

ORIGINAL

EXCEPTION



0000172051

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

JUL 29 2016

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COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-04204A-15-0142
 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.)

EXCEPTIONS OF UNS ELECTRIC, INC.

UNS Electric, Inc. ("UNS Electric" or "Company"),¹ through undersigned counsel, submits its Exceptions to the Recommended Opinion and Order ("ROO") filed in this docket on July 20, 2016.

I. Introduction.

UNS Electric's original application, filed on May 5, 2015, requested new rates with an effective date of May 1, 2016. There were 20 parties to this proceeding that included 18 Intervenor representing various stakeholder interests. UNS Electric responded to 2,150 data requests from the parties. There were 47 individual witnesses that provided testimony at an evidentiary hearing that was conducted over four (4) weeks with 3,741 pages of transcript. For a small electric utility such as UNS Electric, this proceeding has had an unprecedented amount of process and evidence presented. The Company believes the evidentiary record in this case is extensive, complete and provides a foundation upon which the Commission can make decisions on rate design for customers with rooftop solar arrays and waivers to the net metering rules. UNS

¹ Unless otherwise defined in these Exceptions, all defined terms have the meanings given them in UNS Electric's Closing Brief filed on April 25, 2016.

1 Electric appreciates the patience and effort demonstrated by the Administrative Law Judge
2 throughout this lengthy and complex case. The 145-page ROO comprehensively addresses and
3 demonstrates great care and attention to the issues. Nevertheless, UNS Electric has the following
4 exceptions to certain recommendations.

5
6 Residential and Small General Service (“SGS”) Customers

7 The ROO proposes shifting all residential and small commercial customers to *optional*
8 “default” Time of Use (“TOU”) rates. This back and forth approach would likely cause numerous
9 customer service issues when thousands of customers contact the Company’s call center in order
10 to opt-out of the new rate. UNS Electric proposes the following more simplified, and less
11 aggressive plan that still encourages customers to migrate to TOU and three-part rates as described
12 in Section II of these Exceptions. As reflected in that proposal, the Company only takes exception
13 to the ROO’s requirement to automatically transfer customers to an *optional* “default” TOU rate
14 and to the retention of the Company’s existing Residential Super Peak TOU rate.

15
16 Large Power Service Customers

17 The revenue allocation and rate design for the Company’s large power service customers
18 should be modified to avoid unanticipated spikes in customer bills. The entire class includes only
19 four (4) customers and resulting rate increases that would impact some of the larger employers in
20 our service areas could have a negative effect on the local economies.

21
22 Residential and SGS DG Customers

23 The Commission should require all new DG customers, as of the decision date in this
24 proceeding, be placed on a three-part rate with demand charges, so that they pay their fair share of
25 fixed grid costs. This decision should not be deferred to a “Phase II” proceeding that will not
26 begin until after an order is issued in the Value of DG docket. UNS Electric proposes that from
27 the effective date of the decision:

- 1 • New DG customers applying for interconnection will be placed on three-part demand rates;
2 and
3 • Existing DG customers will still be able to choose from all applicable rate options
4 available to residential and SGS customers.

5
6 Lost Fixed Cost Recovery Mechanism (“LFCR”)

7 The Commission should approve the Company’s proposed modifications to the LFCR in
8 order to provide UNS Electric with an opportunity to recover lost fixed cost revenues, including
9 generation lost fixed cost revenues, resulting from meeting the Commission’s EE and DG
10 requirements.

11
12 The DG rate design and LFCR issues both address the same core problem—an antiquated
13 and inadequate rate design that fails to adequately recover fixed costs. Most of UNS Electric’s
14 non-energy costs are fixed. In other words, they do not vary with how much energy is consumed.
15 These costs include, for example, the fixed costs related to the Company’s investment in and
16 maintenance of service lines, poles, transformers, substations, generation facilities, and meters, all
17 of which are designed to meet a customer’s peak load regardless of how many kWh the customer
18 uses. The current rate design recovers many of these fixed costs through volumetric kWh charges.
19 As the ROO acknowledges, “[t]he shortcoming of two-part rates is that if customers use fewer
20 kWh, for whatever reason, including energy efficiency products, a desire to protect the
21 environment, or to save money, those rates do not recover all of the costs of service.”² The ROO
22 also noted that “the time is ripe for more modern rate design.”³ Requiring three-part demand rates
23 for new DG customers and a more robust LFCR will be a good start.

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27 ² ROO at 64:23-25.

³ ROO at 66:9.

1 UNS Electric requests the Commission to amend the ROO in each of these areas which the
2 Company believes is (i) consistent with the evidentiary record in this proceeding and (ii) in the
3 public interest.

