

ORIGINAL

EXCEPTION



0000172154

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

NOTICE OF FILING JOINT
EXCEPTIONS ON BEHALF OF
FREEPORT MINERALS
CORPORATION, ARIZONANS FOR
ELECTRIC CHOICE AND
COMPETITION AND NOBLE
AMERICAS ENERGY SOLUTIONS
LLC

JOINT EXCEPTIONS

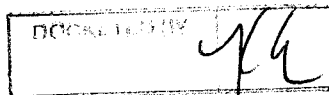
ON BEHALF OF

FREEPORT MINERALS CORPORATION, ARIZONANS FOR ELECTRIC
CHOICE AND COMPETITION AND NOBLE AMERICAS ENERGY
SOLUTIONS

Arizona Corporation Commission

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1 Freeport Minerals Corporation, Arizonans for Electric Choice and Competition
2 (collectively "AECC") and Noble Americas Energy Solutions LLC ("Noble Solutions"),
3 hereby submit these Joint Exceptions to the Recommended Opinion and Order filed on
4 July 20, 2016 in the above-captioned Docket.

5 INTRODUCTION

6 The concepts of "customer choice" and "price competition" are among those that
7 are helping to re-define how electric generation is sold and consumed (as a commodity)
8 in the energy industry throughout the United States. Technological advancements over
9 the past five (5) years have made renewable energy much more affordable, and
10 distributed generation options more accessible. Consumers, as well as electric utilities
11 themselves, are more energy efficient.

12 Electric utilities must continue to evolve in order for all classes of customers to
13 take full advantage of the options being made available, and the economic development
14 that occurs when large commercial and industrial customers expand or locate new
15 business, thereby providing real and tangible societal benefits to other ratepayers in
16 addition to that resulting from the continued subsidization of residential rates.

17 AECC and Noble Solutions recognize that each local electric utility is unique,
18 and programs that expand choice for customers, integrate new technology and/or
19 incorporate market price signaling, can be tailored to address different challenges for a
20 given utility. In this proceeding, AECC and Noble Solutions have jointly proposed a
21 very modest buy-through program that is tailored to address UNS Electric Inc.'s
22 ("UNSE") own generation needs and customer load profiles, without any revenue
23 requirement impact to residential ratepayers.

24 AECC and Noble Solutions have also proposed a revenue allocation methodology
25 that – when compared to other parties' recommended rate designs – places those large
26 commercial and industrial customers that would be eligible under a buy-through

1 program in a better position *even if they do not participate in such a program.*

2 Although AECC and Noble Solutions' proposed buy-through program
3 incorporates certain aspects of Arizona Public Service Company's ("APS") existing AG-
4 1 Tariff ("AG-1"), it is not the same program. There are specific differences in size,
5 eligibility requirements, funding mechanisms and administrative costs. As the
6 Commission is required to consider each case on its own merits, any suggestion that the
7 Commission should wait to evaluate the results of APS' own AG-1 pilot program before
8 approving a pilot program for another electric utility is fraught with undue prejudice. If
9 the Commission ultimately determines that the buy-through program being proposed by
10 AECC and Noble Solutions is not in the broad public interest at this time for UNSE and
11 all its customers, such a determination should be based on the facts presented in this
12 proceeding, not speculation on what might occur in a future proceeding for an entirely
13 different electric utility.

14 AECC and Noble Solutions appreciate the Commission's very difficult task of
15 addressing a myriad of issues in this proceeding, including several matters presenting a
16 case of first impression for UNSE and its customers. Balancing several interests in
17 furtherance of the broader public interest is no small exercise, and while Administrative
18 Law Judge ("ALJ") Rodda's ROO represents a genuine and thoughtful attempt to strike
19 such balance, AECC and Noble Solutions firmly believe that large commercial and
20 industrial customers are not being treated fairly under the ROO, in light of all the
21 benefits they provide to other rate classes, such as continued subsidization of rates, the
22 positive economic impact of the provision of jobs, an increase in the local tax base and
23 sponsorship of community programs. Consequently, AECC and Noble Solutions
24 respectfully urge the Commission to amend the ROO and adopt their proposed buy-
25 through program and revenue allocation methodology based on the evidence presented
26 in this proceeding.

1 Alternatively, if the Commission determines that these proposals do not further
2 the broader public interest, then AECC and Noble Solutions urge the Commission to
3 amend the ROO to clarify that its decision is based on the evidence presented in this
4 proceeding, and the unique challenges that UNSE might face in administering a buy-
5 through program. In doing so, the Commission would avoid the risk of prejudgment or
6 undue prejudice in other proceedings where a buy-through program is going to be
7 considered based upon the evidence presented in that proceeding.

8 DISCUSSION

9 I. AECC and Noble Solution's Proposed Buy-Through Program and Revenue 10 Allocation Strikes a Proper Balance of Interests between UNSE, it's 11 Customers and Shareholders.

12 As detailed in the ROO, the record in this proceeding contains sufficient evidence
13 for the Commission to find that adoption of AECC and Noble Solutions' buy-through
14 program and revenue allocation proposals will serve the broader public interest. The
15 primary policy question related to large commercial and industrial customers now at
16 issue is whether the fundamental rate making principle of matching cost causation with
17 cost recovery, as well as the potential benefits of economic development and *retention*
18 associated with a buy-through program, outweigh the potential impact to other classes of
19 customers.

20 As to the first component, while AECC and Noble Solutions appreciate ALJ
21 Rodda's recognition of the inter-class subsidies in the ROO and her recommendation to
22 shift slightly more of the rate increase to the subsidy-receiving classes relative to Staff's
23 proposal, it does not go far enough – especially in the absence of a self-funding buy-
24 through program for eligible large commercial and industrial customers.¹ Furthermore,

25 _____
26 ¹ Nucor Steel, UNSE's largest customer, supports the AECC/Noble Solutions buy-through program and revenue allocation proposal.

1 at a modest 10MW, the buy-through program is sized to fit UNSE.²

2 As to the second component, AECC and Noble Solutions request the Commission
3 to take judicial notice of the November 17, 2015 Open Meeting transcript on Joint
4 Movant's Motion to Extend APS' AG-1 tariff beyond its sunset date of June 30, 2016,
5 attached hereto as Exhibit 1. The Commission was considering a proposed settlement
6 submitted by APS and Joint Movants after a letter from Chairman Little encouraging the
7 parties to resolve their dispute.³ Several statements were made during this Open
8 Meeting concerning the benefits that a buy-through program can have in a state
9 regulatory scheme to promote economic development.

10 CHAIRMAN LITTLE:

11 "Part of the thing that I am trying to do with this, and I've been
12 trying to do now for several months, is to balance the interests of both sets
13 of parties. One of the things that I want to do is I want to drive economic
14 development as well. I want to make Arizona an attractive place for our
15 large customers to come – or excuse me – our large companies to come
16 because they do make a significant contribution to the economy, the
17 employment base, and this rate is a way of addressing that by keeping their
18 electricity rates as competitive as possible.

19 And to help you understand how important this is, I was present at a
20 forum Saturday a week ago put on by a group called the Critical Consumer
21 Issues Forum, and one of the very specific topics that we addressed that day
22 was how important it was for some of these large organizations,
23 organizations like Facebook, organizations like the Navy, organizations like
24 data centers, because they use such large amounts of power, it has to be in
25 a place where it can be competitive.

26 ² Ironically, Arizona Investment Council's argument that removing 10MW from UNSE' wholesale purchased power needs will increase the company's wholesale power cost highlights how large commercial and industrial customers are otherwise being held captive to further subsidize other rate classes.

³ The underlying discussion involved the Commission's consideration of a settlement agreement between APS and Joint Movants regarding the extension of the AG-1 Tariff, as well as a Staff Report recommending changes to the settlement agreement, which is not the same context under which the Commission is considering the ROO in this proceeding. In that regard, several Commissioners expressed support for the settlement process and cited it as a factor in their approval.

1 And the gentleman from Facebook, he said that when they would
2 review places to consider putting a data center, that they would look at the
3 regulatory rate structure and the regulatory policies of that state, and if they
4 weren't conducive to competitive electric rates, they would literally make a
5 great big X across it on the map. What I want to make sure we don't ever
6 have happen here is that X gets drawn across the state of Arizona."⁴

7 COMMISSIONER FORESE:

8 "And I believe that what this program potentially means to Arizona
9 is a chance to offer very competitive rates and be used as an economic
10 development tool. So the talk about it being an experiment and a pilot
11 program, I look forward to when those terms are no longer used. And in
12 order for that to happen, it has to be done in a way to where it has a balance
13 and it makes sense for these two parties.

14 And so if they've come to these terms, I think we ought to support
15 these terms for the time being and watch it closely and – and then make the
16 necessary changes in order to grow it in a healthy matter where it offers
17 competitive rates but it also maintains a healthy utility."⁵

18 COMMISSIONER BURNS:

19 "I mean, I guess the decision for us to make is do we believe that
20 AG-1 is a good policy, a good program for the state of Arizona? I think it
21 is. I think, obviously, there is a – as I stated earlier, there is a ding on APS
22 take-home, but there's also a benefit to some of our major employers in this
23 state on the other side."⁶

24 These comments demonstrate that the Commission is willing to seriously
25 consider buy-through programs as long as there is a balance that serves the broader
26 public interest. The buy-through program proposed by AECC and Noble Solutions
strikes that proper balance in this specific proceeding, and we respectfully request that
the Commission consider AECC/Noble Solutions' Proposed Amendment Nos. 1 and 2,
attached hereto as Exhibit 2.

