG) would be decreased slightly in phases over a four year period.[47]

Staff recommends that the Commission reject both of these proposals. The Company explained that these tariffs are proposed to address the Company's issue of lost fixed costs.[48] However, Staff attributes the Company's inability to recover all fixed costs to shortcomings in its rate design, rather than to the existence of DG customers on its system.[49] Staff also believes that, because Tariff DG-E increases the customer charge while holding the energy charge constant, this proposal will result in an increase in rates without a determining fair value and without a determination of the impact on the Company's fair value rate of return, which may be prohibited. *Scates v. Arizona Corporation Commission,* 118 Ariz. 531, 578 P.2d 612 (App. 1978).

Staff and the Company agree on the cost of service for the residential class as a whole.[50] Evidence in the record demonstrates that the total fixed cost for residential customers is $80.24 per customer per month.[51] However, the Company did not perform a cost of service study that specifically broke out the DG customers as a separate class from the overall residential class.[52] Instead, the Company performed a separate analysis that simply added together the purchased power demand costs, and the distribution wire costs that it is required to pay regardless of how much power a customer uses to arrive at a $50 customer charge. The Company acknowledges that, although it lacks the technical capability to obtain the specific information necessary to perform a cost of service study that separates DG customers into a separate class, such a study would have been useful in justifying a separate rate class for DG customers.[53]

In addition, Staff believes that the Company's proposal is likely to slow the adoption of rooftop DG in the Company's territory.[54] According to Staff's modeling,[55] the pace of solar

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[47] Ex. S-7, p. 11, l. 4-20.
[48] Ex. A-5 at 15-16.
[49] Ex. S-7 at 13; Ex. S-8 at 3-4.
[50] Ex. S-7 at 10; Ex. A-6 at 8.
[51] *Id.*
[52] Ex. S-7 at 2-3; Ex. A-4 at 6-7.
[53] Tr. at 345-46.
[54] Tr. at 792-93.
[55] Ex. S-12.

installation would be expected to decrease if the Company's proposal were approved.[56] Based upon the results of Staff's model, at a $50.00 per month charge for a DG customer, the results would be an adverse solar market, and rooftop solar would not be a commercially viable investment.[57]

Staff recommends that the Commission deny the Company's request for the new DG tariffs. The Company has not carried its burden of proof that DG customers alone are responsible for any shortfall in fixed cost recovery, as there is no cost of service study that supports the Company's proposal. Staff's recommended changes in rate design will better address these issues, and In addition, Staff recommends that all new and existing DG customers should remain on their current rate schedule.[58]

**B. Changes to Existing Residential Tariffs.**

The Company is requesting an increase in the monthly service availability charge for its standard residential rate from $`10.25 to $25.00 over four years.[59] The Company argues that the change will allow a greater recovery of fixed customer related costs through the fixed charge and will help to reduce subsidies between members of the same rate class.[60]

In its direct testimony, Staff proposed an increase in the monthly residential availability charge from $10.25 to $27.00, to be phased in over two years, with a decrease in the energy charge over two years.[61] In its surrebuttal testimony, Staff revised this recommendation: Staff now proposes an increase to $25.00 (instead of $27.00) per month over a four-year phase in.[62] Staff also recommends that the Energy Charge be adjusted over four phases to fully recover the revenue shortfall (approximately $315,000) so that the revenue requirement for the residential class will be met.[63]

Staff first recommended that the new Residential and Residential TOU rates be phased in over two years, instead of four, because Staff believed that the compressed time frame would be less

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[56] Tr. at 1049:8-10.
[57] Tr. at 991:14-20.
[58] Ex. S-8 at 8.
[59] Ex. A-5 at 16.
[60] *Id.* at 16.
[61] Ex. A-5 at 16.
[62] Ex. S-8 at 5.
[63] *Id.* at 6.

confusing.[64] However, after further consideration, Staff agreed that the Company had spent considerable time, including numerous customer meetings, communicating to its customers the need for an increase in the customer charge to $25.00 over a four-year period. Staff also recognized that a longer implementation time frame supports gradualism in rate design by increasing the recovery of fixed costs through the fixed charge in a gradual manner.[65]

As a result, Staff believes that a $25.00 system availability charge implemented over four years in an acceptable method for implementing an increase to the Company's residential fixed charge. Staff therefore recommends the implementation of a $25.00 per month system availability charge for all residential customers, phased in over four years, as well as an adjustment in the Energy Charge over the same four-year period.

