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ORIGINAL

EXCEPTION

1 BEFORE THE ARIZONA CORPORATION COMMISSION

2 COMMISSIONERS

3 DOUG LITTLE, Chairman  
4 BOB STUMP  
5 BOB BURNS  
6 TOM FORESE  
7 ANDY TOBIN

RECEIVED  
AZ CORP COMMISSION  
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8 IN THE MATTER OF THE APPLICATION OF  
9 UNS ELECTRIC, INC. FOR THE  
10 ESTABLISHMENT OF JUST AND  
11 REASONABLE RATES AND CHARGES  
12 DESIGNED TO REALIZE A REASONABLE  
13 RATE OF RETURN ON THE FAIR VALUE  
14 OF THE PROPERTIES OF UNS ELECTRIC,  
15 INC. DEVOTED TO ITS OPERATIONS  
16 THROUGHOUT THE STATE OF ARIZONA  
17 AND FOR RELATED APPROVALS.

Docket No. E-04204A-15-0142

18 **RESIDENTIAL UTILITY CONSUMER OFFICE'S EXCEPTIONS**

19 **TO**

20 **RECOMMENDED OPINION AND ORDER**

21 Arizona Corporation Commission

22 **DOCKETED**

23 JUL 29 2016

24 DOCKETED BY

1 The Residential Utility Consumer Office ("RUCO") submits the following Exceptions  
2 to the Recommended Opinion and Order ("ROO").  
3

4 **Introduction.**

5 RUCO applauds Judge Rodda for a well thought out and balanced ROO. In general,  
6 RUCO agrees with the ROO, however, RUCO believes that the Commission may want to  
7 consider the following options<sup>1</sup> regarding the rate design for DG and non-DG customers.

- 8 1. Utilize RUCO's RPS credit option now as an option for DG customers
- 9 2. Adopt UNS Electric's ("Company") proposed process for transitioning non-DG  
10 residential and SGS customers to Time of Use ("TOU") rates.

11  
12 **1) The Commission Should Consider RUCO's RPS Credit Option As An  
13 Option For DG Customers**

14 RUCO strongly believes that now is the time to take a modest step towards dealing  
15 with issues associated with DG or synonymously, solar or partial requirement customers.  
16 The Value of Solar docket focuses on deriving a methodology to calculate a dollar value,  
17 not a methodology for a rate design/compensation structure. The Commission should  
18 implement RUCO's proposed RPS Credit option now as an option for DG customers.  
19 RUCO's proposed RPS Credit option aligns perfectly with the Value of Solar docket,  
20 because it establishes a workable structure, that can be easily adapted depending on how  
21 the Commission rules, starting at the retail rate (thus no need to wait for Value of Solar

22 \_\_\_\_\_  
23 <sup>1</sup> Attached is RUCO's proposed Amendment to the ROO.

1 docket). Upon the conclusion of the Value of Solar docket, the credit rate has the ability to  
2 be adjusted for new customers, to reflect the finding of the Commission in its final decision.  
3 <sup>2</sup> DG customers should be provided with an optional rate now, to provide some certainty to  
4 future DG adopters and the industry.

5 There seems to be some support for such an option already. In Commissioner  
6 Stump's May 10<sup>th</sup> letter to Parties in the Docket, he states the following:

7 "Likewise, the execution of a capacity-based declining block  
8 program would afford residential and small business customers  
9 greater security in terms of establishing pre-determined solar  
10 pricing for a fixed, long-term period."

11 "The declining block structure is based on the assumption that as  
12 DG adoption and capacity increases, the need for once-  
13 paramount incentives correspondingly decreases, providing  
14 economies of scale and greater flexibility to make unsubsidized  
15 solar more affordable."

16 "RUCO's RPS credit option would initiate the credit rate for new  
17 DG customers at 11 cents per kWh and would subsequently  
18 decline gradually in a manner that reflects increasing REST  
19 compliance, to a point no lower than the Market Cost of  
20 Comparable Conventional Generation (MCCCG) rate."

21 As Commissioner Stump alluded to, the benefits of this approach are numerous and can  
22 include the following:

- 23 • Value proposition does not depend on underlying rate design
- 24 • IRP/REST linked capacity targets can guide the policy
- Locational value and reliability adders can be integrated into credit rates
- Regular check-ins can occur at Commission discretion to respond to market conditions and technological developments
- No need to grandfather going forward
- Reduced consumer protection issues
- Retains options to self-consume
- Adjusters and steps down schedules can ensure solar gets built at the lowest price for ratepayers

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23 <sup>2</sup> RUCO Initial Brief at 11-15.

- Ratepayers receive the benefits of solar as the price paid declines
- Transparent allocation of costs and benefits

The RPS Credit option relies on 20-year market based fixed contracts entered into between the Company and the DG adopting customer, with a bill credit that can be either applied to all production or just system exports. The choice would be the customer's. As more customers sign up, the rate drops for new customers in a predictable and gradual manner (see chart below). The process would be identical to how the ACC administered upfront incentives for rooftop solar in the past. Below is a table showing the different tranches with the accompanying credit declines.