⁴ November 17, 2015 Open Meeting Transcript at p. 24, ln. 24- p. 26, ln. 15. [Emphasis added]

⁵ Id. at p. 24, ln. 2 – 15. [Emphasis added]

⁶ Id. at p. 22, ln. 23 – p. 23, ln. 4. [Emphasis added].

1 **Proposed Amendment No. 1** amends the ROO to adopt the revenue allocation
2 and rate design proposed by AECC and Noble Solutions' expert witness Kevin Higgins.

3 **Proposed Amendment No. 2** adopts the proposed buy-through program. AECC and
4 Noble Solutions recommend that the Commission adopt both Proposed Amendment No.
5 1 and Proposed Amendment No. 2. Each of these amendments can stand on its own,
6 giving the Commission flexibility during the Open Meeting in deliberating and crafting a
7 final order that serves the broad public interest.

8 **II. If the Commission Determines That A Buy-Through Program Is Not Ripe**
9 **for UNSE Based on the Evidence In This Proceeding, it Should Amend the**
10 **ROO to Avoid the Risk of Prejudgment or Undue Prejudice in Another**
11 **Pending Rate Case Where This Issue Is Being Addressed.**

12 AECC and Noble Solutions' participation in this proceeding is to support the
13 integration of "customer choice" and "price competition" within a regulatory framework
14 that is built upon the vertical integration model. As UNSE witness Overcast testified,
15 buy-through programs represent an electric industry example of an "emerging mixed
16 monopoly and competition model" that has its origins in the telecommunications
17 industry. One can only imagine the products and services that might become available
18 to electric consumers if the electric industry experiences a similar change.

19 AECC and Noble Solutions are also participating in other pending rate
20 proceedings where the issue of buy-through programs is being addressed, and have (or
21 will) offer buy-through proposals that are specific to the facts of each case. If the
22 Commission determines in this proceeding that UNSE is not ready to implement a buy-
23 through program based on the facts of this case, then AECC and Noble Solutions
24 strongly urge the Commission to amend the ROO accordingly and clarify that its
25 decision is based on the evidentiary record, and not on some speculation of what might
26 be determined in a future proceeding involving another utility and different facts. In
support of this alternative, AECC and Noble Solutions offer **Proposed Amendment No.**

1 3, which amends the ROO to make this very important distinction, as illustrated in the
2 attached Exhibit 3.

3 CONCLUSION

4 The electric industry is changing, and large commercial and industrial customers
5 are looking for newer and more efficient ways to manage and reduce their power costs.
6 In addition, many of these companies also want the ability to choose the type of
7 generation they consume, whether to simply reduce their carbon imprint or support the
8 development of renewable generation. When it comes to revenue allocation and rate
9 design, several parties have argued that the concept of "gradualism" dictates that inter-
10 class subsidies cannot be altogether eliminated in one rate proceeding.

11 AECC and Noble Solutions believe that their proposed buy-through program
12 represents an appropriate form of "gradualism" in reverse when applied to the
13 *integration* of customer choice and price competition for large commercial and industrial
14 customers. 10MWs is a very small and modest program for a utility of UNSE's size,
15 and AECC and Noble Solutions respectfully request that the Commission begin to
16 gradually implement mechanisms such as the buy-through proposal in furtherance of
17 economic development and retention, as well as the broad public interest.

18 RESPECTFULLY SUBMITTED this 29th day of July, 2016.

19 FENNEMORE CRAIG, P.C.

20
21 By: 

22 Patrick J. Black
23 C. Webb Crockett
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25 Phoenix, Arizona 85016
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this 29th day of July, 2016 with:

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COPY of the foregoing hand-delivered/mailed
this 29th day of July, 2016 to:

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COPY mailed/emailed
this 29th day of July, 2016 to:

Parties of record


By: 
11840543

EXHIBIT 1

1 BEFORE THE ARIZONA CORPORATION COMMISSION

2 IN THE MATTER OF THE APPLICATION OF)
3 ARIZONA PUBLIC SERVICE COMPANY FOR A) DOCKET NO.
HEARING TO DETERMINE THE FAIR VALUE) E-01345A-11-0224
4 OF THE UTILITY PROPERTY OF THE)
COMPANY FOR RATEMAKING PURPOSES, TO) RATE RIDER
5 FIX A JUST AND REASONABLE RATE OF) SCHEDULE AG-1
RETURN THEREON, AND TO APPROVE RATE) ACCOUNTING
6 SCHEDULES DESIGNED TO DEVELOP SUCH) DEFERRAL ORDER
RETURN.)
7) OPEN MEETING

At: Phoenix, Arizona
Date: November 17, 2015
Filed: December 3, 2015

REPORTER'S TRANSCRIPT OF PROCEEDINGS

AGENDA ITEM NO. 19

COASH & COASH, INC.
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Prepared by:
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COASH & COASH, INC.
www.coashandcoash.com

(602) 258-1440
Phoenix, AZ

1 BE IT REMEMBERED that the above-entitled
2 and numbered matter came on to be heard at Open Meeting
3 before the Arizona Corporation Commission, at 1200 West
4 Washington Street, Room 1, Phoenix, Arizona, commencing
5 at 11:18 a.m. on the 17th day of November, 2015.

6

7 BEFORE: SUSAN BITTER SMITH, Chairman
8 BOB BURNS, Commissioner
9 BOB STUMP, Commissioner
DOUG LITTLE, Commissioner
TOM FORESE, Commissioner

10

11

APPEARANCES:

12

For Arizona Public Service Company:

13

Mr. Thomas L. Mumaw

14

15 For the Arizona Corporation Commission:

16

Mr. Eric Van Epps
Mr. Thomas Broderick

17

18 For RUCO:

19

Mr. Daniel W. Pozefsky

20

For Arizonans for Electric Choice and Competition:

21

Mr. Patrick Black
Mr. Web Crockett

22

23

24

25

1 APPEARANCES (continued):

2 For Wal-Mart Stores, Inc. and Sam's West, Inc.:

3 Scott Wakefield

4

5

LILIA MONARREZ, CSR, RPR
Certified Reporter
Certificate No. 50699

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1 CHMN. BITTER SMITH: All right. We'll move on
2 to our final item of the day, which is Item Number 19.

3 Let me just turn to the court reporter.

4 You're still good for one more item? Okay. If
5 this goes on longer than I think, we will take a break,
6 but hopefully -- hopefully not.

7 And as the parties are changing, this item is a
8 joint motion to extend the experimental rate rider known
9 as AG-1 and APS's request for accounting deferral.

10 Let me ask the parties to introduce themselves
11 for the record, then I'll turn to Staff for a quick
12 update.

13 Mr. Mumaw?

14 MR. MUMAW: Thank you. Madam Chairman, members
15 of the Commission, Thomas L. Mumaw, on behalf of Arizona
16 Public Service Company, and I have with me Leo Snook,
17 who was part of the group that helped put together AG-1
18 in case there are any questions about the program
19 itself.

20 CHMN. BITTER SMITH: Thank you.

21 Mr. Black?

22 MR. BLACK: Good morning, Madam Chairman,
23 members of the Commission. Patrick Black and Web
24 Crockett with the law firm of Fennemore Craig on behalf
25 of AECC.

1 CHMN. BITTER SMITH: Mr. Pozefsky?

2 MR. POZEFSKY: Thank you. Daniel Pozefsky on
3 behalf of RUCO.

4 CHMN. BITTER SMITH: Thank you.

5 MR. WAKEFIELD: Thank you. Good morning,
6 Commissioners. Scott Wakefield from Ridenour Hienton on
7 behalf of Wal-Mart Stores, Inc., and Sam's West, Inc.

8 CHMN. BITTER SMITH: Great. Thank you.

9 And there are no other parties that are not at
10 the table.

11 Correct?

12 (No response.)

13 CHMN. BITTER SMITH: All right. Commissioner
14 Burns, did you have a statement or a question before I
15 turn to Staff for a report?

16 COM. BURNS: Yeah, I'd like to speak to this
17 particular issue. And I'm aware of a number of
18 different proposals, if you will, that have been
19 suggested, and I guess one of them is to continue --
20 continue the program as it is and work out the deferral,
21 if any, at the time of the rate case.

22 There's been a 90/10 agreement between the
23 movants and APS, at one point, with a final deferral
24 solution in a rate case. There's also -- which is
25 Staff's proposal here, with the 50/50 and having a --

1 sort of a payment determination just determined today.
2 If we end up at that particular point, I have an
3 amendment prepared that I would like to offer which
4 would include the 50/50 breakout but would delay the
5 deferral discussion until the rate case.

6 So -- and the reason for that, I believe, is
7 that it gives all the parties the opportunity to
8 participate in that -- in that discussion.

