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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS 2016 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN.	DOCKET NO. E-01933A-15-0239
IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY 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 TUCSON ELECTRIC POWER COMPANY DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA AND FOR RELATED APPROVALS.	DOCKET NO. E-01933A-15-0322 **WAL-MART STORES, INC.'S AND SAM'S WEST, INC.'S NOTICE OF FILING SURREBUTTAL TESTIMONY OF GREGORY W. TILLMAN**

Wal-Mart Stores, Inc. and Sam's West, Inc. (collectively, "Wal-Mart"), hereby provides notice of the filing of Gregory W. Tillman's surrebuttal testimony in the above-referenced matter.

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Arizona Corporation Commission
DOCKETED
AUG 25 2016
DOCKETED BY

466486;24018-9

Dated this 25th day of August, 2016.

HIENTON & CURRY, P.L.L.C.

By

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ORIGINAL and 13 copies filed
this 25th day of August, 2016, with:

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR 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 TUCSON ELECTRIC POWER COMPANY DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA, AND FOR RELATED APPROVALS	DOCKET NO. E-01933A-15-0322

SURREBUTTAL TESTIMONY AND EXHIBITS OF

GREGORY W. TILLMAN

ON BEHALF OF

WAL-MART STORES, INC. AND SAM'S WEST, INC.

AUGUST 25, 2016

Contents

Exhibits

Introduction

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Gregory W. Tillman. My business address is 2001 SE 10th St., Bentonville, AR 72716-0550. I am employed by Wal-Mart Stores, Inc. as Senior Manager, Energy Regulatory Analysis.

Q. DID YOU FILE DIRECT RESPONSIVE TESTIMONY IN THIS CASE?

A. Yes. I filed both non-rate design testimony on June 3, 2016 and rate design testimony on June 24, 2016.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?

A. I am testifying on behalf of Wal-Mart Stores, Inc. and Sam's West, Inc. (collectively, "Walmart").

Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?

A. Yes. I am sponsoring the exhibits listed in the Table of Contents.

Purpose of Testimony

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address the Revenue Requirement Settlement Agreement ("the Agreement") between the Company and interveners in this case[1], and to address the rate design proposals presented by Company Witness Jones in his rebuttal testimony.

[1] Tucson Electric Power Company, Settlement Agreement Regarding Revenue Requirement, August 15, 2016.

Summary of Recommendations

Q. REGARDING THE AGREEMENT, WHAT IS YOUR RECOMMENDATION TO THE COMMISSION?

A. The Commission should approve the Agreement as a reasonable resolution to the revenue requirement issues in this docket. The Agreement is the result of arms-length negotiations between the parties and adequately addresses Walmart's revenue requirement issues as presented in my Direct Testimony.[1]

Q. REGARDING THE RATE DESIGN ISSUES IN THIS CASE, WHAT WERE YOUR RECOMMENDATIONS TO THE COMMISSION IN YOUR DIRECT TESTIMONY?

A. My recommendations were as follows:

1) The Commission should approve TEP's proposed cost of service model.

2) At the Company's proposed revenue requirement, the Commission should order TEP to eliminate the disparity in the allocation of revenue requirement associated with the subsidies between the current subsidizing classes. For subsidized classes, the Commission should accept the Company's proposed allocation to the subsidized classes; and, for the subsidizing classes, the Commission should adopt a spread of the remaining deficiency proportionate to the class revenue at each class' full cost of service as proposed within my [direct rate design] testimony. Further, the Commission should order the

[1] Direct Testimony (Non-Rate Design) and Exhibits of Gregory W. Tillman, June 3, 2016.

Company to implement a subsidy mitigation method to provide a meaningful reduction in the existing subsidies prior to the Company's next rate case.

3) The Commission should order that any reduction in the revenue requirement as a result of the decisions made in this proceeding is used to reduce the inter-class subsidies and mitigate the rate impact to all classes as outlined within my [direct rate design] testimony.

4) The Commission should order a rate design for Rate LGS-85 that reduces intra-class subsidies through a more accurate reflection of the underlying cost structures as proposed within my [direct rate design] testimony.

5) The Commission should approve the Economic Development Rider subject to the development of guidelines for the recovery and allocation of the costs and/or any revenue deficiencies associated with the EDR.[1]

Q. ARE YOU MODIFYING THESE RECOMMENDATIONS AT THIS TIME?

A. No. My recommendations remain the same.

The fact that an issue is not addressed herein or in related filings should not be construed as an endorsement of any filed position.