4 UNS Electric has attached proposed amendment language that reflects its Exceptions.

5 **II. The ROO's proposal for "default" TOU rates for residential and small commercial**
6 **customers should be modified.**

7 The ROO proposes, after a transition period, moving all residential and small commercial
8 customers to a "default" TOU rate with the option of opting out and returning to a different rate.
9 All customers would be moved at the same time while retaining the option to move to any other
10 rate offering. Although the Company supports TOU rates, UNS Electric is very concerned that
11 switching over 90,000 residential and SGS customers to TOU rates—with an option to switch back
12 to another rate—will create undue and unnecessary problems. Because TOU rates are already an
13 option, UNS Electric believes that initially many customers will decide to switch back to a non-
14 TOU rate, even with robust communication and education efforts. Because the TOU "default" rate
15 is optional, the Company anticipates that when customers learn about the impending change, they
16 will contact the call center to request that they not be switched to the TOU rate, which the
17 Company will have to deny. Then these customers will call again after the rate change takes effect
18 requesting to be put back on the non-TOU rate. This will have the impact of not only
19 overwhelming the call center, but creating customer confusion and backlash for both the Company
20 and the Commission.

21 In place of the ROO's complicated process, the Company proposes a modified, simpler
22 approach to encourage more residential and SGS customers to move to TOU rates:

- 23 1. Keep customers on their current rate plans (as adjusted below) and do not
24 automatically change them to a TOU rate at the end of a transition period.
- 25 2. Modify the various rate options offered by UNS Electric (two-part rate, two-
26 part TOU rate, three-part rate and three-part TOU rate) to reflect the approved
27 revenue allocation.

- 1 3. Consistent with the ROO, on the effective date of new rates, set the monthly
2 basic service charge for all residential and SGS customers at \$13 and \$20,
3 respectively.
- 4 4. Shorten the Residential TOU periods as proposed in the ROO, and eliminate
5 the Residential Super Peak TOU rate due to the shortened time period for the
6 standard TOU rate. The SGS TOU periods will not be changed so that they
7 remain consistent with the MGS TOU periods.
- 8 5. Implement a customer communications plan within 90 days of the Order that
9 is designed to educate customers about their rate options and how they can
10 manage their bills.
- 11 6. Consistent with the ROO, and to encourage customers to switch to TOU rates,
12 increase the monthly basic service charge for two-part residential and SGS
13 rates to \$15 and \$25, respectively. UNS Electric proposes this to occur with
14 the first billing cycle in March 2017, a traditionally low usage period for
15 customers in the UNS Electric service area. Additionally, the Company
16 proposes to default all new residential and SGS customers to the optional
17 TOU rate beginning with the March 2017 billing cycle.

18
19 UNS Electric's proposal eliminates the difficult issues with transitioning over 90,000
20 existing customers, many thousands of whom will likely want to switch back to their old rate. This
21 plan allows customers to stay on their existing rate, provides them an incentive to move to TOU
22 rates and will avoid the customer service and transition problems associated with the back and
23 forth approach proposed in the ROO.

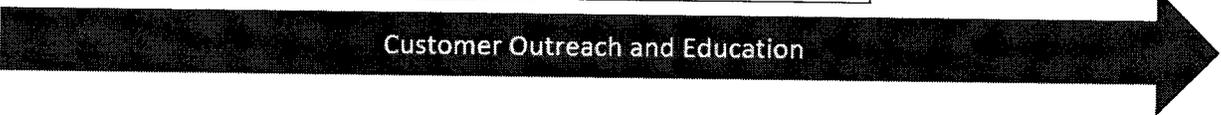
24 While UNS Electric believes its original \$20 basic service charge was more than justified,⁴
25 in its rebuttal testimony, the Company accepted the lower \$15 proposed by Staff. UNS Electric

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27 ⁴ The \$20 charge was well supported because the fixed costs of serving each customer is approximately \$55. See Ex. UNSE-32 (Jones Direct) at 41. Later in the case, UNS Electric accepted Staff's lower figure of \$15.

1 now accepts the lower \$13 for TOU customers⁵, to provide an incentive for more customers to
 2 select one of the TOU rate options.

3 Below is a table that compares the ROO's proposal with the Company's proposal, set forth
 4 above, for residential non-DG customers.⁶

Non-DG Residential Rates					
Phase One (Transition Period)			Phase Two		
Effective Date of New Rates			Day One		On Going
Optional Rate Plans	Basic Service Charge		Optional Default Rate	Basic Service Charge	Optional Rate Plans
ROO Standard Two-Part \$13 TOU Two-Part \$13 Superpeak TOU Two-Part \$13 Standard Three-Part \$13 TOU Three-Part \$13 New Customer (Default) Standard Two-Part \$13			All Customers on		
			TOU Two-Part \$13		Standard Two-Part \$15
					TOU Two-Part \$13
					Superpeak TOU Two-Part \$13
					Standard Three-Part \$13
			New Customer (Default)		TOU Three-Part \$13
			TOU Two-Part \$13		New Customer (Default)
					TOU Two-Part \$13
Optional Rate Plans	Basic Service Charge		Optional Rate Plans	Basic Service Charge	
UNSE Standard Two-Part \$13 TOU Two-Part \$13 Standard Three-Part \$13 TOU Three-Part \$13 New Customer (Default) TOU Two-Part Rate \$13			Standard Two-Part \$15		
			TOU Two-Part \$13		
			Standard Three-Part \$13		
			TOU Three-Part \$13		
			New Customer (Default)		
			TOU Two-Part Rate \$13		



18 Attachment 2 contains proposed language for an amendment to adopt the changes
 19 discussed in this section.

20 If the Commission, however, wants to provide a larger incentive to encourage customers to
 21 select a TOU rate, the Company would not oppose: (i) increasing the \$15 post-transition non-TOU
 22 basic service charge, while (ii) decreasing the \$13 TOU basic service charge by an equal amount.
 23 In other words, a \$1 decrease in the TOU basic service charge should correspond to a \$1 increase
 24 in the post-transition non-TOU basic service charge.