9 I guess the -- one issue that I think sort of
10 simplifies all this, in my -- in my mind, anyway, is
11 that if we were to continue this AG-1 as it stands today
12 and let the -- let the debate about the deferral and so
13 forth take place in the rate case, it would be a
14 better -- better -- more simple, better situation.

15 I realize that APS in that case would have a
16 ding in their take-home pay, possibly, but the program
17 has a significant benefit, I believe, to some of our
18 major employers here in the state of Arizona. And so
19 that's a benefit and it's a benefit that I think
20 benefits Arizona, not just necessarily these large
21 employers.

22 So I'm prepared to move a proposal that we
23 continue as is and work out the differences in the rate
24 case.

25 CHMN. BITTER SMITH: Commissioner Burns, if you

1 will hold that thought because I'll come back to you.

2 Let me have Staff report and the parties do brief

3 comments and then we can move from that point.

4 COM. BURNS: Yeah. Okay.

5 CHMN. BITTER SMITH: All right.

6 MR. VAN EPPS: All right. Madam Chair,
7 Commissioners, Eric Van Epps on behalf of Commission
8 Staff.

9 Item Number 19 addresses the joint motion to
10 extend experimental rate rider Schedule AG-1 and APS's
11 request for an accounting deferral order. Schedule AG-1
12 is an experimental buy-through rate which was
13 established in the Company's last rate case. This
14 experimental rate is set to sunset on July 1, 2016,
15 absent action by the Commission to extend. APS -- APS
16 has withdrawn its opposition to the extension of AG-1
17 contingent on its ability to defer for future recovery
18 of unmitigated unrecovered costs.

19 Staff has recommended that the experimental rate
20 rider AG-1 be extended past its original contemplated
21 sunset date with deferred unmitigated, unrecovered costs
22 split between the Company and participants of the AG-1
23 rate.

24 Staff is available and happy to answer any other
25 questions you may have.

1 CHMN. BITTER SMITH: Mr. Van Epps, thank you
2 very much.

3 Two really quick questions and then I will --
4 certainly the parties can speak to this.

5 There's, obviously, been a settlement agreement,
6 at least by the folks on this side of the room.

7 Can you briefly outline what that is, and then
8 my second question is, having gone back to look at the
9 history of how AG-1 came to be, because it was prior to
10 my tenure in the Commission, clearly it was intended, at
11 least as I understand it, to be continued. There was a
12 sense of reliance, at least from those parties in that
13 rate category, that it would be continued up and until
14 the new rate case was finalized.

15 Am I correct in that assumption?

16 MR. VAN EPPS: Yes, you are correct.

17 CHMN. BITTER SMITH: And then the first part,
18 can you briefly just describe what's been called the
19 settlement agreement between APS and the movants?

20 MR. VAN EPPS: So in the -- in APS's last rate
21 case under the settlement, APS agreed to an experimental
22 AG-1 rate for four years. There was a specific sunset
23 date which I outlined earlier. After that rate
24 sunsetted, AG-1 customers would be transitioned onto
25 their normal retail rate, and then in the rate case

1 testimony it was contemplated that, in APS's next rate
2 case, APS would provide a report which outlined some
3 of -- the benefits and hurdles associated with AG-1 and
4 whether or not it should be continued, terminated or
5 altered.

6 CHMN. BITTER SMITH: Thank you, Mr. Van Epps.
7 Let me turn to Mr. Mumaw.

8 If you would, certainly, thoughts on what I'm
9 describing as the settlement between the parties at the
10 table and thoughts about whether or not this can be
11 discussed again in the rate case?

12 MR. MUMAW: Thank you, Madam Chairman.

13 I was a person who, if anybody on the Company's
14 side could be said to have negotiated AG-1, it was
15 myself, and that July 1st date was specifically chosen
16 because we were willing to accept the losses in this
17 program. And we knew there would be losses. We told
18 everyone from the beginning there would be losses. We
19 were willing to accept those losses for four years, not
20 four and a half years, not five years, not who knows how
21 long our next rate case will actually take to be
22 decided.

23 When the joint movant made the request that it
24 be extended, as you know, we filed an opposition
25 pointing that out that, again, this was not what we had

1 agreed to as part of the settlement and asked that the
2 motion be denied. A letter came out from Commissioner
3 Little suggesting that APS and the joint movants get
4 together and see if there was some sort of compromise
5 that we could come up with that would allow the program
6 to continue.

7 We met several times with the joint movants, and
8 we eventually worked out a settlement, an agreement,
9 whatever you wish to call it, that we would withdraw our
10 opposition to continuation of the program until the
11 conclusion of the next rate case, whenever that might
12 be, if we were allowed to defer a substantial portion of
13 the future losses, not the losses we're incurring today.
14 This deferral would not kick in till after July 1st of
15 2016.

16 And we then filed that. The joint movants filed
17 a pleading in support of that agreement. RUCO filed a
18 pleading saying they did not oppose that agreement so
19 long as one of the other aspects of that agreement,
20 specifically that residential customers would be held
21 harmless in any event, if that were also incorporated as
22 part of the Commission's final order.

23 Subsequent to that time, there have been some
24 other parties, I think the most recent one being
25 Mr. Robertson, on behalf of some of the alternative

1 generation suppliers who have again filed documents in
2 support of the original agreement that APS filed on, I
3 think, June 20th of this year.

4 And we think that was a fair resolution at the
5 time. We understand that Staff has a different opinion.
6 We respect that opinion, but we still think that if the
7 program is going to continue after July 1st, 2016,
8 contrary to the terms of the original settlement, that
9 APS should have at least the opportunity -- no
10 guarantee, but the opportunity to recover some of those
11 future losses in the next rate case.

12 And as to the question of who pays for those, we
13 think that's an appropriate question. Reasonable minds
14 can differ on that. We understand that. That will be a
15 call that the Commission makes in our next rate case,
16 but we don't think it needs to be made until that next
17 rate case.

18 CHMN. BITTER SMITH: Thank you, Mr. Mumaw.

19 Mr. Black?

20 MR. BLACK: Thank you, Chairman, members of the
21 Commission. I'd like to echo what Mr. Mumaw said with
22 respect to the procedural issues. I also would like to
23 thank Staff and APS for getting us to where we are
24 today. I know that we made the filing -- and I'm
25 speaking on behalf of the joint movants at this point.

1 We certainly made the filing on the assumption
2 that -- I was not at the original settlement agreement.
3 Mr. Crockett was there, and I believe that the intent
4 was that the AG-1 program would continue through the
5 next rate case. If you recall, APS had been ordered to
6 come in and file a rate case by a particular date -- on
7 or after a particular date. So I think that the intent
8 was that this would go through.

9 But that being aside, where we are now today is
10 we have a proposed settlement with APS to continue the
11 program through the rate case and a deferral that we
12 believe should be addressed in terms of recovery during
13 that rate case.

14 As Commissioner Burns pointed out, the joint
15 movants believe that the AG-1 program is good for
16 Arizona, is good for business, is good for Arizona as a
17 whole. And because it was borne in a settlement
18 agreement that had lots of issues to be addressed, we
19 believe the appropriate venue to address recovery of any
20 deferral costs would be in that same setting and in the
21 rate case.

22 CHMN. BITTER SMITH: Thank you.

23 Mr. Pozefsky?

24 MR. POZEFSKY: Well, I was comfortable with
25 pretty much everything Mr. Mumaw stated until the last

1 part about that deferral and then that being decided by
2 you in the next case with what it sounded like with no
3 strings.

4 That kind of brings a concern that I have with
5 the language here. We had proposed some language in our
6 filing in June because, remember, we're not part of the
7 joint movements -- movants. We said the preferred
8 language we'd like is it is further ordered that at no
9 time shall any unrecovered generation costs, deferred or
10 otherwise, imputed to the AG-1 customers be recovered
11 through any class of residential ratepayers.

12 To us, that ends the discussion. That takes out
13 any -- that has broad implications. That takes out any
14 concern as far as we have regarding the ratepayers. The
15 language in the order here is -- the proposed language
16 is it further ordered that amounts deferred shall be
17 recovered only from the eight existing AG-1 customers in
18 accordance with the methodology developed in the
19 Company's next rate case.

20 First I didn't have much consternation about
21 that, but as I listened to Mr. Mumaw, I think that may
22 leave the door open as we get into the rate case. And,
23 again, our interest in this is specifically and clear.
24 You want to go with this experimental rider program.
25 You want to continue it, it's fine. RUCO's perspective

1 is as long as it doesn't come at any cost to the
2 residential class, any residential class. So that's our
3 concern. We prefer the broader language, but at the
4 very least, if you go with the language here, just an
5 understanding, at least, from all the parties, as well
6 as maybe some words from the Commission, that this would
7 not be something that's going to come at the cost of our
8 class.

9 Thank you.

10 CHMN. BITTER SMITH: Thank you.

11 Mr. Wakefield, anything from the movants?

12 MR. WAKEFIELD: Thank you.

13 I wasn't intending to add anything to Mr.
14 Black's comments, but just in response to what
15 Mr. Pozefsky just said, the concept that none of these
16 deferred costs would be -- would be recovered from
17 residential customers was something that APS and the
18 joint movants had agreed to in their settlement. So
19 conceptually, we have no problem with that. Everyone is
20 on board with that concept.

