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EXCEPTION



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BEFORE THE ARIZONA CORPORATION COMMISSION

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BOB STUMP  
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Arizona Corporation Commission

DOCKETED

JUL 29 2016

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IN THE MATTER OF THE APPLICATION OF UNS ELECTRIC, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS ELECTRIC, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA, AND FOR RELATED APPROVALS.

DOCKET NO. E-04204A-15-0142

APS EXCEPTIONS TO RECOMMENDED OPINION AND ORDER

Arizona Public Service Company (APS or Company) submits the following Exceptions to the Recommended Opinion and Order (ROO) filed in this matter. Although APS is appreciative of the thoroughness and breadth of the ROO, the Company cannot help but conclude that the opportunity to make real progress on addressing the cost shift inherent in two-part rate structures will be unnecessarily delayed, if not lost altogether, for Unisource Electric (UNSE) customers as the ROO is

1 currently drafted. And although the Administrative Law Judge (ALJ) was careful to note  
2 that her findings and conclusions were specifically limited to the UNSE service territory  
3 and the record before her (allowing that other utilities may be in materially different  
4 circumstances as to their current rate structures, customer make-up, and experience with  
5 three-part rates, among others), some of the rationale cited for rejecting a broader  
6 reformation of UNSE's rate structure will likely be used out of context by opponents of  
7 rate reform in APS's pending rate case. Finally, APS is concerned with the continued  
8 delay in addressing net energy metering (NEM) and what the Company views as an  
9 unwarranted and unsupported shortening of the peak period for UNSE's time-of-use  
10 (TOU) rates.

#### 11 **REASONS GIVEN FOR REJECTING THREE-PART RATES**

12 APS realizes that UNSE and Staff have withdrawn their support for universal  
13 three-part rates in this proceeding and agrees with Staff that without wholehearted  
14 support from UNSE, such a move is impractical at this time. APS does not agree,  
15 however, that rate reform should be blocked by the orchestrated outcry of a relatively  
16 small group of organized protesters, few of which are actual UNSE customers. Doing so  
17 risks encouraging similar conduct in the future. Thus, any acknowledgement that such  
18 tactics have been a factor in the Commission's decision in this matter should be avoided.  
19 APS would therefore suggest deleting the portions of the ROO at page 10, lines 7-14 and  
20 also at page 66, lines 1-4.

21 The ROO also cites the absence of a fully-developed customer education plan as  
22 a reason to postpone consideration of universal three-part rates. *See* ROO at 66. Both  
23 Staff and UNSE contemplated a transition period prior to adoption of universal three-  
24 part rates. The ROO proposes a similar transition period before adoption of TOU rates  
25 as the default option for UNSE residential customers despite the fact that a customer  
26 education plan for TOU is even less developed than was UNSE and Staff's formative  
27 plan for three-part rates. In either situation, it would be difficult to finalize any customer  
28

1 education program prior to the Commission approving the rate structure about which  
2 UNSE was to educate its customers. In this respect, the ROO is clearly putting the cart  
3 before the horse. Rather than postpone consideration of three-part rates until the  
4 customer education program is complete, the Commission could simply extend the  
5 transition period if necessary to develop and implement whatever customer education it  
6 finds appropriate.

### 7 **TOU NOT THE ANSWER TO COST-SHIFT**

8 As noted above, the ROO proposes, after a six-month transition period, a  
9 universal conversion of UNSE residential customers to two-part TOU rates. Thereafter,  
10 those same customers could "opt-out" to any of several other residential rates  
11 enumerated in the ROO. Based on APS's own extensive experience with TOU rates, the  
12 Company would anticipate that many of UNSE's residential customers will elect to  
13 remain on TOU rates with yet others to follow their example in succeeding years.

14 APS is a huge proponent of TOU rates, and they would represent a significant  
15 improvement over UNSE's current residential rate structure. However, and again based  
16 on its own experience of nearly 40 years with over half a million residential TOU  
17 customers, TOU rates do little if anything to address the unfair cost shift inherent in  
18 NEM specifically and the even greater cost shift that generally results from two-part  
19 rates. This is because whenever fixed costs are collected through a charge varying only  
20 by the level of energy consumed, whether or not time-differentiated, those fixed costs  
21 will go partially unpaid when customers reduce their energy usage. And responsibility  
22 for those unpaid costs will necessarily be shifted to other customers.

23 Aside from the important issue of cost-shifting, TOU rates at best provide a  
24 muted price signal for demand reduction at system peak and load leveling as compared  
25 to a properly designed three-part rate. Similarly muted is the economic incentive for new  
26 behind-the-meter customer technologies. Under TOU rates, the payback for demand  
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1 reduction is reduced by the lack of direct connection between such demand reduction  
2 and the customer's monthly bill.

