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ANDY TOBIN



EXECUTIVE DIRECTOR

ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

OCT 12 2016

DATE: OCTOBER 12, 2016

DOCKET NO.: E-01575A-15-0312

TO ALL PARTIES:

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Enclosed please find the recommendation of Administrative Law Judge Belinda A. Martin. The recommendation has been filed in the form of an Opinion and Order on:

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

OCTOBER 21, 2016

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

OCTOBER 27, 2016 and OCTOBER 28, 2016

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

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On this 12th day of October, 2016, the following document was filed with Docket Control as a Recommended Opinion & Order from the Hearing Division, and copies of the document were mailed on behalf of the Hearing Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the filed document to the following who have consented to email service.

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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
SULPHUR SPRINGS VALLEY ELECTRIC
COOPERATIVE, INC. FOR A HEARING TO
DETERMINE THE FAIR VALUE OF ITS
PROPERTY FOR RATEMAKING PURPOSES, TO
FIX A JUST AND REASONABLE RETURN
THEREON, TO APPROVE RATES DESIGNED TO
DEVELOP SUCH RETURN, AND FOR RELATED
APPROVALS.

DOCKET NO. E-01575A-15-0312

DECISION NO. _____

OPINION AND ORDER

DATES OF HEARING:	May 17 – 19, 25 – 26, 2016
PLACE OF HEARING:	Tucson, Arizona
PUBLIC COMMENT:	May 17, 2016, Tucson, Arizona
ADMINISTRATIVE LAW JUDGE:	Belinda A. Martin
APPEARANCES:	Mr. Jeffrey W. Crockett, CROCKETT LAW GROUP, P.L.L.C., on behalf of Sulphur Springs Valley Electric Cooperative, Inc.;
	Mr. Michael W. Patten, SNELL & WILMER, L.L.P., on behalf of Trico Electric Cooperative, Inc.;
	Mr. Thomas Loqvam and Ms. Melissa Krueger, PINNACLE WEST CAPITAL CORPORATION, on behalf of Arizona Public Service Company;
	Mr. Court S. Rich, ROSE LAW GROUP, P.C., on behalf of The Energy Freedom Coalition of America;
	Mr. Garry D. Hays, LAW OFFICES OF GARRY D. HAYS, P.C., on behalf of Arizona Solar Deployment Alliance;
	Mr. Tom Harris, on behalf of Arizona Solar Energy Industries Association; and
	Mr. Wesley Van Cleve and Mr. Robert Geake, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

1 **BY THE COMMISSION:**2 **BACKGROUND**

3 Sulphur Springs Valley Electric Cooperative ("SSVEC" or "Cooperative") is a Class A non-
 4 profit, member-owned, electric distribution cooperative with its headquarters in Willcox, Arizona.
 5 SSVEC provides service to approximately 58,000 customers, of which approximately 41,500 are
 6 residential. The Cooperative serves most of Cochise County and portions of Santa Cruz, Pima, and
 7 Graham counties. SSVEC's service area covers over 5,700 square miles using 4,100 miles of energized
 8 lines.

9 SSVEC is a Class A partial requirements member of Arizona Electric Power Cooperative
 10 ("AEPSCO"), and also receives power from Tucson Electric Power Company ("TEP").¹ As of the date
 11 of the hearing, SSVEC has no generation facilities except for two small solar facilities: a 1.2 MW
 12 facility near San Simon, and a 248 kW facility near Patagonia.² The Cooperative has entered into a
 13 purchase power agreement ("PPA") for a 20 MW solar facility located in Cochise County to be leased
 14 from AEPSCO, which is expected to come online by the end of 2016.³

15 According to Staff's engineering witness, SSVEC is properly operating and maintaining its
 16 electrical system. Staff states the Cooperative is performing improvements, upgrades, and new plant
 17 additions to meet the current and projected load requirements in an efficient and reliable manner. Staff
 18 concludes that the improvements, upgrades, and additions are reasonable and appropriate, and that
 19 SSVEC's plant in service is used and useful. Staff noted that the Cooperative has an acceptable level
 20 of system losses, and has a satisfactory record of service interruptions from 2010 – 2014.⁴ As of the
 21 date of the hearing, there were no unresolved complaints against the Cooperative.⁵

22 SSVEC's last full rate case was decided in Decision No. 71274 (September 8, 2009) – 16 years
 23 after its prior rate case. The Commission modified that Decision in Decision No. 73349 (August 21,
 24 2012), directing the Cooperative to file with its next rate application an analysis of time-of-use ("TOU")

25 _____
 26 ¹ Hearing Exhibit ("Ex.") A-1, page 2.

27 ² Ex. A-1, page 2.

28 ³ Transcript of Hearing ("Tr. ___"), at 104, 129 – 131. Creden Huber, SSVEC's CEO, testified that the terms of the PPA are confidential.

⁴ Ex. S-4, page 3.

⁵ Tr. at 91.

1 rates. The analysis was to include a TOU rate schedule aimed at maximizing customer participation in
2 a TOU program.⁶

3 SSVEC's current rates were established in Decision No. 74381 (March 19, 2014) using the
4 streamlined application process under Arizona Administrative Code ("A.A.C.") R14-2-107.

5 On April 14, 2015, SSVEC filed a Net Metering ("NM") application with the Commission for:
6 (1) approval of a new Net Metering Tariff Schedule NM-2; (2) revisions to the Cooperative's existing
7 Net Metering Tariff Schedule NM; and (3) approval of a partial waiver of the Commission's net
8 metering rules.⁷ Staff and other parties to the docket objected, asserting that the matter was more
9 properly considered in connection with a full rate application. In Decision No. 75295 (October 27,
10 2015) the Commission dismissed the application without prejudice in order for the NM issues to be
11 heard in SSVEC's rate case.

12 On August 31, 2015, SSVEC filed with the Commission its application for a rate increase
13 ("Application") using a December 31, 2014, test year.

14 Intervention in this matter was granted to Arizona Public Service Company ("APS"), Energy
15 Freedom Coalition of America ("EFCA"), Arizona Solar Energy Industries Association ("AriSEIA"),
16 Arizona Solar Deployment Alliance ("ASDA"), and Trico Electric Cooperative ("Trico"). EFCA was
17 the only intervenor to present a witness and provide written testimony and briefs in the proceeding.

18 The Commission took public comments at the commencement of the hearing and also received
19 hundreds of written letters and emails from members of the public. Many individuals and businesses
20 providing comment were located outside of SSVEC's service area, as it was widely perceived that the
21 issues of changes in the net metering tariff had statewide implications. The vast majority of individuals
22 making comments in this docket were opposed to any changes in the residential distributed generation
23 ("DG") rate design, the net metering ("NM") tariff, and the Cooperative's proposed increases in the
24 monthly service availability charges. Others voiced their disapproval of paying rates and charges that
25 may subsidize the rooftop solar systems of other members.

26 ...

27 ⁶ Decision No. 73349, page 2.

28 ⁷ Docket No. E-01575A-15-0127, *In the Matter of Sulphur Springs Valley Electric Cooperative, Inc. for Approval of a New Net Metering Tariff Schedule NM-2, and Revisions to the Existing Net Metering Tariff Schedule NM.*

1 information and evidence to meet its burden of proof.

2 The Application submitted by SSVEC complied with the basic requirements of A.A.C. R14-2-
3 103. Accordingly, SSVEC's Application is legally sufficient.

4 **Revenue Requirement**

5 SSVEC initially proposed a revenue increase of \$3,101,498, and Staff accepted the
6 Cooperative's proposal. In its Surrebuttal testimony, SSVEC requested an increase in rate case expense
7 from \$200,000 to \$409,770 (amortized over three years).¹¹ After review of the Cooperative's invoices
8 related to rate case expense, Staff agreed to SSVEC's request, resulting in a total increase in the revenue
9 requirement of \$3,171,421, for a total revenue requirement of \$100,874,563.¹²

10 **Rate Base**

11 Staff made no adjustments to SSVEC's proposed rate base of \$208,373,755, comprised as
12 follows:

13 **Description**¹³

14	Gross Utility Plant in Service	\$328,798,905
15	Less: Accumulated Depreciation	<u>121,553,067</u>
16	Net Utility Plant in Service	207,245,838
17	Customer Deposits	(2,732,323)
18	Customer Advances	<u>(96,781)</u>
19	Total Deductions	(2,829,104)
20	Cash Working Capital	--
21	Materials and Supplies	2,650,491
22	Prepayments	<u>1,306,530</u>
23	Total Rate Base	\$208,373,755

24 The record supports finding that a \$208,373,755 FVRB is fair and reasonable, and should be
25 adopted in this case.

27 ¹¹ Ex. A-6, page 25.

28 ¹² Ex. S-3, Revised Surrebuttal Testimony Schedule CSB - 1, 1.10.

¹³ *Id.*, Revised Surrebuttal Testimony Schedule CSB - 2.

Operating Revenue and Expenses

After the \$209,770 adjustment for rate case expense (amortized over three years), Staff and SSVEC agree on adjusted test year revenues of \$97,703,142, and adjusted test year operating expenses of \$87,515,309, resulting in adjusted test year operating income of \$10,187,833, and a rate of return of 1.95 percent on its FVRB.¹⁴ No other party objected to the adjusted operating revenue and expenses.

The test year operating revenues and expenses are reasonable and we adopt them.

Authorized Revenue Increase

Based on the agreement of the parties, we authorize an increase of \$3,171,421 over test year revenues of \$97,703,142, or 3.25 percent, for total revenue of \$100,874,563, as illustrated below:¹⁵

Adjusted Fair Value Rate Base	\$208,373,755
Adjusted Operating Income	\$10,187,833
Current Rate of Return	1.95%
Required Operating Income	\$13,359,254
Required Rate of Return	6.41%
Operating Income Deficiency	\$3,171,421
Gross Revenue Conversion Factor	1.000
Increase in Gross Revenue Requirement	\$3,171,421

Staff calculated SSVEC's Debt Service Coverage Ratio at 1.85 and the Times Interest Earned Ratio at 2.20.¹⁶ SSVEC's current capital structure consists of 63.50 percent long-term debt and 36.50 percent equity.¹⁷

Based on the evidence, the revenue increase of \$3,171,421 is reasonable and we adopt it.