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 27 ⁵ The \$13 customer charge would also apply to residential customers that select the voluntary three part or three part TOU rate plans.
⁶ A larger version of the table can be found in Attachment 1.

1 **III. The Commission should require three-part rates with demand charges for all new DG**
2 **customers without delay.**

3 **A. DG rate design must change because DG customers do not pay their fair share**
4 **of fixed costs incurred to serve them.**

5 DG customers are very different from the average residential customer. The biggest
6 difference is that DG customers are partial requirements customers and typically are charged for
7 few or even zero kWhs on their monthly bill. For example, nearly 60% of rooftop solar customers'
8 bills reflect zero kWh usage, as opposed to less than 2% of non-solar customers' bills.⁷ Thus,
9 rooftop solar customers contribute little or nothing towards recovering the Company's fixed costs
10 incurred to serve them, which are primarily embedded in the kWh rate.

11 Yet the fixed costs to serve rooftop solar customers are similar to or higher than those
12 required to serve typical residential customers:

- 13 • Rooftop solar customers require the same service drop as other residential
14 customers;
- 15 • Rooftop solar customers use the same distribution system—poles, wires,
16 transformers—as other residential customers and in fact rely on that system to also
17 export energy;
- 18 • Rooftop solar customers have two meters, rather than one;
- 19 • Adding a rooftop solar system does not reduce that customer's demand.⁸ And
20 because rooftop solar customers are on average larger users of electricity, their
21 demand is higher than the average residential customer.⁹

22 None of these facts can be reasonably disputed. No one argues that the poles, wires and
23 transformers are no longer necessary once solar panels are installed on a roof. Indeed, rooftop
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27 ⁷ See Ex. UNSE-35 (Overcast Rejoinder) at 19.

⁸ See Ex. UNSE-34 (Overcast Rebuttal) at 9-12.

⁹ Ex. UNSE-34 (Overcast Rebuttal) at 25:19 to 26:2.

1 solar customers use the grid 24 hours a day, 7 days week as they take energy from the grid, but
2 also as they push energy back onto the grid.¹⁰

3 A three-part rate with a demand charge is appropriate to ensure these customers pay a fair
4 share of their fixed costs. As Mr. Dukes explains, “Simply stated, the Company’s current two-part
5 rate design options do not account for how these customers use the system and will never properly
6 recover a fair level of fixed costs. The two-part rates are designed to recover costs based on the
7 average consumption levels of full-requirements customers - and as presently designed and
8 proposed rely on energy charges to recover fixed cost.”¹¹ Staff witness Solganick testified that
9 even if mandatory three-part rates are not adopted for all customers, then a demand rate should be
10 considered for DG customers. He explained that “a two-part rate doesn't work for DG, then a
11 three-part rate would help in the collection of fixed costs. Because they have, to my knowledge,
12 they have less energy, but similar demands.”¹²

13 Despite the additional costs of serving DG customers, UNS Electric is not seeking to
14 recover more fixed costs from a new DG customer than it would recover from a non-DG customer.
15 UNS Electric is only seeking to bring fixed costs recovery from DG customers more in line with
16 other customers. DG customers will still have a choice of rates (standard three-part or three-part
17 TOU) and the installation of DG is itself a choice. The standard two-part rate design—with fixed
18 cost recovery through volumetric rates—simply does not work for these customers. A demand
19 charge will ensure that these customers pay some of their fixed costs.

20 Finally, to simplify the “grandfathering” issues, UNS Electric proposes that the three-part
21 demand rates apply only to new customers added after the Commission’s decision in August 2016.
22 Thus, no existing DG customer will be required to pay a demand charge, unless they choose an
23 available three-part rate option.

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¹⁰ Ex. UNSE-25 (Tilghman Direct) at 4-6.

27 ¹¹ Ex. UNSE-28 (Dukes Direct) at 28:8-12 (emphasis in original).

¹² Tr. (Solganick) at 2919-30.

1 **B. The Commission should not delay its decision on rate design for DG customers.**

2 The ROO has unnecessarily linked the rate design for DG customers with the net metering
3 issues and has proposed to consider both issues in a second phase of this proceeding that would
4 convene after the completion of the Value of DG docket. Although the Company is willing to
5 leave the record open until there is a ruling on its net metering proposals, there is no reason to keep
6 the record open and delay a decision on rate design for DG customers.

