

ORIGINAL

EXCEPTION



0000172143

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

EXCEPTIONS OF THE SOUTHWEST
ENERGY EFFICIENCY PROJECT

The exceptions herein are submitted on behalf of Southwest Energy Efficiency Project ("SWEEP"). SWEEP appreciates the efforts and analysis of Judge Rodda in developing the Recommended Opinion and Order ("ROO") for the UNS Electric ("UNSE") rate case. SWEEP supports much of what is in the ROO, and particularly appreciates that the ROO does not recommend approval of mandatory three-part rates with demand charges for UNSE residential or Small General Service customers.

SWEEP submits the following comments and exceptions for the Commission's consideration.

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1 **I. THE COMMISSION SHOULD SCHEDULE THIS ITEM FOR COMMISSION**
2 **REVIEW AND APPROVAL ONLY AFTER UNSE SUBMITS THE BILL**
3 **IMPACT ANALYSIS FOR THE TWO-PART RATE RECOMMENDED FOR**
4 **THE TRANSITION PERIOD.**

5 UNSE should complete and file the bill impact analysis for the two-part, non-TOU rate
6 for the transition period with the revised revenue allocation at the earliest opportunity. The bill
7 impact analysis should include the bill impacts for each of the five customer sizes, in addition to
8 the bill impacts for the average or typical customer, as has been the practice in this proceeding.
9 The Commission should have the bill impact data in hand in order to make an informed decision.
10 See the relevant discussion on pages 67-68 of the ROO.

11 **II. INTERESTED PARTIES SHOULD HAVE AN OPPORTUNITY TO REVIEW**
12 **AND COMMENT ON THE UNSE TOU RATES PRIOR TO COMMISSION**
13 **REVIEW AND APPROVAL.**

14 The ROO affords interested parties an opportunity to review the transition plan (ROO,
15 page 66, line 26). In a similar manner, it is appropriate for interested parties to have an
16 opportunity to review and comment on the new TOU rates prior to Commission review and
17 approval. This could be addressed on page 67 of the ROO, at the end of line 14. Also see page
18 139, lines 23-25.

20 **III. THE BASIC SERVICE CHARGE SHOULD BE DETERMINED USING THE**
21 **BASIC CUSTOMER METHOD. IN THIS PROCEEDING, THE BASIC**
22 **SERVICE CHARGE FOR RESIDENTIAL CUSTOMERS SHOULD NOT BE**
23 **INCREASED ABOVE THE CURRENT CHARGE OF \$10 PER MONTH.**

24 The current basic service charge for UNSE residential customers is \$10 per month. The
25 ROO recommends an increase of 30% to \$13 per month, in response to the Company's most
26 recent request for a 50% increase to \$15 per month. SWEEP recommends a basic service charge
27 of \$10 per month – equivalent to the current basic service charge – or lower.
28

1 Historically, the Commission has used the basic customer method for determining the
2 basic service charge. The basic customer method is consistent with the principles established by
3 Professor Bonbright. According to Bonbright, the definition of customer cost is “operating and
4 capital costs found to vary with the number of customers, regardless, or almost regardless, of
5 power consumption.” Bonbright, James C. 1961. Principles of Public Utility Rates. P. 347.
6 The basic customer method includes only the costs for direct basic customer service – i.e., the
7 cost to hook up, bill, and maintain a customer’s account. The basic customer charge should not
8 include grid-related costs of transmission and distribution plant, which are driven largely by the
9 amount of customer usage and demand. The basic customer method also appears to be the
10 method the Company relied on its 2009 and 2012 rate cases. The basic customer method should
11 continue to be the reasonable and appropriate method used to determine the basic service charge.
12
13

14 SWEEP and Vote Solar calculated that the basic service charge should be less than \$10
15 per month using the basic customer method, and RUCO agreed that the current charge of \$10
16 should not be increased.
17

18 There is no cost-based justification for increasing the basic service charge in this case and
19 deviating from the basic customer method to derive that charge. It is simply an effort on the part
20 of the Company to move as many costs as possible out of volumetric rates and into fixed
21 charges. High customer charges reduce customer control over utility bills, reduce customer
22 incentive to conserve electricity and engage in UNSE energy efficiency programs, and
23 disproportionately impact low usage customers many of whom are also low income customers.
24

25 SWEEP recommends that the residential basic service charge be set at \$10 per month
26 using the language in SWEEP exception No. 1, attached.
27
28

1 SWEEP also recommends that the basic service charges for Small General Service
2 customers be retained at their current levels.

3
4 Should the Commission decide to increase the basic service charge, despite SWEEP's
5 analysis and recommendation, SWEEP suggests that any increase be limited to 20%, a sizable
6 increase itself, resulting in a basic service charge of no higher than \$12 per month for residential
7 customers. See SWEEP exception No. 2, which is the less desirable alternative to SWEEP
8 exception No. 1.