### C. The Company's DG Proposal Does Not Violate A.A.C. R14-2-2305.

EFCA contends that the Company's proposal for separate DG tariffs would violate A.A.C. R14-2-2305, which prohibits discriminatory charges against net metered customers.[66] This provision reads:

> Net Metering charges shall be assessed on a nondiscriminatory basis. Any proposed change that would increase a Net Metering Customer's costs beyond those of customers with similar load characteristics or customers in the same rate class that the Net Metering Customer would qualify for if not participating in Net Metering shall be filed by the Electric Utility with the Commission for consideration and approval. The charges shall be fully supported with cost of service studies and benefit/cost analyses. The Electric Utility shall have the burden of proof on any proposed charge.

Staff does not support the Company's requests for separate DG tariffs. Nonetheless, Staff disagrees with EFCA's contention that separate DG tariffs would be impermissible. Because EFCA did not explain why it believes the Company's proposal would violate the Rule, Staff presumes that EFCA looks solely to the language of the Rule for its argument.

The Company performed a cost of service study for the residential class of customers, and Staff accepted the Company's cost of service study.[67] The Company did not perform a cost of

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[64] *Id.* at 5.
[65] *Id.* at 5.
[66] Ex. EFCA-6 at 11.
[67] Ex. A-6 at 11; Ex. S-7 at 5.

service study for the residential DG as a sub class of the overall residential class.[68] However, the Company did perform a cost of service study for the residential class of customers, and Staff accepted the Company's cost of service study. The plain language of the Rule requires a cost of service study; therefore, Staff believes, by performing a cost of service study, the Company has satisfied this part of the Rule's requirement.

In addition, the Company performed an analysis of the lost fixed costs that it claims to under-recover due to current DG installations, and Staff accepted the Company's evidence of a test-year under recovery of $1,139,013.[69] Staff submits that this evidence satisfies the benefit/cost analyses requirement of the rule. The Company also provided evidence that DG customers have different load characteristics than other residential customers participating in energy efficiency measures.[70] The Company's evidence confirmed that the load characteristics are not similar,[71] so the DG proposal does not violate the Rule in that regard.

For the foregoing reasons, Staff believes that the proposed DG tariffs do not violate the Rule's prohibition against discrimination. However, as Staff details in a separate section of this brief, the DG tariffs are not in the public interest at this time and should not be approved.

**C. Time of Use Rates.**

The Company asserts that it has not had much interest from its members in signing up for TOU rates, and is requesting to freeze the TOU rate schedules and eventually phase them out.[72] Staff does not believe that it is appropriate to freeze the existing TOU rate schedules. According to the Company, its customers' lack of interest in TOU rates relates to the fact that the Company's power supply from Arizona Electric Power Cooperative ("AEPCO") is not time-differentiated. However, Staff believes that AEPCO's rates could be structured differently in the future, and if so, the attractiveness of the Company's TOU rates may increase. Staff further believes that both the existing and the proposed TOU rates are not harmful to the Company's operations, and Staff recommends that the Company continue to offer TOU rates for its residential, commercial, and large power customers.

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[68] Ex. A-6 at 11.
[69] Ex. A-5 at 12-13; Ex. S-9 at 3.
[70] Ex. A-6 at 12-13.
[71] Tr. 347-349.
[72] Ex. A-6 at 24-25.

Staff recommends that the Service Availability Charge be increased to $26.50 per month for all customers on the Residential TOU rate schedule, that this increase be phased in over four years, and that the energy charge for the TOU rate schedule be adjusted in each phase to ensure that the level of revenue approved by the Commission for the residential class is met.

## XII. CONCLUSION.

Staff respectfully requests that the Commission adopt its recommendations on the disputed issues for the reasons stated above.

RESPECTFULLY SUBMITTED this 14th day of July, 2016.

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