7 As discussed above, the hearing in this docket developed a substantial record on DG
8 customer rate design and a *second* phase would essentially be a repeat of the lengthy and resource
9 intensive evidentiary hearing that already took place. A decision on the treatment of DG
10 customers for rate design purposes does not need to wait for a determination on proposed net
11 metering changes that are being considered in the Value of DG docket. The Commission has all
12 necessary information to make a policy decision at this time to determine what is in the public
13 interest related to how DG customers should be treated for rate design purposes.¹³ Therefore,
14 effective with the rate order, new DG customers should be allowed to take service only under one
15 of the three-part rate options that are available to non-DG customers.

16 Further, delay is unwarranted because the problem is rapidly growing worse. Rooftop solar
17 deployment is increasing exponentially.¹⁴ At the same time, the size of the installed rooftop solar
18 systems has also been increasing.¹⁵ Moreover, the Company's analysis shows that DG customers
19 avoid paying their share of grid costs due to two-part volumetric rates (and are thereby subsidized)
20 by more than \$642 per year for a 7kW solar PV system.¹⁶ Ultimately, the customers that do not
21 have DG systems must pay for this subsidy. It is common sense to adopt appropriate rate plans for
22 DG customers sooner rather than later to mitigate this problem.

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25 ¹³ To the extent DG provides any benefits to the grid, those benefits will be compensated as ultimately
26 provided for in the Value of DG docket and subsequent proceedings.

27 ¹⁴ See Ex. UNSE-25 (Tilghman Direct) at 3.

¹⁵ See Ex. UNSE-25 (Tilghman Direct) at 3.

¹⁶ Ex. UNSE-34 (Overcast Rebuttal) at 15-19. Although Vote Solar witness Kobor repeatedly stated that
the Company did not conduct a study, Dr. Overcast did conduct a study as set forth in his rebuttal
testimony.

1 For these reasons, the Commission should not delay. RUCO likewise believes the
2 Commission should act now while “the cost shift for these customers is still manageable.”¹⁷

3 Attachment 3 contains proposed language for an amendment to adopt three part rates with
4 demand charges for all new DG customers.

5 **IV. The LFCR should be modified to improve fixed cost recovery, including fixed**
6 **generation costs.**

7 The Commission has aggressive DG and energy efficiency (“EE”) mandates. As the
8 implementation of these mandatory standards cause kWh use to fall, fixed costs go unrecovered by
9 the Company. The Commission recognizes this problem, and in its 2010 Policy Statement, the
10 Commission approved decoupled rate structures to address this problem.¹⁸ Notably, the
11 Commission recognized that decoupling mechanisms were only part of the solution: “*Utilities are*
12 *encouraged to develop customer rate designs that support energy efficiency and work well in*
13 *tandem with decoupling (or alternative mechanisms).*”¹⁹ Accordingly, a properly constructed rate
14 design works together with a decoupling mechanism to allow the utility a reasonable opportunity
15 to recover its fixed cost revenues resulting from implementing EE and DG.

16 The LFCR is a partial decoupling mechanism which only recovers lost fixed cost revenues
17 caused by DG and EE mandates. Currently, the LFCR only recovers a portion of distribution and
18 transmission lost fixed cost revenues. However, UNS Electric also has fixed generation costs, and
19 recovery of those costs is likewise impacted by falling kWh sales. Thus, these lost fixed cost
20 revenues should be included for recovery in the LFCR.

21 The ROO rejects this proposal, stating that “*UNSE has not met its burden to show that its*
22 *proposed changes to the LFCR mechanism are in the public interest. The LFCR mechanism is not*
23 *intended to operate as a full de-coupler mechanism, but rather to collect the lost fixed cost*
24 *revenues associated with Commission-mandated programs such as Energy Efficiency and DG.*”²⁰

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¹⁷ RUCO Brief at 2.

26 ¹⁸ *Final ACC Policy Statement regarding Utility Disincentives to Energy Efficiency and Decoupled Rate*
Structures, December 29, 2010, Docket Nos. E-00000J-08-0314 and G-00000C-08-0314.

27 ¹⁹ *Id.*, at page 31, Policy Statement No. 7.

²⁰ ROO at 123:3-7.

1 However, the LFCR is not a full decoupling mechanism nor has UNS Electric proposed a full de-
2 coupler. As a partial decoupling mechanism, the LFCR is limited only to those lost fixed cost
3 revenues caused by EE and DG. Yet the current LFCR falls short of the Commission's stated
4 objectives in its own 2010 Policy Statement by excluding generation lost fixed cost revenues
5 associated with EE and DG. By reducing kWh in a system where fixed costs are recovered by
6 kWh charges, the Commission's DG and EE mandates result in lost fixed cost revenues that go
7 unrecovered by the Company.

8 The Commission's decoupling policy statement finds that "[r]evenue decoupling...
9 establishes better certainty of utility recovery of authorized fixed costs and better aligns utility and
10 customer interests" to promote kWh reductions.²¹ If the Commission's intent is to ensure that
11 utilities are able to recover the lost fixed cost revenues associated with Commission-mandated EE
12 and DG programs, fixed generation costs should be included for recovery in the LFCR.

13 Likewise, the LFCR allows recovery of only half of lost non-generation demand revenues.
14 Staff agrees that these demand revenues were designed to recover fixed costs.²² Thus, these
15 revenues should be fully reflected in the LFCR.