Base Cost of Purchased Power

SSVEC's current base cost of the purchased power is \$0.072127 per kWh, which was set in Decision No. 71274. SSVEC proposes to reduce the base cost of purchase power to \$0.065857 per

¹⁴ *Id.*, Revised Surrebuttal Testimony Schedules CSB-1 and CSB-5.

¹⁵ *Id.*, Revised Surrebuttal Testimony Schedule CSB-1 and CSB-4.

¹⁶ *Id.*, Revised Surrebuttal Testimony Schedule CSB-1.

¹⁷ Ex. A-9, Revised Exhibit DWH-2.0 (Revised Reference Schedule G-6.3).

1 kWh to more closely align with the Cooperative's current cost of power. Staff accepts SSVEC's
2 proposal¹⁸ and no party has objected.

3 The proposed base cost of power is reasonable and we adopt it.

4 **Cost of Service Study**

5 SSVEC provided a Cost of Service Study ("COSS") using the same methodology utilized by
6 the Cooperative in the past, and also used by Trico Electric Cooperative, Inc., Navopache Electric
7 Cooperative, Inc., and Mohave Electric Cooperative Inc.¹⁹ Staff's COSS witness testified that SSVEC
8 used an acceptable methodology to functionalize, classify, and allocate costs to the various customer
9 classes.²⁰ Staff made one change to the COSS relating to the customer count for the Residential Class.²¹
10 Staff concludes that the COSS is reasonable and recommends that the Commission accept SSVEC's
11 COSS as adjusted by Staff.²²

12 Staff also recommends that, in future rate cases, SSVEC should make the following two
13 adjustments to revenue and costs in the COSS:

- 14 • Residential Auxiliary Rate Schedule customers should be included as part of the
15 Residential Class, rather than the General Service class.
- 16 • General Service RV Parks Rate Schedule customers should be included as part of the
17 Large Power class, rather than the General Service class.²³

18 SSVEC agrees with Staff's conditions regarding its next COSS.²⁴

19 Staff's recommendations are reasonable and we adopt them.

20 **Revenue Allocation**

21 Illustrated below are the adjusted test year class allocations and Staff's proposed revenue
22 increases by customer class prior to Staff's adjustments for the additional \$209,770 in rate case
23 expense, which will be allocated proportionally among the five main customer classes. The revenue
24

25 ¹⁸ Ex. S-5, page 2.

26 ¹⁹ Ex. A-4, page 6.

27 ²⁰ Ex. S-7, page 4.

²¹ *Id.*

²² *Id.*, page 5.

²³ *Id.*, page 41.

28 ²⁴ Ex. A-6, page 4.

1 totals include Power Cost Adjustor revenue.²⁵

2 Customer Class	Current Adjusted TY Revenue ²⁶	Staff's Proposed Revenue ²⁷	Percent Increase
3 Residential	\$45,438,233	\$47,177,073	3.83
4 General Service	\$13,950,171	\$14,872,397	6.61
5 Large Power	\$14,180,725	\$14,540,169	2.53
6 Irrigation	\$16,313,056	\$16,479,559	1.02
7 Lighting	\$846,698	\$882,397	4.22
8 Special Contracts	\$3,664,893	\$3,664,874	N/A
9 Other Revenue	\$3,309,366	\$3,200,541	N/A
10 Total	\$97,703,142	\$100,817,010	3.19

11
12 Staff states that, based on the Cooperative's Schedule G-1.0, the overall system return is
13 reported to be approximately 4.923 percent. Staff notes that the COSS reflects that the Residential,
14 General Service, and Lighting rate classes are currently paying less than their cost of service. Ms.
15 Palladino testified that, "after incorporating the proposed revenue increase, the overall system return
16 has increased to 6.411 percent. The proposed revenue increase also leads to an improvement of the
17 relative rates of return for the Residential, General Service, and Lighting rate classes. Staff supports
18 moving gradually toward less inter-class subsidies. Staff agrees with the revenue allocation proposed
19 by SSVEC."²⁸

20 The allocation of the revenue increase approved herein is in the public interest as it strikes a
21 fair and reasonable balance between the various rate classes.

22 Rate Design

23 SSVEC's revenue requirement recovery is split between a fixed charge and a volumetric charge.
24 The General Service, Large Power, and Irrigation classes have an additional billing demand
25 component, and the Lighting class has a per-unit rate. Staff observes that, "[v]ariations in usage among
26

27 ²⁵ Ex. S-7, page 5.

²⁶ Total adjusted test year revenue from Ex. A-1, Schedule E-7.5.

²⁷ Staff's originally proposed revenue from Ex. S-7, Schedule RSP-2.

28 ²⁸ Ex. S-7, pages 5 - 6.

1 customers in the same class have increased for a number of reasons (including seasonal customers,
 2 vacant homes, and distributed generation). This makes recovery of the revenue requirement difficult
 3 with existing rate design. Staff believes that rates should now be more closely based on the actual costs
 4 to serve each customer class."²⁹ Although Staff would prefer the adoption of a three-part rate design
 5 comprised of a monthly fixed charge, a demand charge, and an energy charge, Staff acknowledges that
 6 SSVEC does not have the system and metering capability in place to implement a demand charge for
 7 most of its residential customers.³⁰

8 SSVEC has proposed rate designs for its various classes that it believes will begin the process
 9 of gradually moving rates toward greater recovery of its fixed costs related to the provision of service.³¹
 10 The Cooperative's main concern is addressing the issue of unrecovered fixed costs that SSVEC
 11 attributes to its net metered members.³² In order to achieve this goal, the Cooperative seeks to increase
 12 the monthly service availability charges over one-to-four years, depending on the tariff. In addition,
 13 the Cooperative seeks the adoption of new customer classifications and tariffs for residential DG and
 14 partial requirements customers.

15 **Residential Class**

16 As calculated in the COSS, the fixed costs for the Residential class are as follow:³³

Fixed Costs Categories	Amount
Fixed Purchased Power Costs	\$29.22
Distribution (Wires) Costs	\$25.05
Total Customer Costs	\$25.97
TOTAL RESIDENTIAL FIXED COSTS	\$80.24

26 ²⁹ *Id.*, page 6.

27 ³⁰ *Id.*, page 7.

27 ³¹ Ex A-2, page 5.

28 ³² *Id.*, page 5.

28 ³³ Ex. S-7, page 10.

Residential Rate Schedule

Below are the current and proposed rate designs for standard Residential customers:³⁴

	Current	Phase 1	Phase 2	Phase 3	Phase 4
Monthly charge	\$10.25	\$15.00	\$18.00	\$22.00	\$25.00
Charge per kWh ³⁵	\$0.126038	\$0.117518	\$0.112858	\$0.106764	\$0.102038

Illustrated below are the approximate bill impacts of the proposed rates on standard Residential customers with average and median usage:³⁶

	Phase 1	Phase 2	Phase 3	Phase 4
Average – 682 kWh Current bill – \$91.93				
Amount	\$95.15	\$94.97	\$94.81	\$94.59
Incr./Decr.)	\$3.22	(\$0.18)	(\$0.16)	(\$0.22)
% Incr./Decr.	3.50%	-0.19%	-0.17%	-0.23%
Median – 550 kWh Current bill – \$76.12				
Amount	\$79.63	\$80.07	\$80.72	\$81.12
Incr./Decr.)	\$3.51	\$0.44	\$0.65	\$0.40
% Incr./Decr.	4.61%	0.55%	0.81%	0.50%

Residential DG – Existing

Below are the current and proposed rate designs for existing Residential DG customers:³⁷

	Current	Phase 1	Phase 2	Phase 3	Phase 4
Monthly charge	\$10.25	\$25.00	\$33.00	\$40.00	\$50.00
Charge per kWh	\$0.126038	\$0.119768	\$0.119768	\$0.119768	\$0.119768

³⁴ Ex. A-1, Attachment 5, Schedule H-4.02.

³⁵ Energy charge prior to application of \$0.006270 Power Cost Adjustor.

³⁶ Ex. A-1, Attachment 5, Schedule H-4.02. These numbers reflect proposed rates with the adoption of separate rates for existing and new residential DG customers. If those rates are rejected, these numbers will be modified to ensure the Cooperative is able to collect its authorized revenues.

³⁷ *Id.*, Attachment 5, Schedule H-4.03.

1 Illustrated below is the approximate bill impact of the proposed rates on existing Residential
2 DG customers with average usage.³⁸

	Phase 1	Phase 2	Phase 3	Phase 4
Average – 218 kWh Current bill – \$36.36				
Amount	\$51.11	\$59.11	\$66.11	\$76.11
Incr./Decr.)	\$14.75	\$8.00	\$7.00	\$10.00
% Incr./Decr.	40.57%	15.65%	11.84%	15.13%

9 Residential DG – New

10 Below are the current and proposed rate designs for new Residential DG customers:³⁹

	Phase 1	Phase 2	Phase 3	Phase 4
Monthly charge	\$25.00	\$33.00	\$40.00	\$50.00
Charge per kWh	\$0.104617	\$0.095467	\$0.083316	\$0.071165

14 Illustrated below are the approximate bill impact of the proposed rates on new Residential DG
15 customers with average usage, based on the average usage of existing DG customers:⁴⁰

	Phase 1	Phase 2	Phase 3	Phase 4
Average – 218 kWh Current bill – \$36.36				
Amount	\$48.46	\$53.81	\$58.16	\$65.51
Incr./Decr.)	\$12.10	\$5.35	\$4.35	\$7.35
% Incr./Decr.	33.28%	11.04%	8.08%	12.64%

21 Establishment of Partial Requirements Rate Classes

22 SSVEC

23 The Cooperative proposes two new Residential rate schedules:

- 24 • Schedule R-PR E – Partial Requirements Service, Standby Service, Backup Service (for
25 existing residential partial requirements customers); and

27 ³⁸ Id.

