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BEFORE THE ARIZONA CORPORATION C

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF
 TRICO ELECTRIC COOPERATIVE, INC., AN
 ARIZONA NONPROFIT CORPORATION,
 FOR A DETERMINATION OF THE
 CURRENT FAIR VALUE OF ITS UTILITY
 PLANT AND PROPERTY AND FOR
 INCREASES IN ITS RATES AND CHARGES
 FOR UTILITY SERVICE AND FOR
 RELATED APPROVALS.

DOCKET NO. E-01461A-15-0363

**STAFF'S NOTICE OF FILING
SETTLEMENT REPLY TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Reply Testimony of
 Ranelle Paladino and Terri Ford in Support of the Settlement Agreement in the above docket.

RESPECTFULLY SUBMITTED this 15th day of August, 2016.

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Arizona Corporation Commission

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1 On this 15th day of August, 2016, the foregoing document was filed with Docket Control as a Utilities
2 Division Pre-Filed Testimony, and copies of the foregoing were mailed on behalf of the Utilities
3 Division to the following who have not consented to email service. On this dates or as soon as
possible thereafter, the Commission's eDocket program will automatically email a link to the
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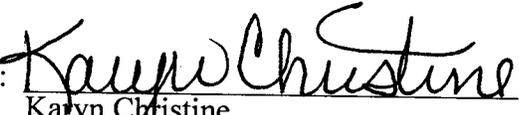
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BEFORE THE ARIZONA CORPORATION COMMISSION

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DOCKET NO. E-01461A-15-0363

SETTLEMENT REPLY

TESTIMONY

OF

RANELLE PALADINO

EXECUTIVE CONSULTANT III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

AUGUST 15, 2016

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EXECUTIVE SUMMARY
TRICO ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01461A-15-0363

My reply testimony addresses the direct testimony of the Energy Freedom Coalition of America's witness William A. Monsen (filed in opposition to the Settlement Agreement) regarding the proposed fixed monthly charges and the freezing of the Residential Time-of-Use Rate Schedule detailed in the Proposed Settlement. My silence as to other portions of his testimony should not be construed as agreement with them. My testimony also updates the status of the Utilities Division's review of Trico's rate case expense invoices.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Ranelle Paladino. I am an Executive Consultant employed by the Arizona
4 Corporation Commission (“Commission”) in the Utilities Division (“Staff”). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Have you previously filed testimony in this docket?**

8 A. Yes. I filed direct testimony concerning the adjustments to billing determinants, the base cost
9 of power, operating revenue adjustments and rate design testimony.

10

11 **Q. What is the purpose of your reply testimony in this case?**

12 A. My reply testimony addresses the direct testimony of the Energy Freedom Coalition of
13 America’s (“EFCA”) witness William A. Monsen (filed in opposition to the Settlement
14 Agreement) regarding the proposed fixed monthly charges and the freezing of the Residential
15 Time-of-Use (“TOU”) rate schedule detailed in the Proposed Settlement docketed July 8,
16 2016. I also address the status of Staff’s review of Trico’s rate case expense invoices.

17

18 **REPLY TO DIRECT TESTIMONY**

19 **Q. Did EFCA comment on the proposed fixed monthly charge in the Settlement**
20 **Agreement?**

21 A. Yes. In his direct testimony, EFCA witness William A. Monsen indicates that neither Trico
22 nor any other party has supported the fixed monthly charges in the Settlement Agreement.¹

23

¹ Monson Direct (dated July 29, 2016), p. 5 lines 16-19.

1 **Q. Does Staff agree the fixed monthly charge in the Settlement Agreement has not been**
2 **supported?**

3 A. No. As Staff indicated in its direct rate design testimony, Trico Electric Cooperative, Inc.
4 (“Trico”) included a Cost of Service Study (“COSS”) with its rate application filed on
5 October 23, 2015. Staff’s review of Trico’s COSS determined that acceptable methods were
6 utilized to functionalize, classify, and allocate costs. Staff also determined the COSS model
7 appropriately calculated the components of the rate application.²

8
9 Staff further explained that the COSS detailed the monthly cost per member broken down
10 into purchased power demand, purchased power energy, distribution (wires), and total
11 customer costs (which includes such items as billing and metering). Specifically for residential
12 members, the COSS illustrated that it costs \$31.83 per month per residential member in fixed
13 monthly customer costs to provide service to a residential customer. Other fixed costs
14 incurred for residential members include distribution system (wires, poles, etc.) and the fixed
15 portion of purchased power charges paid to primarily Arizona Electric Power Cooperative
16 (“AEPSCO”), Trico’s generation and transmission provider, on a monthly basis. The COSS
17 also illustrated that total Residential Fixed Costs per month are \$100.64.³ Staff concludes that
18 Trico has supported through its COSS, that the fixed monthly charge of \$24.00 per residential
19 member per month in the Settlement Agreement is well under the amount contained in the
20 COSS.