16 Finally, UNS Electric requests that the LFCR's current 1% revenue cap be increased to
17 2%. This increase is warranted due to ever increasing levels of lost kWh sales due to EE and DG.
18 Staff's opposition to the increase stems from the fact UNS Electric has not yet reached the 1% cap.
19 Since EE and DG continues to increase, it is only a matter of time before UNS Electric will reach
20 the 1% cap.

21 These changes can be adopted by using the proposed amendment language in Attachment
22 4.

23 **V. Rates for UNS Electric's four largest customers should be clarified or fixed.**

24 The ROO proposes two significant and unexpected changes to the rate design for UNS
25 Electric's four (4) largest customers that will have unintended consequences. Three of these

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27 ²¹ December 29, 2010 Policy Statement filed in Docket Nos. E-0000J-08-0314 and G-00000C-08-0314 ,
page 30, Policy Statement No. 1.

²² Ex. S-5 (Solganick Rate) at 5.

1 customers are on the Large Power Service (LPS) rate and one is on the LPS-TOU rate. These four
2 customers account for a significant portion of the Company's kWh and revenues and are important
3 contributors to the local economy. The ROO proposes a major change to how these revenues will
4 be recovered without providing sufficient details to determine exactly how the charge is to be
5 applied, or how the charges will be determined for those customers not currently on a TOU rate.²³

6 The ROO appears to modify the demand ratchet, which looks back at the demand levels in
7 the 11 previous months. In place of the Company's current demand determination methodology,
8 the ROO proposes an 11-month look back at the customer's greatest on-peak demands during each
9 of the 4-CP months averaged together, or half of the customer's billing period's peak demand. The
10 Company requests that the Commission clarify the following:

- 11 • The 4-CP months should be established as June through September;
- 12 • The ratchet provision should state that the average of the on-peak measured
13 demand in each of the most recent 4-CP months, where the on-peak demand is
14 defined as the greatest measure 15-minute reading of the demand meter during the
15 on-peak hours of the month; and
- 16 • The new determination of billing demand applies only to the LPS TOU rate.

17 The second change proposed by the ROO is to the revenue allocation to these four
18 customers. The ROO increases the revenue allocation to these four customers far more than the
19 level supported by Class Cost of Service Study. Indeed, this study shows that these four customers
20 were already heavily subsidizing other customers. As discussed in the ROO, this area is
21 economically depressed.²⁴ These four customers are large employers, and adding further to the
22 subsidies these businesses must pay is disconcerting. The Commission should reduce, not
23 increase, the subsidies paid by these businesses. Thus, UNS Electric requests that the Company's
24 proposed revenue allocation be adopted for these four customers.

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27 ²³ ROO at 82-87.

²⁴ ROO at 26:18.

1 These changes can be adopted by using the proposed amendment language in Attachment
2 5.

3 **VI. The effective date of new rates should be as soon as possible.**

4 UNS Electric requests that new rates take effect as soon as possible. This case has taken
5 substantially longer than originally anticipated. UNS Electric's original application, filed on May
6 5, 2015, requested new rates with an effective date of May 1, 2016. As discussed in the
7 Introduction, this docket involved an unusually large number of parties, data requests, witnesses
8 and hearing days. For a small electric utility such as UNS Electric, this proceeding has caused
9 unexpected expense and delay.

10 The ROO states that new rates are to become effective as of September 1, 2016. UNS
11 Electric had originally hoped for May 1, 2016, and by the time of the hearing, it was expected that
12 that new rates would become effective on or before August 1, 2016 considering the requirements
13 of the time clock rule.²⁵ Because of unexpected scheduling issues beyond the control of the UNS
14 Electric or other parties, the ROO will not be considered by the Commission until its August 9 and
15 10 Open Meeting. To minimize the financial impacts of this delay to the Company, UNS Electric
16 requests that the signed order be issued as soon as possible, and that the ROO be amended to
17 provide that new rates become effective on the earlier of September 1, 2016 or the date UNS
18 Electric files its conforming rate tariff in this matter. These changes can be adopted by using the
19 proposed amendment language in Attachment 6.

20 **VII. Technical corrections.**

21 In reviewing the ROO, UNS Electric identified some typographical corrections that should
22 be made. These corrections are identified in Attachment 7.

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²⁵ A.A.C. R14-2-103(B)(11).

1 **VIII. Conclusion.**

2 UNS Electric requests that the Commission modify the ROO to:

- 3 (1) Reject the ROO's proposal to automatically move all existing residential and SGS
4 customers to an optional "default" TOU rate, and adopt the Company's modified
5 plan proposed in these Exceptions;
- 6 (2) Require all new DG customers, as of the date of the Order, to use three part rates
7 with demand charges, so that they pay more of their fixed costs;
- 8 (3) Improve the LFCR by including generation lost fixed cost revenues and all lost
9 demand revenues, and increasing the revenue cap from 1% to 2%.
- 10 (4) Clarify or reverse certain changes to the rates for UNS Electric's four largest
11 customers;
- 12 (5) Move up the effective date of the new rates for all customers; and
- 13 (6) Make certain technical corrections.