28 ³⁹ Id.

⁴⁰ Id.

- Schedule R-PR – Partial Requirements Service, Standby Service, Backup Service (for new residential partial requirements customers).

SSVEC is also advocating changes in the NM tariff, which will be discussed later.

SSVEC argues that the recent proliferation of photovoltaic (“PV”) systems in the Cooperative’s service territory has resulted in a substantial increase in unrecovered fixed costs. The Cooperative believes that the amount of lost fixed costs attributable to its net metered members at the end of the 2014 test year was \$1,139,013.⁴¹ SSVEC also relates that as the number of members with installed DG increases, so, too, do the lost fixed costs. During the test year, the number of members with installed DG went from 781 Residential customers to 1,013. As of April 1, 2016, there were 1,147.⁴² SSVEC witness, David Hedrick, stated:

The existing rate structure was not designed to appropriately recover the costs of providing service from a member with distributed generation. If this situation with the recovery of costs is not addressed, then the lost fixed costs from customers with [DG] will eventually have to be recognized as a cost to be recovered from all of the remaining customers with consumption. The result is that the customers with [DG] do not pay the appropriate fixed demand and customer costs for the provision of electric service while the remainder of customers pay more than their equitable share of those costs. Without addressing the rate issue, the installation of [DG] will shift costs from one group to another.⁴³

To prevent this problem from escalating, SSVEC proposes the new residential DG rate classes and also to increase the monthly service availability charge for both DG and non-DG customers, while simultaneously decreasing the energy charge, over four phases, as illustrated in the charts above. In addition, the Cooperative is proposing similar rate changes for other customer classes, as are shown herein.

SSVEC acknowledges Staff’s preference for a three-part rate design, but explains that its current system and metering capabilities do not allow for the implementation of a real-time, three-part rate.⁴⁴ As such, the Cooperative must use a two-part rate design, and believes its solution of establishing a separate rate class for DG customers is appropriate. Mr. Hedrick asserts that the record supports a finding that DG customers are substantially different than non-DG customers because DG customers

⁴¹ Ex. A-2, page 5, Ex. A-10.

⁴² Ex. A-6, page 7.

⁴³ Ex. A-5, page 11.

⁴⁴ Ex. S-7, page 7.

1 generate a large portion of their energy requirements themselves.⁴⁵ In response to EFCA's contention
 2 that it would be discriminatory to carve out customers with installed DG when other residential
 3 customers in the Residential class also take measures to reduce their load through energy efficiency or
 4 other means, SSVEC argues that solar DG customers have "unique characteristics and present unique
 5 cost recovery issues that distinguish them from all other customers who reduce their energy
 6 consumption through means other than DG."⁴⁶ In addition, SSVEC relates that few members have
 7 taken advantage of the Cooperative's energy efficiency programs, noting that, "the average energy
 8 savings for a customer participating in the heat pump program was 57 kWh per month and the savings
 9 for a customer in the water heater program was 85 kWh per month."⁴⁷ SSVEC asserts that level of lost
 10 kWh sales and the related lost fixed costs would be considerably higher for a residential DG member.⁴⁸

11 SSVEC contests EFCA's argument that the Cooperative violated A.A.C. R14-2-2305 because
 12 it failed to submit a solar-specific COSS and benefit/cost analysis. A.A.C. R14-2-2305 states:

13 Net Metering charges shall be assessed on a nondiscriminatory basis. Any proposed change
 14 that would increase a Net Metering Customer's costs beyond those of customers with
 15 similar load characteristics or customers in the same rate class that the Net Metering
 16 Customer would qualify for if not participating in Net Metering shall be filed by the
 17 Electric Utility with the Commission for consideration and approval. The charges shall be
 18 fully supported with cost of service studies and benefit/cost analyses. The Electric Utility
 19 shall have the burden of proof on any proposed charge.

20 SSVEC observes that nothing in the rule requires solar-specific studies.⁴⁹ In addition, Mr.
 21 Hedrick testified that a separate COSS was not necessary because the costs of providing service to
 22 residential customers are essentially the same.⁵⁰

23 In response to Staff and EFCA's arguments about the effect of the DG proposals upon future
 24 solar installations in SSVEC's service territory, Mr. Hedrick stated:

25 Rates are based on known and measurable costs and are designed to be fair and equitable.
 26 The primary objective is to provide safe and reliable service to members at the lowest
 27 reasonable rates. SSVEC is always concerned about the impact that energy prices have on
 28 the personal economics of its members. However, it would be entirely inappropriate for
 SSVEC or the Commission to include in its criteria for determination of electric rates and
 credits, whether those rates allow customers with installed DG to earn an acceptable return

⁴⁵ Ex. A-6, page 7.

⁴⁶ *Id.*, page 12.

⁴⁷ *Id.*, page 12.

⁴⁸ *Id.*, page 12.

⁴⁹ SSVEC Response Brief, page 13.

⁵⁰ Ex. A-6, page 11.

1 on their investment. It is not the responsibility of the members of SSVEC or ratepayers of
 2 any other utility to subsidize customers with installed DG or to guarantee the rate of return
 on their investments in DG.⁵¹

3 **Staff**

4 Staff concluded that SSVEC's proposed Residential DG rate schedules are not in the public
 5 interest at this time and recommends that the Commission reject them.

6 Staff accepts the Cooperative's claim of a \$1,139,013 under recovery during the test year, but
 7 asserts that DG members are not the only customers who have reduced energy consumption since
 8 SSVEC's last full rate case. Staff notes that some customers have implemented energy efficiency
 9 measures and some homes have become vacant, for example.⁵² Staff also testified that SSVEC's
 10 assertion that all \$1.1 million of under recovery is attributable to DG customers is not verifiable, and it
 11 may not be possible to state with specificity what the exact amount might be.⁵³ Instead, Staff contends
 12 that SSVEC's inability to recover its authorized revenue is a product of its rate design. In order for the
 13 Cooperative to recover more of its fixed costs, Staff believes that the rate design should be more closely
 14 based on the actual costs to serve each customer class.⁵⁴ Further, according to Staff, "because Tariff
 15 DG-E increases the customer charge while holding the energy charge constant, this proposal will result
 16 in an increase in rates without determining a fair value and without a determination of the impact on
 17 the Company's fair value rate of return, which may be prohibited." *Scates v. Arizona Corporation*
 18 *Commission*, 118 Ariz. 531, 578 P.2d 612 (App. 1978)."⁵⁵

19 Although Staff and SSVEC agree on the cost of service of \$80.24 for the residential class
 20 overall, Staff notes that the Cooperative did not provide a COSS specific to DG customers. Rather, in
 21 a separate calculation to support its Residential DG rate schedules, SSVEC "added together the
 22 purchased power demand costs and the distribution wire costs that it is required to pay regardless of
 23 how much power a customer uses to arrive at a \$50 customer charge."⁵⁶

24 Staff also claims that implementation of the Cooperative's proposed residential DG rates may
 25 slow the installation of rooftop DG in SSVEC's territory. Staff's asserts its model reflects that, at a

26 ⁵¹ Ex. A-7, page 12. (Emphasis original.)

27 ⁵² Ex. S-8, page 3.

28 ⁵³ Tr. at 550, 656.

⁵⁴ Ex. S-8, page 4.

⁵⁵ Staff Closing Brief, page 8.

⁵⁶ Staff Closing Brief, page 8; Exs. A-10, A-11, A-12.

1 \$50.00 charge per month for a DG customer, an adverse solar market would be created and rooftop
2 solar would not be a commercially viable investment for SSVEC's customers.⁵⁷

3 Accordingly, Staff asserts that SSVEC has not met its burden of proving that a separate
4 residential DG rate class is in the public interest.

5 However, Staff disagrees with EFCA's contention that the Cooperative's proposal to create a
6 separate residential DG class violates A.A.C. R14-2-2305. Staff states that although it does not support
7 the implementation of separate residential DG rate schedules in this instance, such an action is
8 permissible.⁵⁸

9 Staff supports SSVEC's proposed rate schedule for the standard Residential rate schedule
10 because the COSS demonstrates an under-recovery of fixed costs from the residential class as a whole.
11 Staff does not agree with EFCA that the increase from \$10.25 to \$25.00 over four years violates the
12 principle of gradualism, for, although the increase in the amount of the monthly fixed charge is large,
13 the energy charges are decreased. The net effect is an overall increase in the monthly average bill of
14 approximately \$3.50. Further, Staff believes that rates should now be more closely based on the actual
15 costs to serve each customer class and supports the placement of more fixed costs in the monthly
16 charge, rather than the volumetric charge.⁵⁹ Staff notes that SSVEC spent much time and money to
17 educate its members in meetings and with mailers regarding the four-year phase-in of the new rates,
18 and states: "A four-year phase-in of rates moves away from recovering so much of the fixed costs
19 through a variable charge, but does so in a gradual manner."⁶⁰

20 Staff explains that the rejection of the residential DG rate schedules and the approval of the
21 \$25.00 monthly charge for all residential customers will result in a shortfall in required revenues of
22 approximately \$315,000 in the Residential Class. Staff recommends that the energy charge be adjusted
23 over the four phases to fully recover the revenue shortfall.⁶¹

24 EFCA

25 In order to treat DG customers differently than its non-DG customers, EFCA argues that

26 ⁵⁷ Tr. at 991.

27 ⁵⁸ Staff Closing Brief, page 11.

28 ⁵⁹ Ex. S-7, page 6, Ex. S-8, page 4.

⁶⁰ Ex. S-8, page 5.

⁶¹ *Id.*, page 6.

1 SSVEC has the burden to demonstrate that differential treatment is just, reasonable, and
2 nondiscriminatory. EFCA claims that the Cooperative must also conduct solar-specific cost-of-service
3 studies using actual data and benefit/cost analyses to prove disparate treatment is warranted.

