

EXCEPTION
ORIGINAL



0000172120

BEFORE THE ARIZONA CORPORATION C

COMMISSIONERS

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

Arizona Corporation Commission

DOCKETED

JUL 29 2016

DOCKETED BY

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL
2016 JUL 29 P 12:14

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

**ARIZONA INVESTMENT COUNCIL'S
EXCEPTIONS TO RECOMMENDED
OPINION AND ORDER**

Arizona Investment Council ("AIC"), through undersigned counsel, hereby files its Exceptions to the Recommended Opinion and Order ("ROO") docketed on July 20, 2016 in the above-captioned matter. AIC appreciates the work done by Judge Rodda in preparing a thorough and thoughtful analysis of this proceeding. While AIC generally supports the ROO, it takes two exceptions: first, rooftop solar rate design should be addressed now and not in Phase Two; and second, new rates should go into effect upon approval by the Commission and sooner than September 1, 2016.

Rooftop Solar Rate Design Should Be Addressed in this Case.

The ROO came to the correct conclusion regarding the short-comings of two-part rates, stating that "if customers use fewer kWhs, for whatever reason. . . these rates do not recover all of the costs of service."¹ It also aptly declared that "the time is ripe for a more modern rate

¹ Recommended Opinion and Order at 64:23-25.

1 design.”² Yet despite these well-articulated conclusions, the ROO recommends punting UNS
2 Electric’s request to require rooftop solar customers to take service under three-part demand
3 rates to a new “Phase Two” of this proceeding. That recommendation is misplaced.

4 The Value of Solar proceeding is focused on valuing the *export* rate for distributed
5 generation. It is not likely to draw any conclusions regarding the appropriate retail rate
6 design for rooftop solar customers. Indeed, rooftop solar advocates specifically decried any
7 discussion of rate design issues during the Value of Solar proceeding, arguing that rate
8 design lacked relevance to the export rate analysis at issue in the Value of Solar docket. The
9 rooftop solar three-part rate design proposition at issue in this proceeding is materially
10 different from the export rate analysis at issue in the Value of Solar docket and should be
11 addressed now, within the main phase of this rate case.

12 The question of how to resolve the rooftop solar customer to non-rooftop solar customer
13 cost shift has been posed in many dockets over the past several years and has been punted
14 every time. The rooftop solar industry has repeatedly declared that a utility rate case is the
15 “right place” to address rate design for rooftop solar customers. We are in a rate case now,
16 and the question is ripe for resolution. Punting a decision on rate design in this case to a date
17 following the conclusion of another docket that has no bearing on the proposed rate design
18 and rate schedules presented here will serve no purpose but to delay resolving a cost-shift
19 that the ROO acknowledges should be fixed.

20 The salient question in this case is whether the Commission should require rooftop solar
21 customers to take service under a mandatory three-part demand rate, thereby mitigating the
22 cost-shift. Hundreds of pages and dozens of hours of testimony on this precise question
23 have been submitted as evidence in this proceeding. The record is rich with arguments both
24 for and against the proposal. If the Commission chooses to delay yet again this important
25 policy decision, it will only succeed in requiring the parties to duplicate their efforts by re-

26
27
28 ² *Id.* at 66:9.

1 litigating the issue – wasting more time and money on a question that can and should be
2 resolved, here, right now.

3 Additionally, Wall Street investors are well aware of the cost-shift and corresponding
4 revenue erosion caused by the combination of net metering and UNS Electric's outdated rate
5 scheme. They are also aware of UNS Electric's attempt to resolve it and have been
6 anticipating some resolution of the issue at the conclusion of this case. If the Commission
7 punts a decision on rate design to follow the outcome of yet another unrelated docket, it will
8 be sending a broader message to the investment community that the Commission is unwilling
9 to address issues critical to the financial health of utilities. The repercussions of lack of
10 investor confidence can have significant and long-lasting effects on the credit ratings of all
11 Arizona utilities, making it more expensive for all ratepayers in the future.

12
13 **New Rates Should Go Into Effect upon Approval of this Matter at Open Meeting**

14 According to Arizona Administrative Code R14-2-103(B)(11)(d), the Commission is
15 required to issue a final order within 360 days of the date the Application was found to be
16 sufficient, subject to an additional three days for each one day of actual hearings on the
17 merits of the case.³ UNS Electric filed its rate application on May 5, 2015, received notice
18 that the application had met sufficiency requirements on June 4, 2015, and held 15 days of
19 hearings throughout the month of March. The Commission should thus have a total of 405
20 days, or until July 13, 2016, to issue a final order. Under the normal practices and time clock
21 of the Commission, the matter should have been heard and approved during the July 2016
22 Open Meeting with rates going into effect no later than August 1, 2016.

23 AIC understands the Commission's scheduling constraints that caused a delay in the
24 timeclock to this point. However, there is no reason to delay implementation of the new
25 rates from the date of Commission approval to the later date of September 1, 2016.

26
27
28 ³ Arizona Administrative Code R14-2-103(B)(11)(f)

1 Arbitrarily increasing regulatory lag beyond what is inherent in the rules and what has
2 already taken place is neither just nor reasonable.

3 Because UNS Electric's rates are based on a historical test year, they are outdated as
4 soon as they are approved – a result that effects the Company's ability to earn its authorized
5 rate of return. Delaying the implementation of new rates to an arbitrary later date
6 exacerbates that effect. Rate case calculations are predicated on effective dates within, or
7 close to, the statutory time clock, and as the authority to implement those new rates draws
8 farther and farther away from that time frame, the Company recovers less and less of the
9 revenue the Commission has authorized it to recover. Arizona has made significant headway
10 with the investment community for the Commission's constructive reduction in regulatory
11 lag compared to what it was just ten years ago. Wall Street's belief that Arizona has
12 improved its regulatory environment has drastically enhanced the credit quality of each of the
13 State's investor-owned utilities. There is no reason to risk that critical investor perception by
14 delaying the rate-effective date in this case and increasing regulatory lag without legal
15 justification. UNS Electric is entitled to implement the new rates as soon as possible after
16 the Commission approves them, and the Commission should allow it to do so.

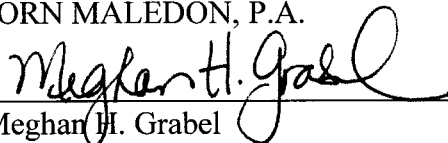
17
18 **Conclusion**

19 On the basis of the foregoing, AIC respectfully requests that the Commission amend
20 the ROO consistent with recommendations contained here within.

21
22 RESPECTFULLY SUBMITTED this 29th day of July, 2016.

23 OSBORN MALEDON, P.A.

24 By



25 Meghan H. Grabel
26 2929 North Central Avenue
Phoenix, Arizona 85012


27 Attorney for Arizona Investment Council
28

1 **Original and 13 copies** filed this 29th
2 day of July, 2016, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 **Copies** of the foregoing served
8 this 29th day of July, 2016, to:

9 All Parties of Record

10 
11 6753037