14 These revisions are in the public interest as they will implement a more effective, fair and
15 balanced rate structure with less customer confusion and reduce UNS Electric's under recovery of
16 fixed costs without adding further lengthy and expensive regulatory process.

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RESPECTFULLY SUBMITTED this 29th day of July, 2016.

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Attachment 1

Attachment 2

Attachment 2

Rates for Residential and SGS Non-DG Customers

Purpose:

This language sets forth an alternative plan to the proposal in the Recommended Opinion and Order to move all residential and SGS customers to optional Time-of-Use rates after a transition period.

Proposed Amendment Language:

DELETE page 66, line 8 to page 67, line 20 and **INSERT**:

Even though we do not approve mandatory residential or SGS demand rates for non-DG customers, we believe that the time is ripe for more modern rate design. Before turning to mandatory three-part residential and SGS rates, however, we find the better, more tempered, path to modernity is to encourage more customers to move to TOU or three-part rates. Appropriately designed TOU or three-part rates should allow better recovery of costs and send better price signals about the cost of service and encourage customers to shift their loads to off-peak times. By shaving the peak, the utility and its ratepayers can save on investments in generation, transmission and capacity.

In general, we find that the various rate options offered by UNSE in its Initial Brief (a two-part standard rate, two-part TOU rate, three-part rate and three-part TOU rate), modified to reflect the revenue allocations approved herein and other adjustments discussed below are reasonable.

In order to allow better recovery of costs and encourage residential customers to move to rates other than standard two-part rates, we authorize the following rate structure:

1. Customers will remain on their current rate plans with rate design modified to match the rate options proposed by UNSE in its Initial Brief (as adjusted below) until the March 2017 billing period.
2. All residential rates will have a \$13 basic service charge for the transition period.
3. The TOU peak periods will be shortened to 3-7 p.m. in the summer, and 6-9 a.m. and 6-9 p.m. in the winter.
4. The Super Peak TOU rate will be eliminated due to the shortened time period for the standard TOU rate and those customers will be moved to the standard TOU rate.
5. The two-part TOU rate will be the default rate for new residential customers starting with the March 2017 billing cycle.

6. The Company will file a customer communications plan with the Commission by September 30, 2016 that is designed to educate customers about their rate options and how they can manage their bills.
7. Starting with the March 2017 billing period, the \$13 basic service charge for the standard non-TOU two-part rate will increase to \$15 (with corresponding revenue neutral decreases to per-kWh energy charges). The basic service charge for all other residential rates will remain at \$13.

DELETE page 68, line 2 (beginning with “The ultimate TOU”) through page 68, line 5 and **INSERT**:

The SGS Class rates will be treated the same as the Residential Class rates except that: (i) the TOU periods will not change in order to remain consistent with the MGS Class TOU periods and (ii) the initial basic service charge will be \$20 for all SGS rates initially and the basic service charge for the standard two-part SGS will increase to \$25 starting with the March 2017 billing period.

DELETE page 136, lines 11 to 20 and **INSERT**:

59. We find that the various rate options offered by UNSE in its Initial Brief for residential customers (a two-part standard rate, two-part TOU, three-part rate and three-part TOU) and for SGS customers, as modified to reflect the revenue allocations and other adjustments approved herein are reasonable.

60. In order to encourage residential and SGS customers to move to rates other than standard two-part rates, it is reasonable to authorize the rate plan process described herein.

61. It is reasonable to require UNSE to prepare and submit a customer communications plan with the Commission by September 30, 2016 that is designed to educate customers about their rate options and how they can manage their bills.

At page 137, line 1, **DELETE** Footnote 504.

DELETE page 139, line 18 through page 140, line 1 and **INSERT**:

IT IS FURTHER ORDERED that UNS Electric, Inc. will prepare and submit a customer communications plan by September 30, 2016 that is designed to educate customers about their rate options and how they can manage their bills.

IT IS FURTHER ORDERED that the net metering portion of this docket shall remain open.

Attachment 3

Attachment 3

Three-Part Rates for DG Customers

Purpose:

Residential solar DG customers have much lower average billed kWh than the average residential customer, and many DG customers have no billed kWh at all. Yet DG customers have the same fixed costs as other customers. Indeed, DG customers have higher demand (kW) than the average residential customer—adding solar panels does not reduce demand. Under a two part rate design, most fixed costs are recovered in kWh charges. Solar DG customers, with their low or nonexistent billed kWh, thus pay little towards the fixed costs of providing service to them. This amendment proposes mandatory demand charges for new DG customers with completed applications submitted on or after the effective date of the decision in the matter, so that they will pay a greater share of the fixed costs needed to serve them.

Proposed Amendment Language:

DELETE page 68, line 6 to line 7 and **INSERT**:

“It is clear that DG customers are partial requirements customers and markedly different than other residential customers. Their billed kWh is less than half the average residential customer, and many DG customers have zero billed kWh. A two part rate, with most fixed costs recovered through a kWh charge, does not work for DG customers, as those customers will pay little through the kWh charge. We believe that these customers should pay their fair share of the fixed costs of providing service to them. Thus, we will require residential and SGS DG customers to use one of UNSE’s three part rate plans, either the standard three part rates or three part TOU rates. This requirement will apply only to new DG customers who take service after the effective date of this decision.