Step	Capacity Release in MW	Credit Decline Schedule in kWh
1	0.79	\$ 0.110
2	0.84	\$ 0.105
3	0.89	\$ 0.100
4	0.94	\$ 0.095
5	0.99	\$ 0.090
6	1.14	\$ 0.085
7	1.29	\$ 0.075
8	1.44	\$ 0.065
9	1.64	\$ 0.055

Much of the concerns relating to net metering revolves around banking and grandfathering. There was significant testimony on these subjects during the proceeding. The RPS Credit option solves the grandfathering issue by paying a fixed credit rate, based on instantaneous production, instead of treating solar production from months ago as a retail rate that offsets months later, for example. Next, if the grandfathering portion of the ROO is adopted as is, RUCO is concerned there will be a run on DG system installations that may cause an irreversible financial burden to non-DG rate payers. When

1 implementing the RPS Credit option, RUCO recommends the Commission also make the  
2 choice to put on notice future UNS DG adopters that either 1) there will not be  
3 grandfathering for them, or 2) there may or may not be grandfathering after the conclusion  
4 of Phase II (status quo today).

5       Because the market based fixed contracts, entered into under this rate option, span  
6 20 years, DG adopting customers are provided certainty for their investment, therefore no  
7 rate related grandfathering is needed. In exchange for that certainty, non-DG ratepayers  
8 will pay less than retail as the cost of technology declines. Since the DG customer enters  
9 into a 20 year contract and is compensated through a bill credit, there are no  
10 grandfathering issues or rate design impacts. The retail rate can change for these  
11 customers, once the Value of Solar docket is concluded, without impacting the economics  
12 of their investment. Therefore, two large benefits present themselves: 1) The Commission  
13 can place these customers on tariffs that send appropriate peak reduction price signals,  
14 and 2) as the market rush continues to explode, the costs shift will be contained.

15       **2) The Commission Should Reverse The Proposed Process For Non-DG**  
16       **Residential And SGS Customers Regarding The TOU Transition**

17       The ROO recommends that early next year, the Company develop a plan to  
18 transition all customers to a TOU rate.<sup>3</sup> At the time of transition, the customer fixed charge  
19 on the two-part rate would increase from \$13 to \$15.<sup>4</sup> This change theoretically would act  
20 as an incentive to stay on the TOU rate, rather than return to the two-part rate with the  
21 higher customer charge.

22 \_\_\_\_\_  
23 <sup>3</sup> ROO at 66-67.

24 <sup>4</sup> Id.

1 After briefly viewing the Company's Exceptions prior to filing this, the Company has  
2 proposed a different transition implementation using the \$15 fixed charge on the  
3 Company's traditional two-part rate and \$13 fixed charge on its TOU rates. The  
4 Company's proposal to not force customers onto the TOU, but rather provide an incentive  
5 for them to voluntarily switch to a TOU, is more appealing from RUCO's perspective.  
6 However, the ROO's recommendation and the Company's proposal raises the question -  
7 will a \$2 differential in fixed charges be enough to drive significant customer change?  
8 RUCO does not believe it will. There is no scientific data in the record describing what  
9 would be sufficient, but RUCO believes that a \$4 differential has a much higher likelihood  
10 of driving customer adoption. RUCO recommends changing the fixed charge to \$16 on the  
11 Company's traditional two-part rate and \$12 on its TOU rates, to provide more of an  
12 incentive. Normally, RUCO advocates for keeping customer fixed charges low rather than  
13 raise them. However, based on 1) the specifics of this case, 2) for public policy reasons,  
14 and 3) customers having the ability to choose a rate with a lower fixed charge, RUCO  
15 believes an increase to the two-part rate fixed charge is sound policy.

16 **I. Conclusion**

17 For the reasons stated above RUCO believes the Commission should adopt its  
18 recommendations.

19  
20 RESPECTFULLY SUBMITTED this 29th day of July, 2016.

21  
22   
23 Jordy Fuentes  
24 Counsel

1 RUCO Amendment 1

2  
3 Page 138, Line 27

4 INSERT Findings of Fact:

5 “79. It is reasonable to provide options to solar customers that also benefit non-solar ratepayers.  
6 Following the structure of RUCO’s declining RPS Credit Option, a fixed bill credit mechanism can  
7 be adaptable to the outcome of the Value of Solar docket. Therefore, implementation now will only  
8 be a benefit to both the solar industry and non-solar ratepayers. Until the 2017 REST  
9 Implementation Plan decision later in 2016, or the outcome of the Value of Solar docket, the credit  
10 rate and decline schedule shall follow the figures in RUCO’s proposal. In addition, solar customers  
11 may select whether the bill credit applies to all solar production or just solar exports. However,  
12 there will be no guarantee of the future offset value on production not compensated through the bill  
13 credit mechanism.”

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24 Page 142, Line 7

INSERT Order:

“IT IS FURTHER ORDERED that UNS Electric Inc. shall put in place a long-term fixed bill credit option within 60 days per the general program design, credit rate, and steps downs outlined in the RUCO RPS Bill Credit Option.”

\*\* Make all conforming changes

1 AN ORIGINAL AND THIRTEEN COPIES  
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2 2016 with:

3 Docket Control  
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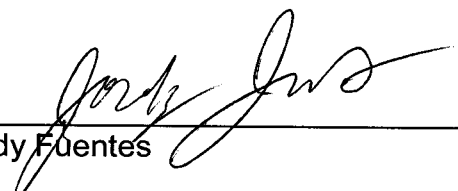
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