21
22 **Q. Did EFCA comment on the proposed changes to the Residential TOU rate schedule**
23 **in the Settlement Agreement?**

24 A. Yes. In his direct testimony, EFCA witness Mr. Monsen indicated that Staff has not
25 explained why it has taken a position in the Settlement Agreement recommending to freeze

² Paladino Direct Rate Design pg. 4 lines 19-21.

³ Paladino Direct Rate Design pg. 9 lines 8-22.

1 the Residential TOU rate schedule when that recommendation is the direct opposite of the
2 position Staff recommended in the Sulphur Springs Valley Electric Cooperative, Inc.
3 (“SSVEC”) rate case, Docket No. E-01575A-15-0312.⁴
4

5 **Q. Did Staff recommend in the Settlement Agreement to freeze the Residential TOU rate**
6 **schedule?**

7 A. Yes.

8

9 **Q. Did Staff recommend in the SSVEC rate case to freeze the Residential TOU rate**
10 **schedule?**

11 A. No.

12

13 **Q. What is the explanation for Staff’s different positions on the Residential TOU rate**
14 **schedules in the two recent rate cases?**

15 A. A conclusion by Staff in one company’s rate case will not necessarily carry forward into
16 another company’s rate case. Every case stands on its own merits. Each company’s
17 operations and customer base are unique with differing supply and usage characteristics.

18

19 Specifically, for the SSVEC Residential TOU rate schedule, Staff understands that the price
20 signals may not be inherent in the current pricing structure from AEPCO. That lack of price
21 signal does not reinforce in SSVEC’s customers the need for TOU rate schedules. However,
22 Staff also indicated that the existing Residential TOU rates are not harmful to SSVEC or the
23 customers.⁵
24

⁴ Monson Direct (filed July 29, 2016) pg. 37 lines 20-22.

⁵ Paladino Surrebuttal Docket No. E-01575A-15-0312 pg. 7 lines 15-17.

1 While Staff agrees that Trico, which also receives supply from AEPCO, lacks the price signal
2 to reinforce the need for the TOU rate schedules, Staff disagrees with the conclusion that the
3 existing Residential TOU rate schedule is harmless to Trico and its customers.

4
5 The Settlement Agreement proposes the implementation of a residential rate structure which
6 incorporates a demand charge in addition to an energy charge and a monthly fixed charge.
7 The Settlement Agreement proposes a \$0 demand charge so that the residential member
8 would have time to learn about a demand charge and how it can be a beneficial rate design
9 for customers. Trico's existing metering infrastructure supports a demand charge based on
10 the highest 15-minute increment during the monthly billing cycle (24 hours a day/7 days a
11 week) not during specific peak/off-peak times. It is reasonable to anticipate that a residential
12 customer would ultimately want to limit running all electricity consuming items at the same
13 time and spread the electricity usage over the day and the month. Tying a 15-minute
14 increment monthly demand charge with a residential TOU rate schedule would be sending
15 conflicting signals to the residential customer on how to effectively control its electric bills.
16 Staff does not support a rate structure that would harm residential customers, and Staff
17 believes the implementation of a demand charge as proposed in the Settlement Agreement
18 for customers on a residential TOU rate schedule would be harmful to the customer.

19
20 **RATE CASE EXPENSE**

21 **Q. Did Trico adjust rate case expense for this rate case?**

22 A. Yes. The original application filed on October 23, 2015 incorporated \$150,000 of rate case
23 expense spread over three years. As part of the Settlement Agreement, Trico requested to
24 increase the rate case expense. Staff agreed to the increase in rate case expense with a cap at
25 \$450,000 subject to a review of the supporting invoices.⁶

⁶ Ford Direct pg. 6 lines 5-9.

1 **Q. Has Staff received copies of rate case expense invoices from Trico?**

2 A. Yes. Staff requested copies of all rate case expense support invoices and the underlying
3 contracts for those invoices. Staff received confidential copies of all contracts and invoices
4 Trico had received through June 30, 2016.