At page 116, line 15, **DELETE** “and rate design portions”.

DELETE page 116, line 13, beginning with “In the second phase,” through line 26 ending with “herein”.

At page 117, line 13, **DELETE** “rate options or”.

At page 117, line 16, after “that date” **INSERT**: “with respect to net metering.”

At page 137, line 6, **DELETE** “and rate design”

DELETE page 137, line 9, beginning with “, and to consider” through line 19 and **INSERT** new Finding of Fact No. 65, as follows:

“65. DG customers are different from other customers due to various factors, including their low billed kWh. In order to ensure reasonable fixed cost recovery from these customers, it is reasonable to require new DG customers to use one of the available three part rate plans.”

At page 139, line 26, **DELETE** “and rate design”.

At page 140, line 3, **DELETE** “and proposed rate options”.

INSERT a new ordering paragraph at page 140, line 5, as follows:

“IT IS FURTHER ORDERED THAT all residential and SGS DG customers who submit completed interconnection applications after the effective date of this Decision will be required to use one of the available three part rates for their customer class.”

MAKE ALL CONFORMING CHANGES

Attachment 4

Attachment 4

LFCR

Purpose:

As the Commission's DG and EE mandates cause kWh levels to fall, UNS Electric does not recover the fixed costs incorporated in its kWh rates. This amendment improves the LFCR mechanism to ensure that it captures more of the lost fixed cost revenues. The amendment includes lost fixed generation cost revenues in the LFCR, as well as 100% of lost demand revenue (the current LFCR only allows 50% of these demand revenues). The amendment also raises the annual LFCR revenue cap from 1% to 2% to recognize the increasing levels of DG and EE. The amendment also rejects TASC's argument that the LFCR is unconstitutional.

Proposed Amendment Language:

DELETE page 123, line 3 to line 5, and the portion of line 6 through and including "However," and **INSERT**:

"We reject TASC's argument that the LFCR mechanism is unconstitutional. Under the Arizona Constitution, we are "required to find the fair value of the company's property and use such finding as a rate base for the purpose of calculating what are just and reasonable rates." *Simms v. Round Valley Light & Power Co.*, 80 Ariz. 145, 151, 294 P.2d 378, 382 (1956). The LFCR was established in a rate case with a full fair value finding, and it is being reviewed and modified in this rate case, which will also include a full fair value finding. Thus, the LFCR complies with all constitutional requirements. To the extent the LFCR is considered to be an adjustor mechanism, it meets all the requirements established in prior court decisions—it was established in a rate case, is based on specific costs, and it does not change the rate of return. *Scates v. Arizona Corp. Comm'n*, 118 Ariz. 531, 535, 578 P.2d 612, 616 (App. 1978)("When courts have upheld such automatic adjustment provisions, they have generally done so because the clauses are initially adopted as part of the utility's rate structure in accordance with all statutory and constitutional requirements and, further, because they are designed to insure that, through the adoption of a set formula geared to a specific readily identifiable cost, the utility's profit or rate of return does not change.") The LFCR does not result in any change to revenue requirement; it merely adjusts the rate design to account for demonstrated reductions in kWh sales resulting from DG and EE. Thus, we conclude that the LFCR is both constitutional and appropriate.

In our December 2010 "Final ACC Policy Statement Regarding Utility Disincentives to Energy Efficiency and Decoupled Rate Structures", we noted that "To the degree to which utility fixed costs are recovered from volumetric sales, a net lost revenue and profit erosion effect exists which could act as a disincentive to utilities robustly seeking to implement energy efficiency measures. This utility disincentive to reduce sales discourages demand side management

programs which could ultimately benefit customers and minimize utility rates and customer utility bills.”¹ We found that “[r]evenue decoupling... establishes better certainty of utility recovery of authorized fixed costs and better aligns utility and customer interests.”² We also found that “[f]ull decoupling is preferable to partial decoupling as it contributes to greater rate stability which would encourage improvements to financial ratings, is administratively more manageable, and offers opportunities for rate relief following extreme weather events.”³

Applying these principles to UNSE’s request to include fixed generation costs in the LFCR, we note that the LFCR is not a full decoupling mechanism, even if lost fixed generation cost revenues are included as requested by UNSE. Thus, UNSE’s request is more limited than the full decoupling mechanism we originally envisioned. In addition, including these fixed cost revenues will increase the “certainty of utility recover of authorized fixed costs” and will more closely align “utility and customer interests”. Thus we will approve UNSE proposal to include lost fixed generation cost revenues in the LFCR.

UNSE also asks that 100% of lost demand revenues be included in the LFCR mechanism. Demand charges are specifically designed to recover fixed costs. The LFCR currently allows 50%. Because the LFCR is intended to improve fixed cost recovery, this should be increased to 100%.

UNSE also requests that the annual revenue cap on the LFCR surcharge be increased from 1% to 2%. UNSE notes that it is already near the 1% limit and will exceed it soon due to the increasing nature of our DG and EE mandates. We agree that increasing the cap to 2% is reasonable.