4 EFCA argues that under Commission Rules, in order to impose higher charges on DG
5 customers than all other customers with similar load characteristics, or on customers in the same rate
6 class as the DG customer would qualify for if not participating in net metering, SSVEC carries the
7 burden of proof and must support the differential treatment with a COSS and benefit/cost analyses.⁶²
8 EFCA asserts that SSVEC has failed to submit the requisite studies or analyses needed to support
9 differential treatment of DG customers.⁶³

10 EFCA contends that SSVEC's proposed service availability charge for both residential DG
11 customers and residential non-DG customers violates the policy of gradualism, subject the
12 Cooperative's members to rate shock, and do not constitute just and reasonable rates. EFCA's witness
13 testified that he has not seen such dramatic rate increases before.⁶⁴

14 Analysis and Resolution – Residential Rate Design

15 Utilities have traditionally used two-part volumetric rates, consisting of a fixed customer
16 charge, and an energy charge based on kWhs sold, to recover the costs of serving residential customers.
17 Until fairly recently, the load characteristics of residential customers were relatively homogeneous,
18 such that the simple two-part rates, designed based on average consumption assumptions, did an
19 adequate job of recovering the costs of service. The short-coming of two-part rates is that if customers
20 use fewer kWhs, for whatever reason, including energy efficiency products, a desire to protect the
21 environment, or to save money, these rates do not recover all of the costs of service.

22 SSVEC presented evidence that it has experienced a significant under-recovery of fixed costs.
23 However, we do not believe that the Cooperative has demonstrated that the entirety of its under-
24 recovery can be attributed to the adoption of rooftop solar in its service area. Although a separate COSS
25 schedule for residential DG customers is not required, it likely would have been beneficial. However,
26 we disagree with EFCA that the creation of a separate residential DG customer class, in-and-of itself,

27 ⁶² EFCA Post-Hearing Brief, pages 2-3.

28 ⁶³ *Id.*, page 4.

⁶⁴ Tr. at 863.

1 is discriminatory. Nor do we believe that failure to provide a solar-specific COSS or benefit/cost
 2 analysis pursuant to A.A.C. R14-2-2305 necessarily prohibits implementation of tariffs for partial
 3 requirements customers such as residential DG members. Each case depends on the evidence presented.
 4 In this instance, SSVEC did not provide sufficient evidence to support creation of a separate residential
 5 DG customer class.

6 This does not mean that SSVEC's significant under-recovery of fixed costs can be ignored. The
 7 Cooperative does not have a lost fixed cost mechanism, nor does it have investors who can absorb lost
 8 costs – all losses fall back to the Cooperative's members. Although Staff's recommendation for three-
 9 part rates consisting of a monthly charge, demand charges, and an energy charge may be reasonable at
 10 a future point in time, because of SSVEC's system and equipment limitations such a design is not
 11 feasible at this time.

12 Given the two-part rate design, it is necessary to place more of the fixed costs of the Residential
 13 customer class in the monthly service availability charge and rely less on the energy charge to cover
 14 the fixed costs. Although the increase of the monthly charge from \$10.25 to \$25.00 is substantial, it is
 15 spread over four years. Coupled with the decreasing energy charge rates, the net increase to the
 16 residential customer is approximately \$3.50. Accordingly, we believe the proposed standard
 17 Residential rate schedule is just and reasonable.

18 Because of the increase in revenues due to the additional authorized rate case expense and the
 19 approximately \$315,000 of revenue that was originally intended to be generated through Residential
 20 DG rates is not reflected in the remaining proposed residential non-DG rate schedules, the listed bill
 21 impacts are approximate. SSVEC should file new rate schedules and proofs of revenue that conform to
 22 our authorizations.

23 **Residential Time-of-Use Rate Schedule**

24 Below are the current and proposed rates for residential TOU customers:⁶⁵

25	Current	Phase 1	Phase 2	Phase 3	Phase 4
26 Monthly charge	\$16.50	\$16.50	\$19.50	\$23.50	\$26.50

27

28 ⁶⁵ Ex. A-1, Attachment 5, Schedule H-4.04.

1	On-peak/kWh	\$0.169037	\$0.219563	\$0.214903	\$0.208809	\$0.204083
2	Off-peak/kWh	\$0.101727	\$0.082933	\$0.078273	\$0.072179	\$0.067453

3 Illustrated below are the bill impacts of the proposed rates on residential TOU customers with
4 average and median usage:⁶⁶

	Phase 1	Phase 2	Phase 3	Phase 4	
5					
6	Average – 994 kWh Current bill – \$161.19				
7	Amount	\$200.04	\$198.41	\$196.35	\$194.65
8	Incr./Decr.)	\$38.85	(\$1.63)	(\$2.06)	(\$1.70)
9	% Incr./Decr.	24.10%	-0.82%	-1.04 %	-0.86%
10	Median – 687 kWh Current bill – \$118.83				
11	Amount	\$148.07	\$147.87	\$147.69	\$147.44
12	Incr./Decr.)	\$29.24	(\$0.20)	(\$0.19)	(\$0.25)
13	% Incr./Decr.	24.61%	-0.14%	-0.13%	-0.17%

14 Staff recommends approval of the proposed Residential TOU rate⁶⁷ and no party has objected
15 to the rates.

16 SSVEC has requested that its TOU rate schedules be frozen to new customers. This proposal is
17 discussed separately, below.

18 Residential Auxiliary Service Rate Schedule

19 The Cooperative proposes a new Residential Auxiliary Service rate that is identical to the
20 commercial General Services rate schedule. This rate is intended to apply to service provided to
21 auxiliary residential services such as barns, wells, or other secondary services provided at a residence.
22 Mr. Hedrick stated that these services currently fall under the General Services rate, but in order to
23 transfer a debt from one account to another, the accounts must be in the same class category. Because
24 these auxiliary services are related to a residential account, implementation of the Residential Auxiliary
25 Service rates will aid in resolution of any billing issues.⁶⁸

27 ⁶⁶ *Id.*

28 ⁶⁷ Ex. S-7, page 14.

⁶⁸ Ex. A-5, page 29.

Below are the proposed rates for residential auxiliary service customers:⁶⁹

	Phase 1	Phase 2	Phase 3
Monthly charge:	\$20.00	\$23.00	\$25.00
Demand charge/kW:			
First 3 kW	\$1.50	\$2.50	\$3.50
Over 3 kW	\$8.00	\$9.00	\$10.00
Energy charge/kWh:	\$0.110659	\$0.100991	\$0.092420

Staff notes that this new rate will affect slightly under 2,000 General Service customers. Staff observed that customers who might be affected by the new rate have not been notified of the shift from the General Services rate to the Residential Auxiliary Service rate.⁷⁰

Staff recommends approval of the proposed Residential Auxiliary Service rate Schedule and no party objects to the rates. Staff further recommends that if the proposal is approved, SSVEC should provide written notice to affected customers with an explanation of the effects of the change. The notice should include an explanation of the grounds for refusal for establishment of service pursuant to A.A.C. R14-2-203(C)(1).⁷¹ SSVEC has agreed to Staff's recommendation.⁷²

General Services – Commercial and Industrial

As calculated in the COSS, the fixed costs for the General Service class are as follow:⁷³

Fixed Costs Categories	Amount
Fixed Purchased Power Costs	\$63.98
Distribution (Wires) Costs	\$74.93
Total Customer Costs	\$25.72
TOTAL GENERAL SERVICES FIXED COSTS	\$164.63

General Service Rate Schedule

Below are the current and proposed rates for General Service customers.⁷⁴

⁶⁹ Ex. A-1, Attachment 5, Schedule H-4.05.

⁷⁰ Ex S-7, page 16.

⁷¹ *Id.*

⁷² Ex. A-6, page 4.

⁷³ Ex. S-7, page 17.

⁷⁴ Ex. A-1, Attachment 5, Schedule H-4.05.

	Current	Phase 1	Phase 2	Phase 3
Monthly charge:	\$16.50	\$20.00	\$23.00	\$25.00
Demand charge/kW:				
First 10 kW	\$8.00	N/A	N/A	N/A
First 3 kW	N/A	\$1.50	\$2.50	\$3.50
Over 3 kW	N/A	\$8.00	\$9.00	\$10.00
Energy charge/kWh:	\$0.118338	\$0.110659	\$0.100991	\$0.092420

Illustrated below are the bill impacts of the proposed rates on General Service customers with average usage:⁷⁵

	Phase 1	Phase 2	Phase 3
Average – 926 kWh Current bill – \$131.32			
Amount	\$140.46	\$140.56	\$140.67
Incr./(Decr.)	\$9.14	\$0.10	\$0.12
% Incr./Decr.	6.96%	0.07%	0.08%

Staff recommends approval of SSVEC's proposed changes to the General Services rate, including moving those customers meeting the availability and applicability requirements to the Residential Auxiliary Services Rate Schedule.⁷⁶ No other party has objected to the rates.

General Service Time-of-Use Rate Schedule

Below are the current and proposed rates for General Service TOU customers:⁷⁷

	Current	Phase 1	Phase 2	Phase 3
Monthly charge:	\$18.00	\$22.00	\$25.00	\$27.00
Metered kW	N/A	\$1.50	\$2.50	\$3.50
On-peak cap. chg. per billing kW	\$18.50	\$18.50	\$18.50	\$18.50

⁷⁵ *Id.*

⁷⁶ Ex. S-7, pages 19-20.

⁷⁷ Ex. A-1, Attachment 5, Schedule H-4.06.

Energy charge/kWh:	\$0.090972	\$0.059862	\$0.050194	\$0.041623
--------------------	------------	------------	------------	------------

Illustrated below are the bill impacts of the proposed rates on General Service TOU customers with average usage.⁷⁸

	Phase 1	Phase 2	Phase 3
Average – 919 kWh Current bill – \$115.55			
Amount	\$118.19	\$126.63	\$135.07
Incr./Decr.)	\$2.65	\$8.43	\$8.44
% Incr./Decr.	2.29%	7.14%	6.67%

Staff recommends approval of the proposed General Service TOU rates⁷⁹ and no party objects to the rates.