Revenue Requirement Settlement Agreement

Q. HAS A SETTLEMENT AGREEMENT ON THE REVENUE REQUIREMENT ISSUES IN THIS DOCKET BEEN REACHED?

A. Yes. Settlement discussions were conducted by Parties on August 5, 2016 leading to the Agreement, which was filed with the Commission on August 15, 2016.

[1] Direct Testimony (Rate Design) and Exhibits of Gregory W. Tillman, June 24, 2016, page 4, line 5 through page 5, line 3.

Q. WHO ARE THE SIGNATORIES TO THE AGREEMENT?

A. Signatories to the Agreement include the Company, the Arizona Corporation Commission Utilities Division Staff, Residential Utility Consumer Office, Arizonans for Electric Choice and Competition, Freeport Minerals Corporation, Sierra Club, Western Resource Advocates, Noble Americas Energy Solutions, LLC, The Kroger Co., Arizona Investment Council, and Walmart.

Q. DO THE TERMS OF THE AGREEMENT ADDRESS WALMART'S REVENUE REQUIREMENT ISSUES AS DISCUSSED IN YOUR DIRECT TESTIMONY?

A. Yes. The Agreement is a reasonable resolution to Walmart's revenue requirement issues within this docket.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING THE AGREEMENT?

A. The Commission should approve the Agreement as a reasonable resolution to the revenue requirement issues in this docket. The Agreement is the result of arms-length negotiations between the parties and adequately addresses Walmart's issues as presented in my Direct Testimony.

Rate Design

Q. WHAT IS THE RATE INCREASE UNDER THE TERMS OF THE AGREEMENT?

A. The Agreement grants an increase in non-fuel revenue of $81,500,000 to the Company.[1] While, $15,243,913 of this increase is contingent on TEP's purchase of 50.5% share of Unit 1 of Springerville Generating Station[2], I have assumed for the purpose of my surrebuttal testimony on rate design that the increase will reflect the full amount of the Agreement, inclusive of Springerville costs. The Settlement reflects a decrease of approximately $28 million to the gross revenue increase of $109.5 million that TEP had requested in its direct case.

Q. HAVE YOU REVIEWED AN UPDATED COST OF SERVICE BASED ON THE TERMS OF THE AGREEMENT?

A. No. To my knowledge, a cost of service study reflective of the Agreement has not yet been provided by the Company.

Q. HOW SHOULD THE REVENUE REQUIREMENT REDUCTION BE ALLOCATED TO THE VARIOUS CLASSES?

A. The process that I outlined in my direct testimony provides for a fair distribution of the reduced revenue requirement to the various parties. Specifically, my recommendation was that (a) one-half of the resulting reduction in revenue be used to directly reduce the subsidy at equal percentages across all of the subsidizing classes and (b) the remainder of the reduction should be applied across all rate classes in

[1] The Agreement, para 2.1
[2] Ibid. para. 2.4.

equal percentages, reducing the increase for all classes.[1] Applying this approach to the revenue allocation recommended in my direct testimony results in the following non-fuel revenue allocation.[2]

Table 1: Walmart Proposed Non-Fuel Revenue Allocation

	Total	Residential	SGS	LGS	LPS/138kV	Lighting
Non-Fuel Revenue	$714,022,900	$353,744,533	$185,897,391	$88,451,564	$81,279,642	$4,649,771

Q. HAVE YOU DETERMINED THE SUBSIDY LEVELS RESULTING FROM THE PROPOSED REVENUE ALLOCATION?

A. No. Calculation of subsidy levels requires an updated cost of service based on the terms of the Agreement. Even at the reduced revenue requirement, the subsidies will likely remain excessive. Hypothetically, if the Agreement impacts the cost of service to all classes proportionately and the revenue is allocated as suggested herein, the subsidy levels will still be significant as demonstrated in exhibit GWT-2 and summarized in the following table.[3]

Table 2: Hypothetical Subsidies Resulting from the Agreement and Walmart Proposed Revenue Allocation

	Residential	SGS	LGS	LPS/138kV	Lighting
Subsidy	$(72,344,829)	$43,787,973	$20,858,617	$10,386,533	$(2,688,294)