21 CHMN. BITTER SMITH: Thank you.

22 Commissioner Burns, I have not forgotten you.

23 Commissioner Little, I think, has questions.

24 COM. LITTLE: Well --

25 CHMN. BITTER SMITH: No?

1 COM. LITTLE: Comments.

2 CHMN. BITTER SMITH: Comments. Comments? All
3 right.

4 MR. BRODERICK: Madam Chair?

5 CHMN. BITTER SMITH: Yes, Mr. Broderick.

6 MR. BRODERICK: Might it be possible for Staff
7 to respond? I think some of the history has been left
8 out of the discussion.

9 CHMN. BITTER SMITH: Let's do that, and then
10 Commissioner Little has been patient. I want to give
11 him his opportunity to speak.

12 MR. BRODERICK: So subsequent to the history
13 described by Mr. Mumaw, Staff did host the parties here
14 on one occasion. We did not participate in that
15 occasion. We asked them to settle and to confine the
16 impacts among themselves, and then we had a subsequent
17 meeting in which Staff did participate and, essentially,
18 the positions expressed here were known at that point.

19 Taking a step back, I'd like to make clear that
20 my predecessor had told the parties quite some time ago
21 that Staff's position was to contain the impacts to
22 themselves and that 50/50 was a reasonable outcome.

23 Staff informed the parties that whatever
24 percentage they settled on was fine with us, whatever
25 sharing they thought was appropriate, but we did not

1 want to create a brand-new deferral this late in the
2 game to apply to another group of customers. And the
3 reality is in a rate case, despite -- I mean, I'm
4 sensitive to Mr. Pozefsky's comments that a deferral can
5 ultimately, in a rate case and in another settlement,
6 end up on anyone's plate.

7 I used to -- I used to work in the competitive
8 electric industry. I used to work for PG&E Corporation,
9 and so I was oftentimes speaking in terms of competitive
10 issues. And the part that surprises me is if AG-1 has
11 been a successful program, my personal opinion is that
12 the movants are being rather shortsighted at this point
13 in wanting to preserve their savings for just a brief
14 period of time, create a deferral which I think could be
15 controversial and undermine the program down the line.

16 Going -- going to some of APS's comments,
17 Mr. Mumaw used the word "losses." APS has not alleged
18 that they're actually having negative income from the
19 AG-1 customers. In other words, their losses are off of
20 their allowed return. So their losses, in our
21 understanding, are not actual negative net income. I
22 think they're actually still earning some return from
23 these customers.

24 So for that reason, Staff has continued to offer
25 up, essentially, this 50/50 savings idea, wherein APS

1 would absorb one half of what they've been absorbing and
2 the movants would give up -- those that are currently
3 actually receiving it would give up one half of what
4 they've been saving.

5 We -- Staff would feel that Commissioner Burns'
6 amendment would be, you know, sort of the second option.
7 We feel that would be superior to what has otherwise
8 been proposed, but Staff does still feel rather strongly
9 about its position. And we've actually devoted quite --
10 quite a bit of time to this, you know, item.

11 CHMN. BITTER SMITH: Thank you.

12 Commissioner Little, comments?

13 COM. LITTLE: Let's see if there's something
14 else coming.

15 Okay. Thanks.

16 I guess I'm the problem child here to a certain
17 extent.

18 The reason I filed the letter to the docket to
19 begin with was because I felt that it was important for
20 the joint movants and the Company to get together and
21 try to work this thing out. Understanding my business
22 background, you know, there are many times during the
23 course of a negotiation when I was working as a
24 principal negotiator for the company I worked for then,
25 we would try to figure out something that would

1 accommodate both parties and there would be a little
2 give and a little take.

3 And the thought process behind the letter that I
4 placed in the docket was let's see if we can figure out
5 a way to do this in a way that the cost causers and the
6 beneficiaries can find some way to balance it out. So
7 the whole idea here was maybe the joint movants wouldn't
8 save as much as they did under the original plan, but
9 they would still have some significant savings and that
10 APS would be satisfied to a certain extent because they
11 would be able to address their cost concerns. So that
12 was the whole reason that I put the letter together.
13 That's what I was trying to accomplish.

14 And one of the things that happened in
15 conversations that I had with Staff is that, you know, I
16 really believe that the beneficiary should also bear the
17 costs, and the concern that I have with some of the
18 things that I've seen to this point, certainly it's not
19 about the residential customers because one of the
20 things that strikes me as a very key element to this,
21 whatever it is, is that it cannot ever impact any
22 residential customer, but the concern that I had was
23 would there -- would there potentially be an impact on
24 other commercial industrial customers?

25 You know, who's going to -- who's going to

1 basically end up taking the brunt of this is the
2 question that I still have in my mind. And I'll be very
3 honest with you. I've gone back and forth on this over
4 the last several days trying to figure out, you know,
5 what the right thing to do is.

6 In many ways I support what Staff has put
7 together because it mirrors what I originally -- my
8 original thought process is, but at the same time, you
9 know, there's also some validity to allowing the parties
10 to proceed as they have agreed to proceed.

11 You guys got together. You put together a
12 settlement agreement and everybody was reasonably happy
13 with the settlement.

14 So the question for me -- and this is why I'm
15 sort of characterizing it as comments -- I'm curious to
16 see what my colleagues think about either doing what
17 Staff has proposed or simply letting the parties agree,
18 based on the original settlement agreement that was
19 placed in the docket back in June, you know, that was
20 what they came up with. It was acceptable to all the
21 parties involved in the discussions. Let them have what
22 they -- what they put together in the settlement.

23 And I have right here on the dice with me a
24 proposed amendment that would potentially facilitate
25 that, but I really would like to understand what my

1 colleagues are thinking on this.

2 CHMN. BITTER SMITH: To that point, Commissioner
3 Burns, I think you have shared a little bit of where you
4 are.

5 COM. BURNS: Well, yeah. I mean, I guess I'm
6 wanting to find out where my colleagues are at as well,
7 and I think one way to do that is to offer an amendment
8 and see where the votes are. And if that fails, then we
9 move on to step 2.

10 CHMN. BITTER SMITH: I think, actually, you were
11 prepared to make a motion.

12 Was that including an amendment or --

13 COM. BURNS: Well, I was going to make a motion
14 that the Commission make a decision today about AG-1
15 and -- excuse me -- what I was -- what I will propose in
16 the motion is that we continue the program as it is and
17 then let the details be worked out in the rate case when
18 the rate case takes place.

19 So the AG-1 would continue up until new rates
20 are established in the rate case, and whether there's a
21 deferral or whatever and who pays it would take -- take
22 place in the rate case. I think that we as
23 Commissioners have the opportunity to make sure and I
24 would certainly support that there would be no
25 residential impact to the residential customers, and

1 that could be part of what takes place in the rate
2 negotiations, rate case negotiations. And so who ends
3 up footing the bill or whatever, if you will, if there
4 is a deferral, I think we have our opportunity to -- to
5 have our input in that process as well.

6 And so my motion is to continue AG-1 as it is
7 today and have that stand until the new rates are
8 established in the rate case.

9 CHMN. BITTER SMITH: So Commissioner Burns, am
10 I -- are you actually taking the Joint Movants' Proposed
11 Amendment Number 1, or are you --

12 COM. BURNS: I'm proposing a new --

13 CHMN. BITTER SMITH: Just your language. Okay.
14 That's what I want to make clear.

15 MR. MUMAW: Madam Chairman?

16 CHMN. BITTER SMITH: Yes. Mr. Mumaw.

17 MR. MUMAW: Could I respond?

18 CHMN. BITTER SMITH: And, actually, just for a
19 second, we are seeing a copy --

20 COM. BURNS: Well, this is -- this is an
21 amendment to the 50/50 if we get to that --

22 CHMN. BITTER SMITH: Oh, okay.

23 COM. BURNS: -- if we get to that point.

24 CHMN. BITTER SMITH: All right.

25 MR. MUMAW: I just wanted to make it clear that,

1 before you can defer anything to discuss in the rate
2 case, we need an order authorizing that deferral. If
3 the order today doesn't authorize that deferral, you've
4 made the decision as to who pays for this and it will be
5 APS.

6 And, obviously, based on what I said before, we
7 think that's unfair, but I don't want you to be under
8 any illusion that you can decide later on in the rate
9 case that the Company should be allowed to recoup or
10 recover or defer, or whatever term you wish to use, the
11 losses between January -- July 1st, 2016, and the
12 conclusion of the rate case. You will have made that
13 decision today, who pays for that, and the decision will
14 be that it's APS.

15 And aside from the agreement that we made with
16 the joint movants, we simply don't think that's fair and
17 consistent with the terms of the original settlement
18 back in 2012. And pardon for interrupting the
19 conversation, but I wanted to make that clear.

20 CHMN. BITTER SMITH: No problem. I appreciate
21 it.

22 So Commissioner Burns?

23 COM. BURNS: I mean, I guess the decision for us
24 to make is do we believe that AG-1 is a good policy, a
25 good program for the state of Arizona? I think it is.

1 I think, obviously, there is a -- as I stated earlier,
2 there is a ding to the APS take-home, but there's also a
3 benefit to some of our major employers in this state on
4 the other side.