SSVEC has requested that its TOU rate schedules be frozen to new customers. This proposal shall be discussed separately, below.

General Service RV Parks Rate Schedule

SSVEC proposes to move all current customers on the General Service RV Parks rate schedule to the standard Large Power rate schedule and eliminate the General Service RV Parks rates.

Staff recommends the elimination of the General Service RV Parks rate schedule and no party objects. Staff notes that there are currently 12 customers on this schedule and recommends that SSVEC notify in writing each customer of the change in rate schedule status with an explanation of the effects. The notice should advise the customer of the bill impact of the new rate structure.⁸⁰

Unmetered Service Rate Schedule

Below are the current and proposed rates for the Unmetered Service customers:⁸¹

	Current	Phase 1	Phase 2	Phase 3
Monthly charge:	\$16.50	\$24.50	\$30.50	\$35.50
Energy charge/kWh:	\$0.091859	\$0.096735	\$0.087067	\$0.078496

⁷⁸ *Id.*

⁷⁹ Ex. S-7, page 21.

⁸⁰ *Id.*, page 22.

⁸¹ A-1, Attachment 5, Schedule H-3.0, page 2.

1 Staff recommends approval of the Unmetered Service rate schedule⁸² and no party objects to
2 the rates.

3 **Large Power**

4 As calculated in the COSS, the fixed costs for the Large Power class follow:⁸³

5 Fixed Costs Categories	Amount
6 Fixed Purchased Power Costs	\$1,291.96
7 Distribution (Wires) Costs	\$926.09
8 Total Customer Costs	\$53.35
9 TOTAL LARGE POWER FIXED COSTS	\$2,271.40

10 **Large Power Rate Schedule**

11 Below are the current and proposed rates for Large Power customers:⁸⁴

	Current	Proposed
13 Monthly charge:	\$55.00	\$55.00
14 Demand charge/kVa:	\$7.05	\$8.00
15 Energy charge/kWh:	\$0.079844	\$0.073020

17 Illustrated below are the bill impacts of the proposed rates on Large Power customers with
18 average usage.⁸⁵

19 Average – 26,773 kWh	Current	Proposed	Increase	Percent Increase
20 Amount	\$2,695.30	\$2,770.82	\$75.52	2.80%

21 Staff recommends approval of SSVEC's proposed Large Power rates,⁸⁶ and no party objects to
22 the rates.

23 **Large Power Time-of-Use Rate Schedule**

24 Below are the current and proposed rates for Large Power TOU customers.⁸⁷

26 ⁸² Ex. S-7, page 23.

⁸³ *Id.*, page 24.

27 ⁸⁴ Ex. A-1, Attachment 5, Schedule H-4.11.

⁸⁵ *Id.*

⁸⁶ Ex. S-7, page 25.

28 ⁸⁷ Ex. A-1, Attachment 5, Schedule H-4.12.

	Current	Proposed
Monthly charge:	\$55.00	\$55.00
On-peak/kVa:	\$17.15	\$20.00
Off-peak/kVa:	\$4.15	\$4.00
Energy charge/kWh:	\$0.055515	\$0.047046

Illustrated below are the bill impacts of the proposed rates on Large Power TOU customers with average usage.⁸⁸

Average – 3,931 kWh	Current	Proposed	Decrease	Percent Decrease
Amount	\$1,236.94	\$1,219.47	(\$17.47)	-1.41%

Staff recommends approval of the proposed Large Power TOU rates,⁸⁹ and no party objects to the rates.

SSVEC has requested that its TOU rate schedules be frozen to new customers. This proposal shall be discussed separately, below.

Seasonal Power Service Rate Schedule

SSVEC proposes to move all current customers on the Seasonal Power Service rate schedule to the standard Large Power rate schedule and eliminate the Seasonal Power Service rates.

Staff recommends the elimination of the Seasonal Power Service rate schedule and no other party objects. Staff notes that there are currently no customers on this schedule. Staff recommends that SSVEC notify in writing any customer at the time of the effective date of this Decision of the change in rate schedule status with an explanation of the effects. The notice should advise the customer of the bill impact of the new rate structure.⁹⁰

Industrial Rate Schedule

Below are the current and proposed rates for Industrial customers:⁹¹

	Current	Proposed

⁸⁸ *Id.*

⁸⁹ Ex. S-7, page 27.

⁹⁰ *Id.*

⁹¹ Ex. A-1, Attachment 5, Schedule H-4.13.

1	Monthly charge:	\$233.50	\$400.00
2	Demand charge/kVa:	\$6.45	\$7.00
3	Energy Charge/kWh:		
4	First 400 kWh/kVa	\$0.079830	\$0.073135
5	Over 400 kWh/kVa	\$0.050730	\$0.046746

6
7 Illustrated below are the bill impacts of the proposed rates on Industrial customers with average
8 usage.⁹²

9	Average – 289,608 kWh	Current	Proposed	Increase	Percent Increase
10	Amount	\$25,637.82	\$26,144.64	\$506.82	1.98%

11 Staff recommends approval of SSVEC’s proposed Industrial rates,⁹³ and no party objects to the
12 rates.

13 **Irrigation**

14 As calculated in the COSS, the fixed costs for the Irrigation class are as follow:⁹⁴

15	Fixed Costs Categories	Amount
16	Fixed Purchased Power Costs	\$127.69
17	Distribution (Wires) Costs	\$510.94
18	Total Customer Costs	\$36.94
19	TOTAL IRRIGATION FIXED COSTS	\$675.57

20 **Irrigation Rate Schedule**

21 Below are the current and proposed rates for Irrigation customers:⁹⁵

22		Current	Proposed
23	Monthly charge:	\$30.00	\$30.00
24	Capacity charge, Apr-Oct, per Billing kVa	\$7.15	\$8.25

26
27 ⁹² *Id.*

⁹³ Ex. S-7, page 29.

⁹⁴ *Id.*

28 ⁹⁵ Ex. A-1, Attachment 5, Schedule H-4.14.

1	Energy charge, Apr-Oct, per kWh	\$0.088509	\$0.082502
2	Energy charge, Nov-Mar, per kWh		
3	First 300 kWh/kVa	\$0.114209	\$0.108284
4	Over 300 kWh/kVa	\$0.087209	\$0.081198

5
6 Illustrated below are the bill impacts of the proposed rates on Irrigation customers with average
7 usage.⁹⁶

8	Current	Proposed	Increase	Percent Increase
9	Summer, April – October, Average – 15,765 kWh			
10	Amount	\$1,760.02	\$1,830.86	\$70.84 4.02%
11	Winter, November – March, Average – 12,479 kWh			
12	Amount	\$1,385.42	\$1,427.85	\$42.43 3.06%

13 Staff recommends approval of SSVEC's proposed Irrigation rates,⁹⁷ and no party objects to the
14 rates.

15 Irrigation Load Factor Rate Schedule

16 Below are the current and proposed rates for Irrigation Load Factor customers:⁹⁸

17	Current	Proposed
18		
19	Monthly charge:	\$35.00 \$35.00
20	Energy charge/kWh:	\$0.094120 \$0.088131

21 The Irrigation Load Factor rate is an optional rate in the Irrigation rate schedules under which
22 customers must be willing to guarantee monthly load factor usage and must be connected for a
23 minimum of five consecutive months. As such, the minimum required Load Factor is 42 percent.⁹⁹

24 Staff recommends approval of SSVEC's proposed Irrigation Load Factor rates,¹⁰⁰ and no party
25

26 ⁹⁶ *Id.*

27 ⁹⁷ Ex. S-7, page 31.

28 ⁹⁸ Ex. A-1, Attachment 5, Schedule H-4.15.

⁹⁹ Ex. S-7, page 32.

¹⁰⁰ *Id.*

1 objects to the rates.

2 **Controlled Irrigation Rate Schedule**

3 Below are the current and proposed rates for Controlled Irrigation customers:¹⁰¹

	Current	Proposed
4		
5		
6	Monthly charge:	\$30.00
7	Override Penalty, per kW Override Capacity	\$19.00
8	Energy Charge, per kWh	
9	First 300 kWh/kVa	\$0.110979
10	Over 300 kWh/kVa	\$0.083679
11	Discount *- 1 Day/kWh	5.00%
12	Discount *- 2 Day/kWh	10.00%
13	Discount *- 7 Day/kWh	17.00%
14	* Discount applicable to First 300kWh per kW when total usage exceeds First 300 kWh per kWh.	

15 Illustrated below are the bill impacts of the proposed rates on Controlled Irrigation
16 customers:¹⁰²

	Current	Proposed	Increase	Percent Increase	
17					
18	1 Day, 17,506 kWh	\$1,863.08	\$1,868.94	\$5.86	0.31%
19	2 Day, 16,388 kWh	\$1,745.95	\$1,751.44	\$5.49	0.31%
20	7 Day, 19,890 kWh	\$2,112.66	\$2,119.32	\$6.66	0.32%

21 Staff recommends approval of SSVEC's proposed Controlled Irrigation Load Factor rates,¹⁰³
22 and no party objects to the rates.

23 **Interruptible Irrigation Rate Schedule**

24 Below are the current and proposed rates for Interruptible Irrigation customers:¹⁰⁴

25
26

27 ¹⁰¹ Ex. A-1, Attachment 5, Schedule H-4.16.

¹⁰² *Id.*

¹⁰³ Ex. S-7, page 34.

28 ¹⁰⁴ Ex. A-1, Attachment 5, Schedule H-4.17.