9
10 The amount of the basic service charge should be determined based on the per customer
11 costs accounted for using the basic customer method, as summarized above and as described in
12 SWEEP's testimony. The amount of the basic service charge based on per customer cost data
13 should not vary across the residential rates (unless a meter or billing or other customer cost
14 varies by rate). Therefore, the Commission should not approve an increase in the basic service
15 charge to \$15 per month, as recommended in the ROO, if a customer opts out of the default TOU
16 rate and selects some other rate option. If the appropriate per customer costs determine a basic
17 customer charge of \$10 per month using the basic customer method, then that \$10 basic service
18 charge should be the same for other rate options unless the customer costs are different.
19

20
21 **IV. THE TWO-PART RATE AVAILABLE DURING THE TRANSITION PERIOD**
22 **SHOULD ALSO BE AN AVAILABLE RATE OPTION AFTER THE**
23 **TRANSITION PERIOD IF A CUSTOMER CHOOSES TO OPT OUT OF THE**
24 **DEFAULT TOU RATE.**

25 Based on the discussion on pages 66-67 of the ROO, SWEEP believes the intent is to
26 allow the two-part, non-TOU rate as an option after the transition period. See page 66, lines 16-
27 18, and page 67, lines 17-18. The two-part, non-TOU rate is a reasonable and appropriate option
28 – and a simpler option – for lower usage customers, many of whom are low income, and for

1 customers on fixed incomes. Therefore, the two-part, non-TOU rate should continue to be
2 available after the transition period.

3 SWEEP recommends that this be confirmed and clarified using the language in SWEEP
4 exception No. 3, attached.
5

6 **V. IN THE RESIDENTIAL TWO-PART RATE OPTIONS, THE THIRD TIER FOR**
7 **KWH CONSUMPTION ABOVE 1,000 KWH PER MONTH SHOULD BE**
8 **RETAINED.**

9 The Commission should not eliminate the third or highest tier in the two-part tiered rates
10 for residential customers. It is appropriate to use tiered rates to provide an important economic
11 signal to customers to encourage the efficient use of energy, and to discourage wasteful energy
12 use. This is an important energy policy in Arizona. The elimination of the third or highest tier
13 would shift additional costs to lower usage customers and contribute to a disproportional impact
14 of the overall rate increase on lower usage customers, many of whom are low income. UNSE
15 should include the third tier when it files the two-part volumetric rate design for the transition
16 period, and when it files all other two-part rate options that will be available after the transition
17 period.
18

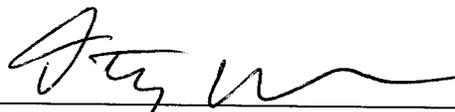
19 **VI. ENERGY EFFICIENCY PROGRAM COSTS SHOULD BE RECOVERED IN**
20 **BASE RATES AND THE LEVEL OF THE DSM ADJUSTOR MECHANISM**
21 **SHOULD BE REDUCED COMMENSURATELY.**

22 Energy efficiency is one of UNSE's fastest growing energy resources for meeting
23 customer energy needs in future years. As a core resource meeting the real energy needs of
24 customers at lowest cost, energy efficiency should be adequately funded through a stable, fully-
25 imbedded funding and cost recovery mechanism – and therefore energy efficiency program costs
26 should be recovered in base rates rather than in a separate adjustor mechanism. For UNSE, the
27 Commission should approve \$5 million in base rates as part of this proceeding. The
28

1 Commission's review and approval of energy efficiency programs and budgets would still be
2 done in the DSM Implementation Plan process. The Commission previously approved \$10
3 million for energy efficiency programs in base rates for APS.¹
4

5 The DSM adjustor mechanism should still remain intact, though the level of the surcharge
6 should be reduced commensurate with the energy efficiency program funding amount set in base
7 rates. The DSM adjustor mechanism should be used as an adjustor to recover or refund any
8 energy efficiency funding amounts above or below the \$5 million in base rates needed to
9 implement energy efficiency programs to meet the required energy savings levels. Recovering
10 energy efficiency program costs through base rates is consistent with the treatment of other
11 energy resources, whose costs are not expressly identified in the current bill format. See SWEEP
12 exception No. 4.
13

14 RESPECTFULLY submitted this 29th day of July, 2016

15
16 

17 Timothy M. Hogan
18 ARIZONA CENTER FOR LAW IN THE
19 PUBLIC INTEREST
20 514 W. Roosevelt Street
21 Phoenix, Arizona 85003

22 ///

23 ///

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25
26
27 ¹ In Commission Decision No. 67744, approving the settlement agreement to increase
28 Arizona Public Service Company (APS) rates in 2005, an annual \$10 million allowance for DSM
costs was approved for inclusion within base rates.