5
6 **Q. Did Staff have the opportunity to review all contracts and invoices provided by Trico?**

7 A. Yes. Staff verified the invoices were in accordance with the contracts in place. Staff also
8 verified that the invoices Trico had received through June 30, 2016 totaled approximately
9 \$400,000. Trico also indicated that it forecasted approximately \$159,000 more in rate case
10 expense before the case has a decision.

11
12 Staff agrees Trico has provided adequate support for an increase in rate case expense from
13 \$150,000 to \$400,000. Staff believes, based upon the forecasts of the Cooperative, that an
14 additional \$50,000 in rate case expenses is likely. The Cooperative however should be
15 required to provide invoices in support of this additional amount to Staff.

16
17 **Q. Does this conclude your Reply Testimony in support of the Settlement Agreement?**

18 A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE
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SETTLEMENT REPLY
TESTIMONY
OF
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ASSISTANT DIRECTOR
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ARIZONA CORPORATION COMMISSION

AUGUST 15, 2016

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**EXECUTIVE SUMMARY
TRICO ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01461A-15-0363**

My reply testimony responds to many of the comments contained in the direct testimony of Energy Freedom Coalition of America's witness Patrick J. Quinn (filed in opposition to the Settlement Agreement). I address his comments regarding the rate design changes contained in the Settlement Agreement between Staff and Trico.

1 **INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Terri L. Ford. My business address is 1200 West Washington Street, Phoenix,
4 Arizona 85007.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by the Arizona Corporation Commission (“Commission”) as an Assistant
8 Director of the Utilities Division (“Staff”).

9
10 **Q. Did you file Direct Testimony in Support of the Settlement Agreement in this case?**

11 A. Yes, I filed Direct Testimony in Support of the Settlement Agreement between Staff and
12 Trico Electric Cooperative (“Trico” or “Cooperative”) on July 29, 2016.

13
14 **Q. What is the purpose of your Reply Testimony in Support of the Settlement
15 Agreement?**

16 A. The purpose of my Reply Testimony is to respond to some of the points made in the
17 Direct Testimony of Patrick J. Quinn filed on behalf of the Energy Freedom Coalition of
18 America (“EFCA”).

19
20 **Q. Were you surprised by Mr. Quinn filing testimony in this case?**

21 A. Yes, I was. Normally, Mr. Quinn represents the Arizona Utility Ratepayers Alliance
22 (“AURA”). AURA is not an intervenor in this proceeding. Mr. Quinn is appearing on
23 behalf of EFCA.

24

1 **RESPONSE TO TESTIMONY OF PATRICK J. QUINN**

2 **Q. What is the first point made by Mr. Quinn to which you would like to respond?**

3 A. Mr. Quinn states that he is concerned with the “lack of notification and late timing of the
4 important changes related to mandatory demand charges.” An important point which Mr.
5 Quinn fails to discuss until well into his testimony, is the fact that the demand charge
6 component of the proposed three-part rate design will be set at zero (\$0.00) per kW under
7 Section VI of the Settlement Agreement until a decision is made on demand charges in the
8 Cooperative’s next rate case.

9
10 **Q. What is the purpose of including a demand component on customer bills if there is
11 no charge associated with it?**

12 A. The purpose is to use this as an opportunity to educate customers. Our experience in other
13 cases indicates customers may not fully understand the concept of a demand charge and
14 how they can utilize demand rates to reduce their monthly bills. Under the Settlement
15 Agreement, Trico is required to undertake an extensive member outreach and education
16 program regarding demand rates. Section 10.2 of the Settlement Agreement provides that
17 the member outreach and education will include at a minimum: (a) the nature and
18 operation of demand rates; (b) how members can utilize demand rates to reduce monthly
19 bills; and (c) information on tools available from Trico and third parties to help members
20 manage demand (including Trico’s Smart Hub application). In addition, each member’s bill
21 will show the date and time of the member’s peak demand for the billing period. And, the
22 Cooperative will gather critical data that may be utilized to set a demand charge in the
23 future.

24

1 **Q. Does this provision respond to one of the primary concerns raised by Mr. Quinn in**
2 **his Testimony?**

3 A. Yes, it does. At page 6 of his Direct Testimony, Mr. Quinn states the following:

4
5 A comprehensive educational plan has to be developed that includes the
6 ability of a consumer to get instantaneous data. Trico has not yet
7 developed such a plan. This is absolutely necessary to avoid broadsiding
8 customers, especially customers that are most vulnerable to increases in
9 fixed charges like those on low or fixed incomes.”