	Current	Proposed
Monthly Charge:	\$30.00	\$30.00
Override Penalty, per kW Override Capacity	\$19.00	\$20.00
Energy Charge/kWh:	\$0.087737	\$0.081728

Illustrated below are the bill impacts of the proposed rates on Interruptible Irrigation customers with average usage:¹⁰⁵

Average, 24,259 kWh	Current	Proposed	Increase	Percent Increase
Amount	\$2,006.32	\$2,012.65	\$6.33	0.32%

Staff recommends approval of SSVEC's Interruptible Irrigation rates,¹⁰⁶ and no party objects to the rates.

Security and Street Lighting

As calculated in the COSS, the fixed costs for the Lighting class follow:¹⁰⁷

Fixed Costs Categories	Amount
Fixed Purchased Power Costs	\$1.40
Distribution (Wires) Costs	\$1.29
Total Customer Costs	\$13.71
TOTAL LIGHTING FIXED COSTS	\$16.40

Security Lighting Rate Schedule

SSVEC's proposals and bill impacts for Security Lighting rates may be found in Hearing Exhibit A-1, Attachment 5, Schedule H-4.08. Staff recommends approval of the Cooperative's proposed changes,¹⁰⁸ and no party objects to the rates.

Street Lighting Rate Schedule

SSVEC's proposals and bill impacts for Security Lighting rates may be found in Hearing Exhibit A-1, Attachment 5, Schedule H-4.09. Staff recommends approval of the Cooperative's

¹⁰⁵ *Id.*

¹⁰⁶ Ex. S-7, page 35.

¹⁰⁷ *Id.*, page 37.

¹⁰⁸ *Id.*, page 37.

1 proposed changes,¹⁰⁹ and no party objects to the rates.

2 The standard Residential, Residential TOU, Residential Auxiliary Service, General Service,
3 General Service TOU, Unmetered Service, Large Power, Large Power TOU, Industrial, Irrigation,
4 Irrigation Load Factor, Controlled Factor Irrigation, Interruptible Irrigation, Security Lighting, and
5 Street Lighting rate schedules are reasonable and shall be adopted.

6 **TOU Rate Freeze**

7 SSVEC seeks to freeze its three TOU rate schedules. The Cooperative proposes to continue to
8 serve its existing TOU customers under the applicable proposed TOU tariffs, but the tariffs would no
9 longer be open to new customers. SSVEC notes that few customers opt to use these rates. Presently,
10 there are 17 customers on the Residential TOU rates, 39 on the Commercial TOU rate, and one
11 customer on the Large Power TOU rate.¹¹⁰ SSVEC explained in its Rebuttal Testimony that because
12 the Cooperative receives its power at a fixed rate from AEPSCO, SSVEC is unable to offer on-peak and
13 off-peak rates at a meaningful difference. Without an effective price signal, SSVEC contends it cannot
14 offer TOU rates that are attractive to its members.¹¹¹

15 Staff and EFCA are opposed to SSVEC's proposal to freeze the TOU tariffs. They believe that
16 the Commission-modified version of the Public Utility Regulatory Policies Act of 1978¹¹² requires all
17 electric utilities in Arizona to offer TOU rates.¹¹³ Staff states that although AEPSCO does not offer time-
18 differentiated rates at present, that does not mean they may not do so in the future, thereby allowing
19 SSVEC to offer its members more attractive rates.¹¹⁴ In addition, Staff believes that continuation of the
20 TOU rates does not harm the Cooperative's operations.¹¹⁵ EFCA states that the TOU rates should
21 remain in place because they can help SSVEC "modernize its rate designs and capture under-recovery
22 in a just and non-discriminatory manner" and collect more fixed costs through the monthly service
23 availability charge.¹¹⁶

24

25 ¹⁰⁹ *Id.*, page 37.

26 ¹¹⁰ Ex. A-6, page 24.

27 ¹¹¹ *Id.*

28 ¹¹² Decision No. 69736 (July 30, 2007).

¹¹³ Ex. S-8, page 7, EFCA Reply Brief, page 27.

¹¹⁴ Ex. S-8, page 7.

¹¹⁵ *Id.*

¹¹⁶ EFCA Reply Brief, page 26.

1 We agree with Staff and EFCA that it is beneficial for SSVEC's customers to continue to offer
2 TOU rates to its members.

3 **Net Metering**

4 In addition to the implementation of residential DG rates for existing and new customers,
5 SSVEC seeks Commission approval of: (1) modification of its existing Net Metering Tariff Schedule
6 NM-1 (applicable to customers who were connected to the system or filed an interconnection
7 application before April 15, 2015), (2) of implementation of its proposed new Partial Requirements
8 Service, Standby Service, Backup Service Schedule PR-1 (applicable to customers who filed an
9 interconnection application after April 15, 2015, or existing customers who elect to move from NM-1
10 to PR-1), and (3) of the necessary waivers of the Net Metering Rules.

11 **SSVEC**

12 The current NM rules require a utility to buy all the DG customer's excess power, regardless
13 of whether the utility needs it, and compensates the excess solar at a full retail rate. Presently, SSVEC's
14 customers are being credited at \$0.126038 per kWh. SSVEC contends that the present policy allows
15 for over-compensation for DG energy pushed onto the grid by partial requirements customers, which
16 cost is borne by all members of the Cooperative; a practice that SSVEC believes is not equitable.¹¹⁷

17 SSVEC is proposing to set the export rate for DG customers at \$0.025800 per kWh. This rate
18 represents SSVEC's avoided cost equal to only the energy and fuel components of its wholesale rate.¹¹⁸
19 SSVEC disagrees with EFCA's claim that DG solar provides additional value to the grid. The
20 Cooperative notes that although solar DG customers use less energy, they still need all the wires, poles
21 and transformers that a regular customer needs. SSVEC believes that claims of the "environmental
22 externalities" that must be considered in valuing DG solar are not valid. EFCA's witness testified that
23 factors such as avoided energy, avoided generation capacity, avoided transmission costs, avoided
24 distribution costs, avoided greenhouse emissions costs, incremental integration costs, and
25 environmental externalities should be considered.¹¹⁹ The Cooperative notes that a number of these
26 factors do not apply to SSVEC because it is a distribution cooperative, and other factors are not

27 ¹¹⁷ Ex. A-5, page 15.

28 ¹¹⁸ Ex. A-6, page 18.

¹¹⁹ Ex. EFCA-6, page 6.

1 quantifiable.¹²⁰ Further, SSVEC notes that EFCA's witness based his testimony on the information
 2 submitted in the recent UNS Electric rate case, rather than SSVEC's metrics; as such, his testimony
 3 should be discounted.¹²¹

4 Noting that Staff is taking no position regarding the NM tariff proposals, SSVEC asserts that it
 5 has presented evidence and testimony that SSVEC is under-recovering its fixed costs due to the
 6 proliferation of DG in its service area, and the proffered evidence has not been refuted by any party.¹²²
 7 The Cooperative claims that its proposals are a reasonable and non-discriminatory method of
 8 addressing the pressing issue of under-recovery of revenue. SSVEC asserts that because it has met its
 9 burden of proof, it is reasonable and appropriate for the Commission to grant the waivers necessary for
 10 implementation of the new and modified NM tariffs.¹²³

11 In response to EFCA's claims that separate tariffs for DG customers would violate A.A.C. R14-
 12 2-2305, SSVEC states this rule simply requires that rate changes applying only to net metering
 13 customers should be supported with cost of service studies and benefit/cost analyses. SSVEC states
 14 that it fully complied with this requirement when it submitted the proposed changes in the context of a
 15 rate case with a full COSS, a sufficient benefit/cost analysis, and extensive testimony.¹²⁴

16 Third, SSVEC argues that the Commission does not require a specific rule to grant a waiver of
 17 the NM Rules. SSVEC observes that the Commission frequently waives the slamming and cramming
 18 rules, and notes that Staff confirmed the Commission's ability to waive the rules if the circumstances
 19 warrant.¹²⁵

20 SSVEC stated that it is opposed to holding open the docket pending the outcome of the Value
 21 and Cost of DG proceeding (the "VOS docket"),¹²⁶ docket. Instead of waiting for the conclusion of the
 22 VOS docket, SSVEC argues that the time to fix its NM tariff is now because of the precarious financial
 23 situation created by its under-recovery of fixed costs.¹²⁷

24 _____
 25 ¹²⁰ Ex. A-6, pages 18 – 21.

26 ¹²¹ SSVEC Post-Hearing Brief, pages 31 – 32.

27 ¹²² Ex. A-7, page 8.

28 ¹²³ *Id.*, page 7.

¹²⁴ SSVEC Response Brief, pages 14 – 15.

¹²⁵ SSVEC Post-Hearing Brief, pages 48 – 49.

¹²⁶ Docket No. E-00000J-14-0023.

¹²⁷ Ex. A-3, pages 5 – 7.

Staff

In its Direct Testimony, Staff recommended that: (1) SSVEC's current NM-1 tariff be frozen; (2) a new rider be proposed for new DG customers; (3) elimination of banking of credits; and (4) the export rate should be set higher than the avoided cost and lower than the retail rate.¹²⁸

In its Surrebuttal Testimony, Staff revised its recommendations. Staff explained that its initial recommendations were based on Staff's belief that the VOS would be complete before the conclusion of SSVEC's case. As Staff reviewed the pre-filed testimony from the VOS docket, Staff determined that, due to the timing of the VOS docket, it would be imprudent to formulate a policy direction in this matter before the completion of the VOS docket. Staff recommended that the case be held open for 12 months to consider possible changes to net metering.¹²⁹

Staff subsequently withdrew this recommendation. Utilities Division Director Thomas Broderick testified that at the conclusion of the VOS docket, changes to net metering policy could occur.¹³⁰ Accordingly, without further policy direction from the Commission, Staff is unable to take a position regarding SSVEC's changes to NM.¹³¹

Staff agrees with SSVEC that the Commission may waive its NM rules if the Commission deems necessary, citing the example of waivers of slamming and cramming rules. Staff also notes that EFCA has cited no authority for its position, and points out that the Commission's rate-making authority is plenary.¹³²

EFCA

EFCA opposes SSVEC's proposed modifications to its net metering tariffs, and argues that net metering must remain at the retail rate.¹³³ EFCA claims that its witness Mark Fulmer prepared the only full analysis of the costs and benefits of DG solar in this docket, finding the benefits of DG solar to be between 10-14 cents per kWh.¹³⁴ EFCA argues that SSVEC's analysis is flawed by not including all benefits, not using actual usage data, limited to short-term benefits, and not looking at load reductions

¹²⁸ Ex. S-9, page 5.