5 And so I think it's a good program, and so if --
6 and that's why I'm offering the -- offering the proposal
7 as a motion to see if there is support amongst the
8 Commissioners to continue the program as it is. If not,
9 we move on to the -- to the other proposals that are
10 also out there.

11 CHMN. BITTER SMITH: Okay. Let's -- let's see
12 what comments you get and we'll circle back.

13 All right. Commissioner Forese?

14 COM. FORESE: Thank you, Madam Chair.

15 I support the terms that the parties have come
16 to. I appreciate where Staff is and where Commissioner
17 Burns is, but I -- although I agree with Commissioner
18 Burns in my support of AG-1, I want to be very careful
19 that we're allowing this to grow in a manner that makes
20 sense for all parties. It's an interesting day at the
21 Commission, just in terms of some commentary. We've
22 handled education policy and economic development policy
23 today, and the Commission has tremendous influence.
24 That influence can be used in a very destructive,
25 negative way, and my hope is that it can also be used in

1 a very positive way to improve people's lives.

2 And I believe that what this program potentially
3 means to Arizona is a chance to offer very competitive
4 rates and be used as an economic development tool. So
5 the talk about it being an experiment and a pilot
6 program, I look forward to when those terms are no
7 longer used. And in order for that to happen, it has to
8 be done in a way to where it has a balance and it makes
9 sense for these two parties.

10 And so if they've come to these terms, I think
11 we ought to support these terms for the time being and
12 watch it closely and -- and then make the necessary
13 changes in order to grow it in a healthy manner where it
14 offers competitive rates but it also maintains a healthy
15 utility.

16 CHMN. BITTER SMITH: And so, Commissioner
17 Forese, you would be supportive, then, of the Joint
18 Movants' Proposed Amendment Number 1 to the order?

19 COM. FORESE: The original would be correct.

20 CHMN. BITTER SMITH: Thank you.

21 Commissioner Little?

22 COM. LITTLE: Well, first of all, I would
23 certainly associate myself with my colleague,
24 Commissioner Forese's remarks. Part of the thing that I
25 am trying to do with this, and I've been trying to do

1 now for several months, is to balance the interests of
2 both sets of parties. One of the things that I want to
3 do is I want to drive economic development as well. I
4 want to make Arizona an attractive place for our large
5 customers to come -- or excuse me -- our large companies
6 to come because they do make a significant contribution
7 to the economy, to the employment base, and this rate is
8 a way of addressing that by keeping their electricity
9 rates as competitive as possible.

10 And to help you understand how important this
11 is, I was present at a forum Saturday a week ago put on
12 by a group called the Critical Consumer Issues Forum,
13 and one of the very specific topics that we addressed
14 that day was how important it was for some of these
15 large organizations, organizations like Facebook,
16 organizations like the Navy, organizations like data
17 centers, because they use such large amounts of power,
18 it has to be in a place where it can be competitive.

19 And the gentleman from Facebook, he said that
20 when they would review places to consider putting a data
21 center, that they would look at the regulatory rates
22 structure and the regulatory policies of that state, and
23 if they weren't conducive to competitive electric rates,
24 they would literally make a great big X across it on the
25 map. What I want to make sure we don't ever have happen

1 here is that that X gets drawn across the state of
2 Arizona.

3 So what I'm trying to do is address that with
4 this program, and I would tend to agree with
5 Commissioner Forese. If the joint movants have
6 developed something that they're satisfied with and APS
7 is satisfied with it for the time being, then why don't
8 we allow the organizations to basically do what they've
9 agreed to do.

10 So that's why I would not support Burns
11 Amendment Number 1 because I think it shuts the door
12 instead of opening a door. I think what we have the
13 opportunity to do is we have the opportunity to open a
14 door and to see an expansion, potentially, downstream of
15 a program that has worked very well.

16 CHMN. BITTER SMITH: Commissioner Stump?

17 COM. STUMP: Thanks, Madam Chair. And this --
18 my comments may dispel some of the mystery that's out
19 there in terms of where the votes are, but I am
20 certainly sensitive to Staff's concerns. And reading
21 through this the other day, I was concerned as well
22 about kicking the can down the road and the long-term
23 prospects of AG-1, but some of the parties came together
24 in good faith, as they were asked to do. They came up
25 with a compromise, and so it's my instinct to support

1 that.

2 CHMN. BITTER SMITH: Thank you, Commissioner
3 Stump.

4 Commissioner Burns?

5 COM. BURNS: Yeah.

6 CHMN. BITTER SMITH: I think generally you're --

7 COM. BURNS: I think I see where the votes are.

8 CHMN. BITTER SMITH: Okay, but I think you're
9 generally headed there too, and I would just echo many
10 of the comments I've heard up here. "Balance" is a word
11 that this Commission uses a lot in many issues, and as
12 I'm looking at the Joint Movants' Proposed Amendment
13 Number 1, to Mr. Pozefsky's point, there is language
14 there that talks about what would happen to residential
15 customers which is they would not be burdened with that.
16 I think that's very clear. It provides the opportunity
17 to do that balancing discussion in a rate case, which I
18 believe is where Commissioner Burns was generally
19 headed.

20 So, Commissioner Burns, do you want to --

21 COM. BURNS: Well, here's --

22 CHMN. BITTER SMITH: -- withdraw your motion?

23 COM. BURNS: Here's where I understand where
24 we're at. I made a motion to continue the program as is
25 out through the rate case. The votes aren't there. I

1 see that. So that's fine. So I'll withdraw that
2 motion, and I -- I don't have a problem with either one
3 of the other two proposals, with the exception of the
4 50/50. I think if we do the 50/50, then we need to move
5 the discussion -- or the decision on the deferral to the
6 rate case.

7 CHMN. BITTER SMITH: Commissioner Burns, thank
8 you.

9 Commissioner Little, you're on the board.
10 Are you -- for the purposes of making a motion,
11 right?

12 Commissioner Little.

13 COM. LITTLE: Thank you, Madam Chairman.

14 While my Proposed Amendment Number 1 here -- and
15 I'll distribute this -- it takes as a starting point the
16 settlement agreement that was reached by the Company and
17 the joint movants. There was a little bit of heartburn
18 with some language in the original motion that I felt
19 was a little bit self-serving on the part of the joint
20 movants, but it largely is the same.

21 And what I'd like to propose is that we
22 basically put forth an amendment that would delete 50
23 percent, insert 90 percent up to 10 million and 100
24 percent above \$10 million. There would be a deletion on
25 page 7, line 17, where we would delete "it is further

1 ordered that a balance deferred shall be recovered only
2 from the eight existing AG-1 customers in accordance
3 with a methodology developed by the Company's next rate
4 case. Recovery shall not be avoided by termination of
5 AG-1 in the next rate case or avoided by dropping of
6 AG-1 or its following equivalent after new rates are
7 effective."

8 And we would insert language that would state
9 the following: It is further ordered that recovery of
10 the balance deferred by APS shall be determined by the
11 Commission in APS's next rate case except that no amount
12 shall be recovered from residential ratepayers
13 consistent with the 2011 settlement agreement approved
14 in Decision Number 73183. If in the next rate case the
15 Commission decides to allocate all or part of the
16 deferral to existing AG -- the existing eight AG-1
17 customers, recovery shall not be avoided by termination
18 of AG-1 in the next rate case or avoided by dropping of
19 AG-1 or its following equivalent until new rates are
20 effective.

21 And then we would make all conforming and
22 numbering changes.

23 CHMN. BITTER SMITH: So Commissioner Little,
24 this is, essentially, the joint movants' amendment with,
25 as you suggest, some of the marketing information

1 removed.

2 COM. LITTLE: Correct.

3 CHMN. BITTER SMITH: And making it very clear
4 that it would -- cannot be recovered from residential
5 ratepayers, but also making it clear that it would
6 continue through the rate case.

7 COM. LITTLE: Correct. So I think if I -- going
8 through my punch list, I think I addressed everybody's
9 concern. I think I did.

10 MR. MUMAW: Madam Chairman, I think it does.
11 This is very similar to the joint movants' amendment,
12 but I think more comprehensive and deals with all the
13 issues addressed by our agreements with the joint
14 movants.

15 CHMN. BITTER SMITH: Mr. Black? Mr. Wakefield?

16 MR. BLACK: We agree, yes.

17 CHMN. BITTER SMITH: Mr. Pozefsky, it has your
18 favorite language included.

19 MR. POZEFSKY: Yes. This is adequate. This is
20 fine, and we appreciate the amendment and, of course, we
21 support it.

22 CHMN. BITTER SMITH: Commissioner Little, would
23 you like then to move Amendment Little Number 1?

24 MR. BRODERICK: Madam Chair?

25 CHMN. BITTER SMITH: Oh, I'm sorry. Mr.

1 Broderick, I was not ignoring you. I apologize.

2 MR. BRODERICK: Sorry. We're sometimes easy to
3 forget over here.

4 CHMN. BITTER SMITH: Move your hands.

5 MR. BRODERICK: Yes. I think we would just have
6 one other thought that's kind of normal boilerplate when
7 you're dealing with a deferral. Rather than making the
8 recovery so solid, we would usually say something like
9 it is further ordered that recovery -- that amounts
10 deferred by APS for possible future recovery. So
11 insert, between "APS" and "shall," for possible future
12 recovery. That would be Staff's suggestion on Little
13 Amendment Number 1, and that's fairly standard language.