10

11 The Settlement Agreement contemplates a comprehensive educational effort before
12 demand rates would be considered in the next rate case, coupled with individual usage data
13 review with members.

14

15 **Q. Do the provisions of the Settlement Agreement respond to other concerns raised by**
16 **Mr. Quinn?**

17 A. Yes, they do. Mr. Quinn states on page 7 of his Testimony that residential customers do
18 not have “access to the equipment and other resources to manage demand usage.” The
19 Settlement Agreement specifically provides that Trico is required to provide educational
20 materials that highlight technology solutions including programmable thermostats and load
21 controllers to better manage demand charges and monthly bills.

22

23 **Q. How long will this member educational program continue under the terms of the**
24 **Settlement Agreement?**

25 A. It will continue for as long as necessary and at least through the next rate case. The
26 provisions of Section XII of the Settlement Agreement provide that Trico’s next rate case will
27 reflect a test year **no earlier** than the 12-months ending June 30, 2018. This means that there
28 are likely to be several years of outreach and educational efforts before any form of demand
29 rates would go into effect (if at all).

1 **Q. Mr. Quinn attempts to make comparisons with the UNSE case. Do you believe Mr.**
2 **Quinn's comparisons in this regard are accurate?**

3 A. I believe that Mr. Quinn's comparison fails to recognize several important differences
4 between the two cases. First, the demand component in Trico's case will be zero (\$0.00 per
5 kW) until the next rate case is resolved. Second during this time, the Settlement Agreement
6 provides for a lengthy educational campaign before any form of demand rates would go
7 into effect. The need for an extended educational program was discussed at the recent
8 Open Meeting on UNSE and is consistent with the guidance provided by the Commission
9 at that Open Meeting on the implementation of demand rates. In this case, if demand rates
10 are adopted in Trico's next rate, they would be no higher than a modest \$2.00 per kW,
11 pursuant to Section 12.2 of the Settlement Agreement. In that next case, the Commission
12 could also decide to leave the demand charge at \$10.00.

13
14 **Q. What else does Mr. Quinn's comparison fail to reflect?**

15 A. I believe that Mr. Quinn's comparison also fails to take into account Section 12.4 of the
16 Settlement Agreement. That Section provides:

17
18 The Signatories recognize that the ultimate success of a three-part rate will be
19 dependent upon the success of Trico's educational programs and its ability to
20 help customers navigate through the technological options that are available to
21 assist them in controlling their demand and energy usage. The Signatories
22 recognize that alternative options may need to be considered in the next rate
23 case.

24
25 Thus, as I stated in my Direct Testimony in Support of the Settlement Agreement, the
26 Signatories expressly recognize that because the level of customer acceptance at the time of
27 Trico's next rate case is impossible to determine now, alternative options may need to be
28 considered in the next rate case.

29

1 Mr. Quinn's concern that there has been a final decision regarding the implementation of
2 demand rates by Trico fails to take into account Section 12.4 of the Settlement Agreement.

3
4 **Q. Are there other concerns that Mr. Quinn raises that you would like to address?**

5 A. Yes. Mr. Quinn seems to be saying that there can be no changes to rate design from that
6 filed by a company in its original application. Mr. Quinn also appears to be saying that rate
7 design changes cannot be made in this case, because the notice did not mention "rate
8 design." This ignores the fact that oftentimes, rate design changes, some of them
9 significant, are proposed by Staff and intervenors in a case and adopted by the
10 Commission.

11
12 **Q. How do you respond to Mr. Quinn's concern about the basic service charge increase?**

13 A. Mr. Quinn has concerns with the basic service charge increase of \$9.00 provided in the
14 Settlement Agreement. I would like to point out that the cost studies provided by Trico
15 actually support a much higher basic service charge. Mr. Quinn again compares the amount
16 of the increase in the basic service to that recently approved by the Commission in the
17 UNSE case. This does not take into consideration other factors that are important to
18 consider such as the overall revenue increase, which in this case was comparably small, the
19 fact that this is a cooperative, and the unique characteristics of Trico's service area.

20
21 **Q. Does this conclude your Reply Testimony in Support of the Settlement Agreement?**

22 A. Yes, it does.