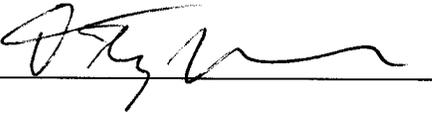
1 ORIGINAL and 13 COPIES of
2 the foregoing filed this 29th day
3 of July, 2016, with:

4 Docketing Supervisor
5 Docket Control
6 Arizona Corporation Commission
7 1200 W. Washington
8 Phoenix, AZ 85007

9 COPIES of the foregoing
10 electronically mailed this 29th
11 day of July, 2016 to:

12 All Parties of Record

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1 **SWEEP EXCEPTION NO. 1**

2 TIME/DATE PREPARED: _____

3 COMPANY: UNS Electric, Inc.

4 AGENDA ITEM NO.: _____

5 DOCKET No.: E-04204A-15-0142

6 OPEN MEETING DATE: August 8-9, 2016

7 Purpose: Retain the current basic service charge of \$10 per month for residential customers.
8 Maintain a basic service charge of \$10 per month for all residential rate options after the
9 transition period as well.

10 **Page 67, Lines 4-6**

11 DELETE all text beginning with "Furthermore"

12 REPLACE with:

13 "Furthermore, based on the evidence provided, we find the current basic service charge of \$10
14 per month to be appropriate for residential customers.

15 **Page 67, Line 8**

16 DELETE "\$13"

17 REPLACE with "\$10"

18 **Page 67, lines 18-20**

19 DELETE lines 18-20, beginning with "In order to"

20 **Page 67, Line 22**

21 DELETE "\$13"

22 REPLACE with "\$10"

23 **Make all conforming changes**

1 **SWEEP EXCEPTION NO. 2**

2 TIME/DATE PREPARED: _____

3 COMPANY: UNS Electric, Inc.

4 AGENDA ITEM NO.: _____

5 DOCKET No.: E-04204A-15-0142

6 OPEN MEETING DATE: August 8-9, 2016

7 Purpose: Limit the increase in the basic service charge for residential customers to an increase of
8 20%, from \$10 per month currently to \$12 per month.

9 **Page 67, Line 6**

10 DELETE "30 percent"

11 REPLACE with "20 percent"

12 DELETE "\$13"

13 REPLACE with "\$12"

14
15 **Page 67, Line 8**

16 DELETE "\$13"

17 REPLACE with "\$12"

18
19 **Page 67, lines 18-20**

20 DELETE lines 18-20, beginning with "In order to"

21
22 **Page 67, Line 22**

23 DELETE "\$13"

24 REPLACE with "\$12"

25
26
27 **Make all conforming changes**

1 **SWEEP EXCEPTION NO. 3**

2 TIME/DATE PREPARED: _____

3 COMPANY: UNS Electric, Inc.

4 AGENDA ITEM NO.: _____

5 DOCKET No.: E-04204A-15-0142

6 OPEN MEETING DATE: August 8-9, 2016

7 Purpose: Clarify that the two-part, non-TOU rate, which will be in place for the transition period,
8 will also be retained as a residential rate option after the transition period.

9 **Page 66, Line 25**

10 After "TOU options" INSERT "as the default rate."

11 **Page 67, Line 2**

12 After "options" INSERT ", which may include the two-part, non-TOU rate that will be in place
13 during the transition period."

14 **Page 67, Line 13**

15 After "Residential Class" INSERT ", while retaining the two-part, non-TOU rate in place during
16 the transition period as one rate option,"

17 **Page 67, Line 18**

18 After "residential or SGS rates" INSERT ", which may include the two-part, non-TOU rate in
19 place during the transition period."

20 **Page 139, Line 20**

21 After "three-part Time-of-Use rates" INSERT ", while retaining the two-part, non-TOU rate in
22 place during the transition period as one rate option,"

23 **Make all conforming changes**

1 **SWEEP EXCEPTION NO. 4**

2 TIME/DATE PREPARED: _____

3 COMPANY: UNS Electric, Inc.

4 AGENDA ITEM NO.: _____

5 DOCKET No.: E-04204A-15-0142

6 OPEN MEETING DATE: August 8-9, 2016

7 Purpose: To recover \$5 million in UNSE energy efficiency program costs through base rates
8 rather than through the DSM adjustor mechanism, which treats energy efficiency in a manner
9 similar to the treatment of other energy resources used to meet customer needs.

10 **Page 13, Lines 11-16**

11 DELETE lines 11-16

12 REPLACE with:

13 "We believe it is appropriate at this time to recover \$5 million in UNSE energy efficiency
14 program costs through base rates, and to use the DSM adjustor mechanism to recover or refund
15 any energy efficiency funding amounts above or below the \$5 million amount in base rates, as
16 SWEEP has proposed. The amount collected from customers through the DSM adjustor
17 mechanism shall be reduced commensurately. This approach of funding energy efficiency
18 programs in base rates treats energy efficiency in a manner similar to the treatment of other
19 energy resources used to meet customer needs."

20 **Page 139, Line 26**

21 INSERT NEW ORDERING PARAGRAPH:

22 "IT IS FURTHER ORDERED that UNSE shall recover \$5 million in energy efficiency program
23 costs through base rates. The DSM adjustor mechanism shall be retained and used to recover or
24 refund any energy efficiency funding amounts above or below the \$5 million amount in base
25 rates. The amount collected from customers through the DSM adjustor mechanism shall be
26 reduced commensurately."

27 **Make all conforming changes, including but not limited to Operating Revenues and**
28 **Expenses and the DSM adjustor surcharge**