Q. HAS THE COMMISSION RECOGNIZED THE NEED TO MOVE TOWARD PARITY IN REVENUE ALLOCATION?

A. Yes. In its recently issued order from the UNSE rate case, the Commission stated:

> "...while some subsidization can be in the public interest, the subsidies for UNSE have become excessive, and it is time that the Commission take action to move to a more equitable allocation of revenue. To provide electric rates that more closely

[1] Tillman, Direct Testimony (Rate Design), page 14, lines 5-9.
[2] See Exhibit GWT-S-1.
[3] See Exhibit GWT-S-2.

reflect the cost of service would assist these large electricity users, who are also employers, to be more competitive."[1]

The concerns expressed by the Commission with respect to UNSE customers are similarly applicable to TEP's customers. The Commission's decision represents significant progress toward parity for UNSE customers and supports the goal of moving customers completely to parity in UNSE's next rate case. Parity at TEP however, by admission of both Company[2] and Commission Staff[3] witnesses, is expected to take several rate cases to achieve.

Q. DID YOU RECOMMEND A MORE AGGRESSIVE APPROACH TO ELIMINATING THE EXCESSIVE SUBSIDIES PRESENT IN THE TEP RATES?

A. Yes. In my direct rate design testimony, I recommended the implementation of a Revenue Support Rider ("RSR") that implements more gradual, pre-determined annual movements to fully mitigate the subsidies.[4]

Q. WHAT WAS THE COMPANY'S RESPONSE TO YOUR PROPOSAL TO IMPLEMENT A REVENUE SUPPORT RIDER ("RSR")?

A. The Company expressed interest in exploring the RSR further, agreeing that it might be a viable option to solve the subsidy issue. There was some concern that the

[1] A.C.C. Decision # 75697, August 18, 2016, page 26, lines 17-22.
[2] Jones, Direct, page 25, lines 20-22
[3] Direct Rate Design Testimony of Howard Solganick, page 25, lines 7-8.
[4] Tillman, Direct (Rate Design), page 14, line 10 through page 16, line 16.

administration of such a mechanism might create burdensome reporting requirements.[1]

Q. DID THE COMPANY REQUEST FURTHER DETAILS REGARDING THE IMPLEMENTATION OF THE RSR?

A. Yes. The Company requested that Walmart propose a Plan of Administration ("POA") for to the RSR. I have included a proposed POA as exhibit GWT-S-3.

Q. PLEASE SUMMARIZE YOUR PROPOSED POA.

A. The POA establishes an annual revenue support amount for each class to satisfy the existing class subsidies. The revenue support amounts are decreased over a period of 8 years resulting in the elimination of the subsidies. For illustrative purposes, I have used the subsidies discussed earlier in my testimony within the proposed POA. The final annual revenue support amounts actual subsidies based on the Commission's final decision in this case. The POA includes an annual true-up adjustment and a final true-up that maintains the revenue neutrality of the RSR. Billing adjustments take the form of credits and surcharges applied on a percentage basis to the base rate revenue on a customer's bill. Reporting requirements are satisfied through an annual filing of the true-up amounts, adjusted annual revenue support amounts, and the rates for the ensuing annual period for review.

[1] Jones, Rebuttal, page 60, lines 13-23.

Q. IF THE COMMISSION ORDERS THE IMPLEMENTATION OF THE RSR, WOULD MODIFICATIONS TO THE RATE DESIGN BE REQUIRED?

A. Yes. The RSR is intended to distinguish the existing subsidies from the base rates. If the Commission orders the implementation of the RSR, an update to the rate design is required to adjust the base rate revenue to reflect the revenue requirement at the full cost of service.

LGS-85 Rate Design

Q. DID THE COMPANY MODIFY THE LGS-85 RATE DESIGN IN ITS REBUTTAL TESTIMONY?

A. Yes. In response to suggestions from Walmart and Kroger witnesses, the rate design for LSG-85 was adjusted to move a portion of the revenue recovery from the volumetric rate components to the demand charge.[1]

Q. IS THE ADJUSTED LGS-85 RATE REFLECTIVE OF THE COST OF SERVICE?

A. No. While the changes made to the rate are helpful in reducing the intra-class subsidies between high and low load factor customers, they fall short of establishing the correct price signals to customers. As stated in my direct testimony, the energy prices within the rate should be minimal, reflecting only the variable costs associated with the uncollectible amounts. The remaining non-fuel costs, including any subsidy-based charges, should be reflected in the demand charges.

[1] Ibid, page 71, lines 23-26.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING LGS-85 RATE DESIGN?