14 COM. LITTLE: I would support that friendly
15 suggestion.

16 CHMN. BITTER SMITH: All right. Mr. Broderick,
17 thank you for that.

18 So now, Commissioner Little, with that, if you
19 would like to move Little Number 1 with the verbal
20 amendment.

21 COM. LITTLE: Okay. I would like to move Little
22 Proposed Amendment Number 1 as amended by the suggestion
23 of Staff.

24 CHMN. BITTER SMITH: Discussion on the
25 amendment?

1 (No response.)

2 CHMN. BITTER SMITH: Seeing none, all those in
3 favor, signify by saying by aye.

4 (Chorus of ayes.)

5 CHMN. BITTER SMITH: All those opposed?

6 (No response.)

7 CHMN. BITTER SMITH: Motion carries unanimously.

8 So I actually probably should have had you move
9 the item, Commissioner Stump. I'm going to have you do
10 that now with the amendment, if I could.

11 COM. STUMP: Thanks Madam Chair. I move Item 19
12 as amended.

13 CHMN. BITTER SMITH: Seeing no further
14 discussion, Shay?

15 SECRETARY BERNAL: Commissioner Burns?

16 COM. BURNS: Aye.

17 SECRETARY BERNAL: Commissioner Forese?

18 COM. FORESE: Aye.

19 SECRETARY BERNAL: Commissioner Stump?

20 COM. STUMP: Aye.

21 SECRETARY BERNAL: Commissioner Little?

22 COM. BURNS: Aye.

23 SECRETARY BERNAL: Chairman Bitter Smith?

24 CHMN. BITTER SMITH: Aye.

25 By your votes of five ayes, zero nays, you have

1 passed Item Number 19 as amended.

2 And I have no further business. So the meeting
3 stands adjourned.

4 Thank you very much.

5 (The proceeding concluded at 11:56 a.m.)

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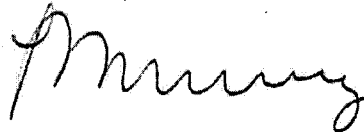
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1 STATE OF ARIZONA.)
2 COUNTY OF MARICOPA)

3 BE IT KNOWN that the foregoing proceedings were
4 taken before me; that the foregoing pages are a full,
5 true, and accurate record of the proceedings, all done
6 to the best of my skill and ability; that the
7 proceedings were taken down by me in shorthand and
8 thereafter reduced to print under my direction.

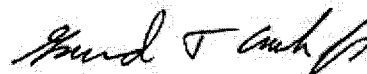
9 I CERTIFY that I am in no way related to any of
10 the parties hereto nor am I in any way interested in the
11 outcome hereof.

12 I CERTIFY that I have complied with the ethical
13 obligations set forth in ACJA 7-206(F)(3) and ACJA
14 7-206(J)(1)(g)(1) and (2). Dated at this 27th day of
15 November, 2015.

16 

17 LILIA MONARREZ
18 Certified Reporter
19 Certificate No. 50658.

20 I CERTIFY that Coash & Coash, Inc., has complied
21 with the ethical obligations set forth in ACJA 7-206
22 (J)(1)(g)(1) through (6).

23 

24 Coash & Coash, Inc.
25 Registered Reporting Firm R1036

EXHIBIT 2

Proposed Amendment No. 1

COMMISSIONER _____ PROPOSED AMENDMENT NO. ____

DATE PREPARED: AUGUST __, 2016

COMPANY: UNS Electric, Inc.

DOCKET NO(S): E-04204A-15-0142

OPEN MEETING DATE: August 9 and 10, 2016 AGENDA ITEM NO.: ____

Page 26, line 11 – 18, DELETE

“We find that being slightly more aggressive than Staff’s proposal will make the next step more attainable, as well as being more favorable to the subsidy-paying classes. Given the substantial size of the overall increase, however, we do not believe it reasonable, or complies with the principle of gradualism, to allocate as much of the increase to the Residential Class as urged by the large commercial and industrial users.

We recognize that the larger commercial and industrial users on UNSE’s suffering through slow economic times, the same as the residential and SGS customers.”

Page 26, line 23 – Page 27, line 12, DELETE

“Unfortunately, because of the relative sizes of the various classes and the large lead needed to achieve parity, to move as far as the large commercial and industrial classes urge would not be reasonable as the impact on the Residential Class would be too great. Consequently, we adopt an allocation that would move the Residential and SGS Classes 60 percent of the way to an UROR of 1.0, and allocate the remaining revenue increase evenly among the MGS, LGS and Lighting Classes.

[TABLE]

We note that our approved allocation results in a 14.6 percent increase for the Residential Class, which is four times the increases allotted to the LGS and LPS Classes. We find the allocation of the revenue increase approved herein is in the public interest as it strikes a fair and reasonable balance of the competing interests.”

Beginning at Page 26, line 23, INSERT

“As a result, we believe that the revenue allocation proposed by AECC and Noble Solutions provides an equitable allocation of revenue among customer classes, complies with the principle of gradualism and places UNSE in the best position to reach rate parity in the next rate case should the Commission choose this option. We find that the allocation of the revenue increase approved herein is in the public interest as it brings all customers closer to rate parity and strikes a balance of the competing interests.”

Make all conforming and numbering changes.

THIS AMENDMENT:

_____ Passed _____ Passed as amended by _____

_____ Failed

_____ Not Offered

_____ Withdrawn

1	Lighting	\$550	\$53	\$37	\$28	\$6
2	Sub Total	\$156,787	\$15,029	\$15,101	\$15,938	\$15,100
3	Rider-14 Reserve				-\$908	
4	Total	\$156,787			\$15,030	

5 Although most parties expressing an opinion seem to agree with Staff's proposal to reach parity
6 over two rate cases, we reserve judgement on that specific goal at this time. We believe it will be
7 important to assess conditions at the time of the next rate case to determine if parity can, or should, be
8 achieved at that time. After careful consideration of all these factors, we find that significant progress
9 toward parity among the classes is achievable, while giving appropriate consideration to all of the other
10 factors. To reserve an option of reaching parity in the next rate case, we believe that Staff's proposal
11 to move the Residential and SGS Classes 50 percent of the way to parity may not go far enough. ~~We~~
12 ~~find that being slightly more aggressive than Staff's proposal will make the next step more attainable,~~
13 ~~as well as being more favorable to the subsidy-paying classes. Given the substantial size of the overall~~
14 ~~increase, however, we do not believe it is reasonable, or complies with principles of gradualism, to~~
15 ~~allocate as much of the increase to the Residential Class as urged by the large commercial and industrial~~
16 ~~users.~~

17 ~~We recognize that the larger commercial and industrial users on UNSE's system are suffering~~
18 ~~through slow economic times, the same as the residential and SGS customers.~~ The larger users have
19 subsidized the Residential and SGS Classes for many years, and while some subsidization can be in
20 the public interest, the subsidies for UNSE have become excessive, and it is time that the Commission
21 take action to move to a more equitable allocation of revenue. To provide electric rates that more
22 closely reflect the cost of service would assist these large electricity users, who are also employers, to
23 be more competitive. ~~Unfortunately, because of the relative sizes of the various classes and the large~~
24 ~~gap needed to achieve parity, to move as far as the large commercial and industrial classes urge would~~
25 ~~not be reasonable as the impact on the Residential Class would be too great. Consequently, we adopt~~
26 ~~an allocation that would move the Residential and SGS Classes 60 percent of the way to an UNSE of~~

1.8, and allocates the remaining revenue increase evenly among the MGS, LGS and Lighting Classes.¹²⁹

	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	\$11,590	\$1,420	\$1,821	\$250	\$18
UROR	1.00	0.25	0.45	2.68	4.62	0.74
% Incr. compared to revenue from Current Sales	9.96%	14.6%	11.2%	3.2%	3.3%	3.3%
% of the Total Increase	100.0%	76.8%	9.4%	12.1%	1.7%	0.1%

We note that our approved allocation results in a 14.6 percent increase for the Residential Class, which is four times the increase allocated to the LGS and LPS Classes. We find the allocation of the revenue increase approved herein is in the public interest as it strikes a fair and reasonable balance of the competing interests.

Rate Design

Residential and Small General Service

UNSE

UNSE argues that its current residential rate design is flawed and antiquated because it collects a large amount of fixed costs through volumetric rates. UNSE supports Staff's proposal to implement a three-part rate design for all residential and small general service customers, however, after hearing the public comments in this docket, the Company is concerned that there is a high degree of customer confusion and misunderstanding concerning three-part rates, and that it will take much longer than the Company had originally anticipated to inform and educate customers about how three-part rates work and how ratepayers can manage their demand and achieve savings on their electric bills.¹³⁰ As a result, UNSE requests that the Commission adopt rate structures for non-DG residential and SGS customers that are similar to what the Company originally proposed in its Application.

UNSE proposed a monthly basic service charge under all rate options of \$15 for residential customers. Under each of the two-part residential options, the volumetric energy rate would be

¹²⁹ Based on Ex S-18.

¹³⁰ UNSE Initial Brief at 4.