Lastly,”

DELETE page 138, lines 3 to 6 [Finding of Fact No. 71] and **INSERT** at page 138, line 3, a new Finding of Fact No. 71, as follows:

“71. It is reasonable to continue the LFCR in effect, and to approve UNSE’s requests to (1) include lost fixed generation cost revenues in the LFCR; (2) include 100% of lost demand revenues in the LFCR; (3) increase the LFCR revenue cap from 1% to 2%; and (4) to eliminate the fixed charge option as proposed by UNSE. It is reasonable to require UNSE to file a proposed Plan of Administration for the LFCR mechanism for review and approval by the Commission.”

INSERT at page 140, line 20, after “continue in effect”, the following: “as modified herein”

MAKE ALL CONFORMING CHANGES

¹ December 29, 2010 Policy Statement filed in Docket Nos. E-0000J-08-0314 and G-00000C-08-0314 at page 2.

² Id., page 30, Policy Statement No. 1.

³ Id., page 31, Policy Statement No. 8.

Attachment 5

Attachment 5

Large Power Service Issues

Purpose:

This amendment addresses the demand measurement and revenue allocation issues for UNS Electric's four largest customers, to prevent a spike in their rates. Given the economic importance of these customers to the region, it is important to keep their rates just and reasonable.

Proposed Amendment Language:

At page 26, line 11, **DELETE** beginning with the word "We" through the word "classes." at page 26, line 13.

At page 26, line 23, **DELETE** beginning with the word "Unfortunately" through the word "Classes." at page 27, line 1.

At page 27, **DELETE** the table beginning on line 2 and ending on line 8, and **INSERT**:

"Accordingly, we adopt the following revenue allocation:"

	Total (000's)	Residential Service (000's)	Small General (000's)	Medium/Large General (000's)	LPS (000's)	Lighting (000's)
Incremental Revenue	\$15,099	\$11,790	\$1,420	\$1,821	\$50	\$18

At page 27, line 9, **DELETE** beginning with the word "We" through the word "Classes." at page 27, line 10.

At page 84, line 6, **INSERT** at the end of the word "LPS", the following: "-TOU".

DELETE Page 84, line 9-10 and **INSERT**:

“1. The average of the on-peak demand measured in each of the most recent 4-CP months, where the on-peak demand is defined as the highest measured 15-minute reading of the demand meter during the on-peak hours of the month; or”

At page 84, line 23, **INSERT** at the end of the word “LPS”, the following: “-TOU”.

MAKE ALL CONFORMING CHANGES

Attachment 6

Attachment 6

Rate Effective Date

Purpose:

This amendment modifies the effective date for the rates approved in this docket, to partially address the delay in this case.

Proposed Amendment Language:

INSERT at page 139, line 11, after the words “shall file by”, the following: “as soon as possible, and no later than”

INSERT at page 139, line 16, after “on and after”, the following: “the date UNS Electric, Inc. files with Docket Control revised schedule of rates and charges, which shall be no later than”

MAKE ALL CONFORMING CHANGES

Attachment 7

Attachment 7

Typographical Corrections

Purpose:

To correct typographical and other errors in the Recommended Opinion and Order that the Company believes are material:

Requested corrections:

Page 4, Line 7: "\$365.7 million" should be "\$355.7 million"

Page 4, Line 9: "\$439.4 million" should be "\$438.4 million"

Page 28, Line 12: "\$0.038599" should be "\$0.038499"

Page 28, Line 12: "\$0.048160" should be "\$0.046160"

Page 29, Line 5: "\$0.036160" should be "\$0.046160"

Page 30, Lines 7 to 13, the table should be revised to:

<u>Small General Service</u>	<u>Current Rates</u>	<u>Proposed Rates</u>
Basic Service Charge	\$14.50	\$25.00
Energy Charge 0-400 kWh	\$0.030176	\$0.033780
Energy Charge 401-7,500 kWh	\$0.041042	\$0.044650
Energy Charge > 7,500 kWh	\$0.076042	\$0.079650
Base Power Supply Charge all kWhs	\$0.058241	\$0.053290
PPFAC	(\$0.002139)	(\$0.00000)

Page 31, Line 8: Delete "Summer on-peak".

Page 65, Line 2: "per-kWh charge" should be "percentage of bill charge".

Page 79, Line 17: "\$0.09338" should be "\$0.024716".

Page 85, footnote 325: "(\$0.098864 - \$0.071775)" should be "(\$0.092110 - \$0.030410)".

Page 89, Line 2: "500MW" should be "500kW".

Page 105, footnote 402: "\$0.584/kWh" should be "\$0.0584/kWh".

Page 135, Lines 18 to 19: Finding of Fact 50 should be revised to state that "UNS Electric, Inc. is wholly-owned by UniSource Energy Services, Inc., which is a wholly-owned subsidiary of UNS Energy Corporation and an indirect wholly-owned subsidiary of Fortis Inc."

Page 136, Line 9: "Gross Revenue Requirement" should be "Non-Fuel Revenue Requirement".