A. The Commission should order a rate design for Rate LGS-85 that reduces intra-class subsidies through a more accurate reflection of the underlying cost structures as proposed within my [direct rate design] testimony.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Calculation of Walmart Proposed Revenue Allocation

	TOTAL	RES	GS	LGS	LPS & 138KV	LIGHTING
1 TOTAL REVENUE **(Direct Case)**	$ 1,050,587,667	$ 490,327,443	$ 264,619,063	$ 145,867,033	$ 143,664,249	$ 6,109,879
2 OTHER REVENUE **(Direct Case)**	$ 31,728,877	$ 20,358,585	$ 5,865,844	$ 2,625,117	$ 2,670,353	$ 208,978
3 FUEL REVENUE **(Direct Case)**	$ 303,925,690	$ 128,678,471	$ 64,710,927	$ 50,743,086	$ 58,436,997	$ 1,356,208
4 WALMART RECCOMENDED SALES REVENUE **(Walmart Direct)**	$ 714,933,100	$ 341,290,387	$ 194,042,293	$ 92,498,829	$ 82,556,899	$ 4,544,693
5 WALMART RECOMMENDED NON-FUEL REVENUE **(2 + 4)**	$ 746,661,977	$ 361,648,972	$ 199,908,136	$ 95,123,946	$ 85,227,252	$ 4,753,671
6 WALMART RECCOMENDED SUBSIDY **(Walmart Direct)**	$ (86,837,414)	$ (83,917,585)	$ 51,302,681	$ 24,441,223	$ 11,093,510	$ (2,919,829)
7 NON-FUEL REVENUE REQUIREMENT (Settlement)	$ 714,022,900					
8 CHANGE IN NON-FUEL REVENUE **(7 - 5)**	$ (32,639,077)					
9 ONE-HALF TO SUBSIDIZING CLASSES **(8 * 50%)**	$ (16,319,539)					
10 PERCENT OF SUBSIDY **(6 / SUM OF 6)**			59.1%	28.1%	12.8%	
11 DISTRIBUTION OF SUBSIDY REDUCTION **(11 * 9)**		0	$ (9,641,421)	$ (4,593,291)	$ (2,084,827)	0
12 ONE-HALF TO ALL CLASSES **(8 * 50%)**	$ (16,319,539)					
13 PERCENT OF NON-FUEL REVENUE **(5 / SUM OF 5)**		48.4%	26.8%	12.7%	11.4%	0.6%
14 DISTRIBUTION OF REVENUE REDUCTION **(13 * 12)**		$ (7,904,439)	$ (4,369,325)	$ (2,079,092)	$ (1,862,783)	$ (103,899)
15 **TOTAL CHANGE IN NON-FUEL REVENUE (11 + 14)**	**$ (32,639,077)**	**$ (7,904,439)**	**$ (14,010,746)**	**$ (6,672,383)**	**$ (3,947,610)**	**$ (103,899)**
16 **FINAL NON-FUEL REVENUE (5 + 15)**	**$ 714,022,900**	**$ 353,744,533**	**$ 185,897,391**	**$ 88,451,564**	**$ 81,279,642**	**$ 4,649,771**

Sources:

Direct Cases H2-2
Tillman Direct Rate Design, Exhibit GWT-3
Settlement Agreement

Hypothetical Subsidies Resulting from the Agreement and Walmart Proposed Revenue Allocation

	TOTAL	RES	GS	LGS	LPS & 138KV	LIGHTING
1 **PROPOSED NON-FUEL REVENUE (GWT-S-1)**	**$ 714,022,900**	**$ 353,744,533**	**$ 185,897,391**	**$ 88,451,564**	**$ 81,279,642**	**$ 4,649,771**
2 MARGINS AT EQUALIZED ROR **(Direct Case)**	$ 714,933,100	$ 425,207,972	$ 142,739,612	$ 68,057,607	$ 71,463,388	$ 7,464,522
3 OTHER REVENUE **(Direct Case)**	$ 31,728,877	$ 20,358,585	$ 5,865,844	$ 2,625,117	$ 2,670,353	$ 208,978
4 NON-FUEL REVENUE AT EQUALIZED ROR **(Walmart Direct)**	$ 746,661,977	$ 445,566,557	$ 148,605,456	$ 70,682,724	$ 74,133,742	$ 7,673,500
5 SETTLEMENT NON-FUEL REVENUE **(Settlement)**	$ 714,022,900					
6 ADJUSTMENT FACTOR **(5 / 4)**	$ 0.96					
7 ADJUSTED NON-FUEL REVENUE AT EQUALIZED ROR **(4 * 6)**	$ 714,022,900	$ 426,089,361	$ 142,109,417	$ 67,592,947	$ 70,893,109	$ 7,338,065
8 **HYPOTHETICAL SUBSIDY/(SUBSIDIZATION) (7 - 1)**		**$ (72,344,829)**	**$ 43,787,973**	**$ 20,858,617**	**$ 10,386,533**	**$ (2,688,294)**