Proposed Amendment No. 2

DATE PREPARED: AUGUST __, 2016

COMPANY: UNS Electric, Inc.

DOCKET NO(S): E-04204A-15-0142

OPEN MEETING DATE: August 9 and 10, 2016 AGENDA ITEM NO.: ____

Page 96, line 22, DELETE

"UNSE is a vastly different, and much smaller utility, with many fewer large customers, than APS. At this time, we do not find that a buy-through tariff in UNSE's service area is in the public interest. Because UNSE's lowest cost power is purchased power, we have concerns that a buy-through tariff may adversely impact UNSE's other customers by increasing the cost of power. At a minimum, we believe that the APS pilot buy-through program should be evaluated before the concept is expanded to include UNSE. But even then, because of UNSE's small number of large commercial and industrial end users, and APS-type program may not be appropriate for this utility. We understand that the industrial users are frustrated with paying rates that provide subsidies to the Residential Class, but we are attempting to take an incremental step to reducing inter-class subsidies in this case, and in doing so, we must balance the interests of all of UNSE's customers. We therefore decline to adopt the proposed buy-through tariff in this proceeding."

REPLACE with:

"The Commission recognizes that large commercial and industrial customers traditionally have and continue to provide benefits to UNSE and other customer classes through their subsidization of rates. Commercial and industrial customers also provide state and local benefits through the creation and retention of jobs, an increased tax base and corporate sponsorship of community events and services. A buy-through program represents an opportunity for UNSE to not only attract new businesses, but also retain and expand large customer operations which, in turn, provides benefits to other customer classes. We understand that, as with any pilot program, certain concerns about implementation and administration will exist. Given the relatively limited size (10MW) at issue, we believe that implementing a buy-through program at this time will provide UNSE with another economic development tool designed in a manner to make only those customers eligible for the buy-through program responsible for its costs.

We therefore adopt the AECC and Noble Solutions' proposed buy-through program, as set forth in AECC and Noble Solutions' proposed Experimental Rider 14 Tariff, as a pilot program that will remain in effect until the conclusion of UNSE's next rate application. We also approve AECC and Noble Solutions' proposed funding mechanism for the buy-through program, and therefore set aside \$908,000 annually from the eligible customer classes' (MGS, LGS and LPS) portion of the reduction in UNSE's requested revenue requirement, as applied to the revenue allocation approved herein. Finally, because a successful buy-through program cannot exist without a well-designed unbundled tariff, we also adopt AECC and Noble Solutions' proposed unbundled rate design."

Make all conforming and numbering changes.

THIS AMENDMENT:

_____ Passed _____ Passed as amended by _____

_____ Failed

_____ Not Offered

_____ Withdrawn

Experimental Rider – 14

Alternative Generation Service (AGS)

AVAILABILITY

Available throughout the Company's entire electric service area at all points where facilities of adequate capacity and required phase and suitable voltage are adjacent to the sites served. This rider is available for standard offer Customers who have single service point or Aggregated Peak Load of 1,000 kW or more and are served under rates MGS, MGS-TOU, MGS-TOU-S, LGS, LGS-TOU, LGS-TOU-S, LPS, LPS-TOU, or LPS-TOU-S. Each participating meter must have attained a maximum demand of 200 kW or greater measured at least once during the previous 12 months at the time of application for service under this rate rider schedule.

Customers must have interval metering, advanced metering infrastructure, or an alternative in place at all times under this rider. Customers shall comply with all applicable federal, state, and local laws, regulations, ordinances and codes governing the production and/or sale of electricity.

All provisions of the Customer's applicable standard offer rate will apply in addition to this Experimental Rider-14, except as modified herein. This rider shall be available until the start of the first rate effective period (following a general rate case) occurring no less than four years from the effective date of Experimental Rider-14, unless extended by the Arizona Corporation Commission. Total program participation shall be limited to 10 MW of customer load.

For purposes of this rider, the following notes and/or definitions apply:

1. Aggregated Peak Load means the sum of the maximum metered kW for each of the Customer's aggregated metered accounts over the previous 12 months, as determined by the Company and measured at the Customer's meter(s) at the time of application for service under this rate rider schedule.
2. Customer means a metered account or set of aggregated metered accounts that meets the eligibility requirements for service and enrollment as an aggregated load for service, under this rate rider schedule.
3. Generation Service means wholesale power delivered to UNS Electric by a Generation Service Provider.
4. Generation Service Provider means a third party entity that provides wholesale power to the Company on behalf of a Customer. This entity must be legally capable of selling and delivering wholesale power to the Company.
5. Imbalance Energy means the difference between the hourly delivered energy from the Generation Service Provider and the actual hourly metered loads for each Customer for all Customers that have selected the Generation Service Provider under this rider. Imbalance energy will be calculated by the Company.
6. Imbalance Service means the calculation and management of the hourly deviations in energy supply for imbalance energy.
7. Standard Generation Service means power provided by the Company to a retail Customer in conjunction with transmission and delivery services, at terms and prices according to a retail rate other than Experimental Rider-14.
8. Total Load Requirements means the Customer's hourly load including losses from the point of delivery to the Company's transmission system to the Customer's sites for the duration of the contract.

CHARACTER OF SERVICE

The service shall be three-phase, 60 Hertz, and at the Company's standard transmission or distribution voltages that are available within the vicinity of the Customer's premises.

CUSTOMER PARTICIPATION PROCESS

The Company shall establish an initial enrollment period during which Customers can apply for service under this rider. If the applications for service are greater than the program maximum amount, then Customers shall be selected for enrollment through a lottery process as detailed in the program guidelines, which may be revised from time-to-time during the term of this rider.

AGGREGATION

Eligible customers may be aggregated if they have the same corporate name, ownership, and identity. In addition, (1) an eligible franchisor customer may be aggregated with eligible franchisees or associated corporate accounts, and (2) eligible affiliate customers may be aggregated if they are under the same corporate ownership, even if they are operated under multiple trade names.

DESCRIPTION OF SERVICES AND OBLIGATIONS

The Customer shall apply for service under this rider.

The Company shall conduct the enrollment process in accordance with the provisions of this rider.

The Customer shall select a Generation Service Provider to provide Generation Service in accordance with the timeline specified in the program guidelines.

The Company shall enter into a contract with the Generation Service Provider to receive delivery and title to the power on the Customer's behalf.

The Generation Service Provider shall provide to the Company on behalf of the Customer firm power sufficient to meet the Customer's Total Load Requirements for each of the elected metered accounts, and will attest in its contract with the Company that this condition is met. For the purposes of this rider, "firm power" refers to generation resources identified in Western System Power Pool Schedule C or a reasonable equivalent as determined by the Company.

Any incremental costs or penalties incurred by the Company as the result of actions or inactions of the Generation Service Provider will be the responsibility of the Customer to pay or arrange for resolution of, or service under this rider will be terminated immediately and the provisions of the section referring to the Default of the Generation Service Provider will be applied.

The Company shall provide transmission, delivery and network services to the Customer according to normal retail electric service.

The Company will settle with the Generation Service Provider for Imbalance Service and other relevant costs on a monthly basis according to the program guidelines.

The Generation Service Provider shall bill the Company the monthly billed amounts for each Customer for Generation Service and Imbalance Service according to the program guidelines.

The Company shall bill the Customer for the Generation Service Provider's charged amounts and remit the amounts to the Generation Service Provider including any applicable taxes and assessments.

The Customer will be responsible for paying for the cost of the power provided by the Generation Service Provider, as specified in the contract and this rider and will be subject to disconnection in the manner consistent with the Company's Rules and Regulations for the equivalent retail service in the event of non-payment or late payment.

RATE

All provisions, charges, and adjustments in the Customer's applicable retail rate schedule will continue to apply except as follows:

1. The Base Power Charge will not apply.
2. The unbundled Generation component of the Demand Charge will not apply.
3. The Purchased Power and Fuel Adjustment Clause (PPFAC) will not apply, except that the Historical Component will apply for the first twelve months of service under this rider.

Experimental Rider-14 charges determined and billed by the company:

1. A monthly Management Fee of \$0.0006 per kWh applied to the Customer's metered kWh.
2. A monthly Reserve Capacity charge equal to the applicable unbundled Generation component of the Demand Charge will be applied to 15% of the Customer's monthly billed kW.
3. An initial charge or credit for fuel hedging costs, as described herein.
4. Returning Customer charge, where applicable, as described herein.
5. Generation Service Provider Default charge, where applicable, as described herein.

Experimental Rider-14 Generation Service and Imbalance Service charges billed by the Company include:

1. Generation Service charges shall be charged at a rate specified in the contract between the Customer and the Generation Service Provider.
2. Imbalance Service charges shall be charged at a rate greater than \$0.00 per kWh and less than or equal to the rate that the Company charges the Generation Service Provider for Imbalance Service as specified herein.

DELIVERY OF POWER TO THE COMPANY'S SYSTEM

Power provided by the Generation Service Provider must be firm power as defined above and delivered to the Company at a point of delivery as agreed to by the Company. The Generation Service Provider is responsible for the cost of transmission service to deliver the power to the Company's delivery point.