¹²⁹ Ex. 10, page 5.

¹³⁰ Ex. S-11, page 3.

¹³¹ *Id.*, Tr. at 747 – 748.

¹³² Staff Reply Brief, pages 7 – 8.

¹³³ Ex. EFCA Post-Hearing Brief, pages 11 – 12.

¹³⁴ *Id.*, pages 14 – 16; Ex. EFCA-6 pages 11 – 15.

1 due to sources other than DG solar.¹³⁵ EFCA argues that SSVEC's proposed export rate would
 2 undercompensate DG customers for their exported power.¹³⁶ When the greatly reduced export rate is
 3 combined with the proposed increase in the monthly service availability charge of \$50.00, Mr. Fulmer
 4 concluded: "First, a customer with an existing solar lease will very likely have higher total electricity
 5 bills with the PV than without it. Second, the poor up-front economics will likely dramatically reduce,
 6 if not eliminate, future investment in solar DG in the SSVEC territory."¹³⁷

7 EFCA also argues that the NM Rules do not include a waiver provision. According to EFCA,
 8 the Commission may not waive the NM rules and SSVEC's proposal to modify its NM tariffs must be
 9 denied.¹³⁸

10 Grandfathering Net Metered Customers

11 SSVEC

12 SSVEC proposes grandfathering existing DG customers and those who submitted completed
 13 interconnection applications before April 15, 2015, on the existing NM tariff. SSVEC asserts that the
 14 April 15, 2015, date is reasonable. SSVEC argues the April 15th date is not retroactive ratemaking, as
 15 it is not the effective date of the new rates, but rather, it is the cut-off for customers who are exempt
 16 from the new rate. SSVEC asserts that no customer will be charged the new NM rate until the
 17 Cooperative receives Commission approval.¹³⁹

18 The Cooperative notes that although it filed the instant Application in August 2015, SSVEC
 19 had previously attempted to modify its DG and NM tariffs in April 2015,¹⁴⁰ and only after providing
 20 extensive notice to its customers about the proposed changes and grandfathering date.¹⁴¹

21 Staff

22 Although Staff is not taking a position on SSVEC's NM proposal, Staff states it disagrees with
 23 EFCA's assertion that SSVEC's proposal results in retroactive rate-making.¹⁴² Staff notes that "[u]nder

25 ¹³⁵ Ex. EFCA-6, pages 11 – 15.

¹³⁶ *Id.*, pages 15 – 16.

¹³⁷ *Id.*, page 19.

¹³⁸ EFCA Post-Hearing Brief, pages 11 – 12.

¹³⁹ SSVEC Response Brief, pages 32 – 33.

¹⁴⁰ *Id.*, page 34.

¹⁴¹ Ex. A-2, page 9.

¹⁴² Staff's Reply Brief, page 8.

1 the Company's proposal, any DG customer that signs up after the grandfathering date will be subject
2 to the new [NM] tariff (if the Company's proposal is approved) as of the date of the decision in this
3 case."¹⁴³

4 EFCA

5 EFCA asserts that it is essential that the Commission fully grandfather existing net metering
6 customers and not adopt the proposed effective date of April 15, 2015. EFCA argues that the
7 Cooperative's proposed cut-off date is retroactive ratemaking and contrary to numerous examples of
8 Commission precedent for protecting customers from rate changes that would retroactively
9 disadvantage them.¹⁴⁴

10 Analysis and Resolution – Net Metering

11 SSVEC claims that under current rate designs, solar DG customers are, as a group, not paying
12 their fair share of the costs incurred to serve them due to the unique characteristics of the way they
13 depend on the grid. In addition, the Cooperative claims that solar DG is being subsidized by non-DG
14 customers under current net metering tariffs, which operate to credit excess solar DG production at
15 retail rates, and allow DG customers to bank excess solar for future credits.

16 Due to these concerns, the Commission opened the VOS docket specifically to address
17 methodologies for determining the value and cost of solar DG to be used in rate proceedings. The
18 hearing in the VOS docket occurred at approximately the same time as the hearing in this case with
19 many of the parties to this docket participating in both dockets. The VOS docket will not result in a
20 specific rate that will be applicable to SSVEC. It is anticipated, however, that the VOS docket will
21 yield significant new information about how DG solar should be compensated.

22 Staff has since withdrawn its recommendation, but in its Surrebuttal Testimony Staff had
23 recommended that the docket remain open pending a Decision in the VOS docket. The Cooperative
24 was opposed to the recommendation. SSVEC believed it had presented sufficient evidence to support
25 its proposed revisions and additions to NM tariffs. SSVEC claims that because it met its burden of
26 proof, because no other party has presented an alternative proposal specific to the Cooperative, and
27

28 ¹⁴³ *Id.*

¹⁴⁴ *Citing*, Decision Nos. 74202, 5528, 73183, and 71285. EFCA Post-Hearing Brief, page 22, fn. 95.

1 because Staff is not taking a position on SSVEC's NM tariffs, its proposals should be adopted.

2 We disagree. SSVEC is ignoring that there will soon be a decision issued in the VOS docket,
3 to which it is a party, that will provide direction on the issues raised by the Cooperative's net metering
4 proposals. Depending on the outcome, it is possible that SSVEC's NM proposals could be in
5 contravention of the policy. As such, it is not reasonable to adopt SSVEC's proposed net metering
6 tariffs at this time.

7 We believe that the public interest favors consistent application of the results of the VOS
8 docket. We will keep the net metering and rate design portions of this docket open pending the
9 conclusion of the VOS docket and shortly after the conclusion of that docket, a second phase of this
10 docket will be convened in order to apply the findings of the VOS docket to SSVEC. In the second
11 phase of this proceeding, the Commission will determine the appropriate net metering tariff for SSVEC
12 for any new DG customers who file an interconnection application after the effective date of the
13 Decision that comes out of phase two of this proceeding. In the interim, DG customers will be treated
14 the same as non-DG customers under the various rate options.

15 Given the authorized revenue increase, and because solar DG represents a relatively small
16 percentage of SSVEC's current customers, deferring a final decision on DG rates will not be a
17 substantial burden on SSVEC. We take this action with the intent that the second phase of this
18 proceeding will convene promptly following a Decision in the VOS docket.¹⁴⁵

19 We do not believe that the Company's proposed April 15, 2015, date for determining which
20 DG customers should be subject to newly proposed rate options or net metering treatment is reasonable.
21 Therefore, going forward, any DG customer who files an interconnection agreement prior to the
22 effective date of a Decision in phase two of this proceeding shall be treated the same as a DG customer
23 who filed for interconnection prior to that date.

24 We recognize that these issues will continue to persist for the foreseeable future, both in the
25 second phase of this case and in other rate cases. We will therefore provide specific guidance in an
26 effort to be helpful as we move forward through these issues.

27
28 ¹⁴⁵ A Recommended Opinion and Order was filed in the VOS docket on October 7, 2016.

1 In this Decision, we have rejected the Company's proposal to establish a grandfathering date
2 that precedes the date of the Commission order. We emphasize that this result should be regarded as
3 our default policy. Although we recognize that each unique rate case may warrant different results, we
4 believe that the applicable grandfathering date should not generally precede the date of the relevant
5 Commission Decision.

6 Finally, when implementing a new rate design or new net metering tariff for new DG customers,
7 there should be a transition schedule so that changes are phased in, rather than implemented all at once.
8 For example, in the upcoming second phase of this proceeding, parties should address how to phase in
9 any changes to the export rate, to banking, or to any other significant changes to net metering or rate
10 design that would be applicable to new DG customers. This approach would be more consistent with
11 traditional principles of regulatory gradualism.

12 **Adjustor Mechanisms**

13 SSVEC has three adjustor mechanisms in place: (1) Power Cost Adjustor; (2) Demand-Side
14 Management Surcharge Adjustor ("DSM Adjustor"); and (3) Renewable Energy Standard Tariff
15 Surcharge Adjustor. Neither SSVEC nor Staff are proposing changes to any of the adjustors; however,
16 Staff did make two recommendations.

17 Staff noted that the Cooperative's current DSM Adjustor rate of \$0.00027 has been in place
18 since June 27, 2013. Staff recommends that SSVEC file a new implementation plan in accordance with
19 A.A.C. R14-2-2418(B), no later than June 1, 2017. Staff also believes that the Cooperative's next
20 implementation plan should include an adjustor reset.¹⁴⁶

21 Staff further recommends that SSVEC file a comprehensive plan of administration ("POA") for
22 each of its adjustor mechanisms, and the Cooperative has stated that it will work with Staff to prepare
23 acceptable POAs.¹⁴⁷

24 Staff's recommendations are reasonable and shall be adopted.

25 **Service Charges**

26 SSVEC's proposed Service Charges are found in the Rebuttal Testimony of David Hedrick,
27

28 ¹⁴⁶ Ex. S-5, page 4.

¹⁴⁷ *Id.*, page 5.

1 Exhibit DWH-3.¹⁴⁸ SSVEC proposed the following changes to its Service Charges:

- 2 • Increase the Service Call During Business Hours charge from \$50.00 to \$75.00.
- 3 • Increase the Service Call After Hours charge from \$75.00 to \$100.00
- 4 • Increase the Non-Pay Collection During Business Hours charge from \$40.00 to \$60.00.
- 5 • Increase the Service Connect Callbacks charge from \$40.00 to \$50.00.
- 6 • Decrease the New and Additional Service with No Field Visit charge from \$50.00 to
- 7 \$30.00.