Sources:

Tillman Direct Rate Design, Exhibit GWT-3

Settlement Agreement

Plan of Administration

Revenue Support Rider ("RSR")

Table of Contents

1. GENERAL DESCRIPTION

This document describes the plan of administration for the Revenue Support Rider approved for Tucson Electric Power Company ("TEP") by the Arizona Corporation Commission ("Commission") in Decision No. xxxxxx [DATE]. The RCR provides for the credit and recovery of revenue support amounts to customer bills. The RCR will be calculated annually based on the revenue support level required for the ensuing year.

2. DEFINITIONS

TBD

3. ANNUAL REVENUE SUPPORT AMOUNTS

The annual base revenue support amounts for each class and the effective date for each are as follows: (XXX-Actual amounts to be determined based on final order-XXX)

Year	Effective Date	Residential	Small General Service	Large General Service	Large Power Service	138 kV	Lighting
	First Billing Cycle of	Credit	Surcharge	Surcharge	Surcharge	Surcharge	Credit
2017	January, 2017	$(72,344,829)	$43,787,973	$20,858,617	$10,386,533	TBD	$(2,688,294)
2018	January, 2018	$(63,301,725)	$38,314,477	$18,251,290	$9,088,216	TBD	$(2,352,257)
2019	January, 2019	$(54,258,621)	$32,840,980	$15,643,963	$7,789,899	TBD	$(2,016,221)
2020	January, 2020	$(45,215,518)	$27,367,483	$13,036,636	$6,491,583	TBD	$(1,680,184)
2021	January, 2021	$(36,172,414)	$21,893,987	$10,429,308	$5,193,266	TBD	$(1,344,147)
2022	January, 2022	$(27,129,311)	$16,420,490	$7,821,981	$3,894,950	TBD	$(1,008,110)
2023	January, 2023	$(18,086,207)	$10,946,993	$5,214,654	$2,596,633	TBD	$(672,074)
2024	January, 2024	$(9,043,104)	$5,473,497	$2,607,327	$1,298,317	TBD	$(336,037)
2025	January, 2025	$0	$0	$0	$0	$0	$0

4. CALCULATION OF ANNUAL TRUE-UP AMOUNTS

The annual base revenue support amount for each year following Year 1 will be adjusted by an annual true-up amount to ensure that the appropriate credits and surcharges are applied to the customers within each class. Annual true-up amounts will be calculated for each class based on the difference between actual or estimated revenue credited or collected and the adjusted annual base revenue support amount. The final revenue true-up adjustment will be calculated following the expiration of the RSR and applied as a one-time charge or credit to customer bills.

5. CALCULATION OF BILLING PERCENTAGE CREDIT RATES

For those customer classes to which a credit is due, the annual percentage credit will be determined by dividing the adjusted annual base revenue support credit amount by the class revenue generated from the base rate schedules in each class, excluding charges for fuel and purchased power.

6. CALCULATION OF BILLING PERCENTAGE SURCHARGES

For those customer classes to which a surcharge is due, the annual percentage credit will be determined by dividing the adjusted annual base revenue support surcharge amount by the class revenue generated from the base rate schedules in each class, excluding charges for fuel and purchased power.

7. FILING AND PROCEDURAL DEADLINES

TEP will file the applicable percentage rates for each class annually on or before October 31. The annual true-up calculations will utilize all available actual information supplemented with estimated revenue data where actual information does not exist. TEP will calculate and file the final true-up amount as soon as practical after actual revenue data becomes available following the expiration of the RSR.

The Commission staff and interested parties shall have the opportunity to review the RSR filing and supporting data. Unless the Commission has otherwise acted or Commission Staff has filed an objection by January 1, the new RSR rate proposed by TEP will go into effect within the first billing cycle in January (without proration) and will remain in effect for the following 12-month period.