SCHEDULING

The Company shall serve as the scheduling coordinator. The Generation Service Provider shall provide monthly schedules of hourly loads along with day-ahead hourly load deviations from the monthly schedule to the Company according to the program guidelines. Line losses, in the amount of 3.3%, from the point of delivery to the Customer's sites shall be either scheduled or financially settled.

IMBALANCE SERVICE

The Company will provide Imbalance Service according to the terms and provisions in the Company's Open Access Transmission Tariff, Schedule 4. Imbalance Energy will be based on the Generation Service Provider's portfolio of Customer loads.

PPFAC AND HEDGE COST TRUE-UP

The Customer will be subject to the Purchased Power and Fuel Adjustment Clause (PPFAC) - historical component for the first twelve months of service under this rider. The Customer will also pay for the hedge cost associated with the Customer's Standard Generation Service at the time the Customer takes service under this rider. For the purpose of this rider, the Company will determine the applicable pro rata hedge cost based on the market price for hedge costs at the time the Customer takes service under this rider.

CONTRACT TERM AND REQUIREMENTS

The term of the contract with the Generation Service Provider shall be for not less than one year and shall not exceed the termination date of this rider.

The Generation Service Provider and Customer will enter into a contract or contracts with the Company, stating the pertinent details of the transaction with the Generation Service Provider, including but not limited to the scheduling of power, location of delivery, and other terms related to the Company's management of the generation resource.

DEFAULT OF THE THIRD PARTY GENERATION SERVICE PROVIDER

In the event that the Generation Service Provider is unable to meet its contractual obligations, the Customer must notify the Company and select another Generation Service Provider within 60 days. Prior to execution of any new power contract, the Company shall provide the required power to the Customer, which will be charged at the Dow Jones Electricity Palo Verde Daily Index price for the power delivery date plus \$10 per MWh. In addition, all other provisions of this rider will continue to apply.

If the Customer is unable to select another Generation Service Provider within sixty days, the Customer will automatically return to Standard Generation Service, and be subject to the conditions below.

RETURN TO COMPANY'S STANDARD GENERATION SERVICE

Customer may return to the Company's Standard Generation Service under their applicable retail rate schedule without charge if:

(1) they provide one year notice (or longer) to the Company; or (2) if this rider is discontinued at the end of the 4-year experimental period; or (3) the Commission terminates the program prior to the end of the initial 4-year experimental period. Absent one of these three conditions, the Company will provide the Customer with generation service at the Dow Jones Electricity Palo Verde Daily Index price for the power delivery date plus \$4 per MWh until the Company is reasonably able to integrate the Customer back into their generation planning and provide power at the applicable retail rate schedule. This transition will be at the Company's determination but no longer than 1 year. The returning Customer must remain with the Company's Standard Generation Service for at least 1 year.

CREDIT REQUIREMENTS

A Generation Service Provider or its parent company must have at least an investment grade credit rating or demonstrate creditworthiness in the form of either a 3rd-party guarantee from an investment grade rated company, surety bond, letter of credit, or cash in accordance with the Company's standard credit support rules.

UNS ELECTRIC STATEMENT OF CHARGES

For all additional charges and assessments approved by the Arizona Corporation Commission see the UNS Electric Statement of Charges which is available on UNS Electric's website at www.uesaz.com.

TAX CLAUSE

To the charges computed under this rider, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file with the ACC shall apply where not inconsistent with this rider.

EXHIBIT 3

Proposed Amendment No. 3

COMMISSIONER _____ PROPOSED AMENDMENT NO. ____

DATE PREPARED: AUGUST __, 2016

COMPANY: UNS Electric, Inc.

DOCKET NO(S): E-04204A-15-0142

OPEN MEETING DATE: August 9 and 10, 2016 AGENDA ITEM NO.: ____

Page 96, line 22, DELETE

"At this time, we do not find that a buy through tariff in UNSE's service area is in the public interest."

Page 96, line 23, INSERT

"In addition," at the beginning of the sentence starting with "Because," and spell the word "because" in lower case.

Page 96, line 24, INSERT

", although the record does not appear to include any evidence that an increase in fact would occur or in what amount." after the word "power" and change the period after "power" to a comma.

Page 96, line 24, DELETE

"At a minimum, we believe that the APS pilot buy-through program should be evaluated before the concept is expanded to include UNSE."

Page 97, line 1, DELETE

"then"

Page 97, line 1, INSERT

"if such an increase might be slight" after the word "even, and INSERT "current" after "UNSE's."

Page 97, line 5, INSERT

"Accordingly, for the above reasons," before the word "We" and spell the word "we" in lower case.

Make all conforming and numbering changes.

THIS AMENDMENT:

____ Passed ____ Passed as amended by _____

____ Failed

____ Not Offered

____ Withdrawn

1 AIC points to evidence that UNSE's lowest cost power is purchased power, and if UNSE's largest
 2 customers are able to purchase in the wholesale market themselves, the average power cost for the
 3 Company's remaining customers increases, with the result that the mere existence of the buy-through
 4 tariff will increase electric bills for every other customer.³⁶¹ AIC argues that AECC and Noble have
 5 not provided a "single justification" or urgency for implementing the proposed buy-through tariff now,
 6 as opposed to waiting until the Commission has substantively reviewed the APS version.

7 AIC recommends that the Commission wait to assess the data presented in the APS pilot buy-
 8 through program before implementing a buy-through rate for other Arizona utilities.³⁶² AIC notes that
 9 APS has claimed that its experimental tariff has serious flaws resulting in alleged net losses of \$16.8
 10 million. AIC also questions the equity of AECC/Noble funding mechanism for the buy-through
 11 program as it would reserve \$908,000 of the revenue reduction agreed to in this case (increasing rates
 12 to the eligible customer class) to allow a few to participate.³⁶³ AIC claims that large customers have
 13 other options, such as entering into special contracts with the utility, or self-generation, to achieve cost
 14 savings without imposing higher costs on other ratepayers.

15 Staff

16 Staff does not address the buy-through proposal in post-hearing briefs, except to mention that
 17 it did not generally oppose AECC/Noble's funding mechanism.³⁶⁴ At the hearing, however, Staff's
 18 witness Broderick expressed the opinion that the buy through tariff is not "ready for prime time
 19 now."³⁶⁵

20 Analysis and Resolution – Buy-Through Tariff

21 UNSE is a vastly different, and much smaller utility, with many fewer large customers, than
 22 APS. ~~At this time, we do not find that a buy-through tariff in UNSE's service area is in the public~~
 23 ~~interest.~~ Because UNSE's lowest cost power is purchased power, we have concerns that a buy-through
 24 tariff may adversely impact UNSE's other customers by increasing the cost of power. ~~At a minimum,~~
 25 ~~we believe that the APS pilot buy-through program should be evaluated before the concept is expanded~~

26 ³⁶¹ AIC Reply Brief at 19.

27 ³⁶² AIC Initial Brief at 25-26.

28 ³⁶³ Id. at 27.

³⁶⁴ Staff Reply Brief at 8. Staff is opposed to the AECC/Noble allocation of revenue methodology.

³⁶⁵ Tr. at 3619.

1 ~~to include UNSE.~~ But even ~~then~~, because of UNSE's small number of large commercial and industrial
 2 end users, an APS-type program may not be appropriate for this utility. We understand that the
 3 industrial users are frustrated with paying rates that provide subsidies to the Residential Class, but we
 4 are attempting to take an incremental step to reducing inter-class subsidies in this case, and in doing
 5 so, we must balance the interests of all of UNSE's customers. We therefore decline to adopt the
 6 proposed buy-through tariff in this proceeding.

7 Net Metering

8 UNSE

9 UNSE states that its Net Metering Tariff should be modified to reflect the reality of the services
 10 being provided. It proposes a new Rider-10, Net Metering for Certain Partial Requirements Service
 11 (NM-PR) that would apply to those customers who submitted interconnection applications June 1,
 12 2015, or after.³⁶⁶

13 UNSE claims that the current net metering tariff is unfair to 98 percent of customers because
 14 the export price for DG solar power sent to the grid is higher than (approximately double) the wholesale
 15 or market cost of solar power, and because the current "banking" feature seriously distorts the price
 16 signals sent to the customer, while shifting costs to other customers, and leaving other fixed costs
 17 unrecovered. UNSE states that its modified net metering tariff would not eliminate the subsidy and cost
 18 shift, but would mitigate it significantly. According to the Company, the subsidies to solar DG are not
 19 fully eliminated because volumetric rates will still be recovering fixed costs, and DG customers, with
 20 their lower volumetric sales, will still be avoiding a portion of the fixed costs allocated to them.

21 Under the proposed Rider-10, new net metered customers would pay the proposed and
 22 applicable retail rates for all energy delivered by UNSE. The applicable retail rates would be limited
 23 to the demand based rate options. In addition, new net metered customers would be compensated for
 24 any excess energy their DG system produces and delivers to UNSE with bill credits calculated using
 25 the Renewable Credit Rate ("RCR"). New net metered customers could carry over unused bill credits
 26 to future months if they exceed the amount of their current bill.³⁶⁷

27 ³⁶⁶ Rider-10 would not apply to customers who submitted interconnection applications before June 1, 2015. UNSE Initial
 Brief at 30.

28 ³⁶⁷ UNSE Initial Brief at 31.