3 **THE PEAK PERIOD FOR TOU RATES SHOULD MATCH THE LOAD**  
4 **PROFILE OF UNSE**

5 The ROO reduces the on-peak period proposed by UNSE and supported by Staff  
6 (as well as by APS and AIC) from 2 pm – 8 pm to 3 pm – 7 pm. *See* ROO at 67.<sup>1</sup> The  
7 reason given is that this will make it easier for UNSE customers to avoid peak hour  
8 usage. In fact, shortening the peak hours avoids no peak hour usage – just peak hour  
9 rates. And thus the rates for the remaining peak hours will have to be higher to  
10 accommodate the fewer billing determinants contemplated by the ROO.<sup>2</sup> Such higher  
11 on-peak rates not only will adversely impact some customers, but may cause the peak  
12 itself to shift to hours of the day that immediately surround the now truncated on-peak  
13 period.

14 The peak hours for a TOU rate should reflect the hours of the utility's peak load,  
15 which due to Arizona's extreme climate, generally extend from mid-afternoon until  
16 early in the evening. Doing so aligns the price signals of the TOU rate with system costs,  
17 thus maximizing the long-term benefits of TOU pricing. It is especially important that a  
18 peak period recognize the ongoing movement of system peak to later in the day. (APS's  
19 peak load to date this year was at 8 pm.) Thus, if the Commission finds that a 4-hour  
20 peak period is essential for UNSE, 4 pm to 8 pm would be more appropriate than 3 pm  
21 to 7 pm.

22 It is actually easier and better for customers to start with a longer peak time  
23 period. This keeps the on-peak kWh charges lower. Then if needed the peak period can  
24 be reduced over time as customers learn to adapt, we gain more experience about the

25 \_\_\_\_\_  
26 <sup>1</sup> The ROO also shortened the winter on-peak periods proposed by UNSE and supported by Staff. This  
27 alteration is also unsupported by the record, but the departure from cost causation is less harmful than an  
28 artificial reduction of the summer on-peak period.

<sup>2</sup> This is acknowledged by the ROO at page 67. The ROO attempts to compensate for this by reducing  
Staff's recommended basic service charge from \$15 to \$13 – thus compounding its mistake by a further  
departure from cost-of-service.

1 impacts on the system is gained, or if the peak hours shift. APS began with a 12-hour  
2 on-peak period in its early TOU rates in the 1980s. It later reduced the on-peak period to  
3 7 hours and is now proposing in its pending rate case to reduce that further to 5 hours.  
4 UNSE's proposal to begin with 6 hours (2 pm – 8 pm) is reasonable and should be  
5 adopted by the Commission in lieu of the ROO's suggested 4-hour on-peak period,  
6 which is both too short and ends too early.

### 7 **DELAY IN ADDRESSING NEM IS NOT APPROPRIATE**

8 The ROO postpones taking any action to reform NEM, either by modifying the  
9 export rate for surplus power or by requiring rates appropriate for partial-requirements  
10 customers. In 2015, several utilities filed applications to modify NEM and the rates for  
11 NEM customers outside a general rate case. The Commission insisted that NEM had to  
12 be addressed in an individual utility's general rate case. This precipitated at least some  
13 of the rate cases now before the Commission. The ROO would now kick the can even  
14 further down the road to the VOS/COS proceeding in Docket No. E-00000J-14-0023.  
15 This Docket is itself outside a general rate case, and thus we seem to have gone full  
16 circle to where we were on NEM at the beginning of last year.

17 The record before the Commission in this case more than justifies the  
18 categorization of NEM customers as partial-requirements customers for whom three-part  
19 rates are both appropriate and necessary. This can and should be decided independent of  
20 the results of Docket No. E-00000J-14-0023.

21 As regards the rate paid by UNSE and its customers for surplus export power  
22 produced by NEM customers, this issue can in turn be addressed without a change in  
23 rate design to three-part rates. UNSE has provided a useful proxy for pricing such export  
24 power in the form of a solar PPA recently entered into by its affiliate, Tucson Electric  
25 Power Company. If the final order in Docket No. E-00000J-14-0023 provides for an  
26 alternative calculation of the "value" of export power, it can be easily substituted for the  
27 value established in this proceeding.


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1 Postponing making any decision affecting future NEM customers only makes it  
2 more difficult and more painful to make any progress on either aspect of this problem in  
3 the future. Delay also invites more litigation and the continued drain on the resources of  
4 the Commission, Staff, RUCO and other parties, simply to assess and reassess the same  
5 evidence and arguments. Meanwhile, the cost shift and the harm it causes non-NEM  
6 customers continue unabated. APS urges the Commission to adopt the position on NEM  
7 set forth in UNSE's post-hearing brief both as to the treatment of new NEM customers  
8 and the grandfathering of existing NEM customers. Any need to modify the  
9 Commission's decision in this docket to reflect the results of Docket No. E-00000J-14-  
10 0023 can be accomplished by leaving the present docket open, as suggested in the ROO.

11 **RATES SHOULD BE IMPLEMENTED AS QUICKLY AS POSSIBLE**

12 However one reads A.A.C. R14-2-103(B) (11), this matter is at least one month  
13 over the Commission's own standard for processing rate cases. APS urges the  
14 Commission to act on the ROO as quickly as possible and implement new rates for  
15 UNSE immediately, but certainly no later than September 1, 2016, as proposed in the  
16 ROO.

17 RESPECTFULLY SUBMITTED this 29<sup>th</sup> day of July 2016.

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19  
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2 of the foregoing filed this 29<sup>th</sup> day of  
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