8 Staff stated that the proposed increases do not cover all of SSVEC's actual costs of providing
 9 these services, but they will cover more than they currently do. Staff noted that there are less than 100
 10 occurrences for each of listed services, except for the New and Additional Service with No Field Visit
 11 charge, which has approximately 5,700 occurrences.¹⁴⁹ Staff recommends approval of these service
 12 charges.

13 Staff also recommends the following:

- 14 • SSVEC should inform customers requesting these services in advance of the costs they
 15 will be incurring.
- 16 • A current list of all service charges should be available and easily located on the
 17 Cooperative's website.
- 18 • If a service issue occurs due to problems on the Cooperative's side of the meter, or due
 19 to any maintenance for which SSVEC should be responsible in the normal course of
 20 business, the customer should not be charged service charges for the repairs.¹⁵⁰

21 Staff's recommendations are reasonable and shall be adopted.

22 Service Conditions

23 SSVEC's proposed Service Conditions are found in the Rebuttal Testimony of David Hedrick,
 24 Exhibit DWH-1.¹⁵¹ The Cooperative published notice of the revised Service Conditions on March 4,
 25 2016, in the Sierra Vista Herald and Bisbee Daily Review.

26 _____
 27 ¹⁴⁸ Ex. A-6.

¹⁴⁹ Ex. S-5, page 7.

¹⁵⁰ *Id.*

28 ¹⁵¹ Ex. A-6.

1 During Staff's review of the proposed Service Conditions, Staff found that some of the
 2 proposed changes would result in cost increases to some customers. One change to Section 4.4,
 3 "Distribution Line Extension Estimates and Fees," would affect approximately 50 customers at a cost
 4 of approximately \$40. The purpose of the change "is to ensure that the entire cost of any design estimate
 5 prepared by SSVEC is covered by the customer, even if the customer opts not to go forward with a
 6 project once it has been designed."¹⁵²

7 Another proposed change relating to Meter Socket Enclosures, Meter Test Switches, and Meter
 8 Sockets, would result in increased costs of approximately \$279 for single-phase service customers,
 9 affecting approximately 76 customers per year, and \$464 for three-phase service customers, affecting
 10 approximately four customers per year.¹⁵³

11 In his Rejoinder Testimony, Creden Huber explained that these changes were needed in order
 12 to eliminate subsidies and ensure all customers are treated similarly.¹⁵⁴ At hearing, Staff testified that
 13 the changes are acceptable and recommended approval of SSVEC's Service Conditions.¹⁵⁵

14 Staff's recommendations are reasonable and shall be adopted.

15 **Required TOU Analysis**

16 In Decision No. 73349 (modifying Decision No. 71274), the Commission directed the
 17 Cooperative to file with its next rate application an analysis of time-of-use ("TOU") rates. The analysis
 18 was to include a TOU rate schedule aimed at maximizing customer participation in a TOU program.
 19 Staff found that SSVEC had not complied with this requirement,¹⁵⁶ and recommended that the
 20 Cooperative should either file the analysis or submit a letter explaining why TOU rates are not
 21 appropriate for its service territory.¹⁵⁷

22 SSVEC explained in its Rebuttal Testimony that because the Cooperative received its power at
 23 a fixed rate from AEPCO, SSVEC was unable to offer on-peak and off-peak rates at a meaningful
 24 difference. Without an effective price signal, SSVEC contends it cannot offer TOU rates that are

26 ¹⁵² Ex. S-6, page 2.

¹⁵³ *Id.*, page 3.

27 ¹⁵⁴ Ex. A-3, pages 8 – 9.

¹⁵⁵ Tr. at 538, 540.

¹⁵⁶ Ex. S-5, page 9.

28 ¹⁵⁷ *Id.*

1 attractive to its customers.¹⁵⁸

2 Given the circumstances, Staff recommends that the requirement that SSVEC file a TOU rate
3 analysis be eliminated. No party has objected to Staff's recommendation.

4 Staff's recommendation is reasonable and shall be adopted.

5 * * * * *

6 Having considered the entire record herein and being fully advised in the premises, the
7 Commission finds, concludes, and orders that:

8 **FINDINGS OF FACT**

9 1. On August 31, 2015, SSVEC filed with the Commission an Application for a rate
10 increase. Accompanying the Application and its attendant Schedules, SSVEC filed the Direct
11 Testimony of Creden Huber, Judy Lambert, and David Hedrick.

12 2. On September 25, 2015, SSVEC docketed corrected exhibits and Standard Offer Tariff
13 pages.

14 3. On September 30, 2015, Staff notified the Cooperative that its Application met the
15 sufficiency requirements of A.A.C. R14-2-103 and classified the Cooperative as a Class A utility.

16 4. On September 30, 2015, after consultation with Staff, SSVEC filed a Motion for
17 Procedural Schedule which proposed a schedule for the hearing.

18 5. By Procedural Order dated October 5, 2015, the proposed schedule was adopted and the
19 matter was set for hearing to commence on May 17, 2016, at the Commission's Tucson office.

20 6. Intervention was granted to APS, ASDA, EFCA, Trico, and AriSEIA.

21 7. On December 30, 2015, SSVEC filed a Notice of Completion of Customer Mailing and
22 Publication of Notice indicating that notice of the hearing was mailed to its customers by November
23 20, 2015, and published in the Sierra Vista Herald, Bisbee Daily Review, San Pedro Valley News, and
24 Arizona Range News on November 18, 2015.

25 8. On February 19, 2016, Staff filed the Direct Testimony of Crystal Brown, Julie
26 McNeely-Kirwin, and Ray T. Williamson.

27
28 ¹⁵⁸ Ex. A-6, page 24.

1 9. SSVEC filed a Supplement to Application RE: SSVEC's Proposed Revisions to Service
2 Conditions.

3 10. On March 23, 2016, Staff filed the Direct Testimony of Eric Van Epps and Ranelle
4 Paladino.

5 11. EFCA docketed a Motion for Leave to Extend Deadline for Filing Direct Testimony,
6 which was granted in a Procedural Order issued March 24, 2016.

7 12. On March 25, 2016, SSVEC docketed Notice of Filing Affidavit of Publication,
8 indicating that the Cooperative had published notice of its proposed revisions to its Service Conditions
9 in the Sierra Vista Herald and Bisbee Daily News on March 4, 2016.

10 13. On April 1, 2016, Staff filed a Notice of Settlement Discussions, and docketed a Revised
11 Notice of Settlement Discussions on April 4, 2016.

12 14. On April 1, 2016, EFCA docketed the Direct Testimony of Mark Fulmer.

13 15. SSVEC filed the Rebuttal Testimony of David Hedrick on April 22, 2016.

14 16. On May 6, 2016, Staff filed the Surrebuttal Testimony of Thomas Broderick, Eric Van
15 Epps, Ranelle Paladino, Crystal Brown, Julie McNeely-Kirwin, and Yue Liu. EFCA filed the
16 Surrebuttal Testimony of Mark Fulmer.

17 17. On May 10, 2016, SSVEC submitted a Motion to Compel Intervenor Energy Freedom
18 Coalition of America's Responses to SSVEC's First Set of Data Requests.

19 18. EFCA docketed its Response to SSVEC's Motion to Compel Responses to SSVEC's
20 First Set of Data Requests on May 11, 2016. Among other things, EFCA claimed it did not have the
21 information sought in the data requests and that the data requests impermissibly sought information
22 from EFCA's individual members, who are not parties to this docket.

23 19. Oral arguments on the Motion to Compel were held on May 12, 2016.

24 20. A Pre-hearing conference was held on May 13, 2016, during which, the parties
25 discussed witness schedules and various procedural matters.

26 21. SSVEC filed the Rejoinder Testimony of Creden Huber and David Hedrick on May 13,
27 2016.

28 22. In a Procedural Order issued May 16, 2016, EFCA was directed to provide responses to

1 SSVEC's data requests. The Procedural Order also set a fourth day of hearing for May 26, 2016, and
2 extended the time clock accordingly.

3 23. The hearing convened as scheduled on May 17, 2016, before a duly authorized
4 Administrative Law Judge at the Commission's Tucson offices. The proceeding began with public
5 comment.

6 24. On May 18, 2016, SSVEC docketed copies of Subpoenas Duces Tecum issued by the
7 Commission to Solar City Corporation, Sun Solar Electric, LLC, NRG Energy, and Go Solar, LLC.

8 25. On May 19, 2016, EFCA submitted a Motion to Clarify and Reconsider the Order
9 Granting Motion to Compel and Extending the Time Clock.

10 26. On May 20, 2016, SSVEC docketed the Affidavits of Service of the Subpoenas Duces
11 Tecum for Solar City Corporation, Sun Solar Electric, LLC, NRG Energy.¹⁵⁹

12 27. A Procedural Order issued May 24, 2016, denied EFCA's Motion for Reconsideration.
13 The Procedural Order also added an additional day of hearing on May 27, 2016, and extended the time
14 clock accordingly.

15 28. At the conclusion of the hearing on May 27, 2016, the ALJ took the matter under
16 advisement, pending the filing of Closing Briefs.

17 29. On June 9, 2016, EFCA filed its Supplemental Response to SSVEC's First Set of Data
18 Requests. In a cover letter, EFCA's counsel noted that EFCA had asked its members to "voluntarily
19 provide any information in their possession that would be responsive to the Data Request. In response
20 to its outreach to members, EFCA learned that only one EFCA member had any information responsive
21 to the Data Request."¹⁶⁰

22 30. On July 14, 2016, SSVEC, EFCA, and Staff filed their Opening Briefs, and on August
23 5, 2016, Reply Briefs were filed.

24 31. SSVEC is a non-profit, member-owned, electric distribution cooperative providing
25 service to approximately 58,000 customers in Cochise, Santa Cruz, Pima and Graham counties.

26 32. SSVEC's current rates were established in Decision No. 74381 (March 19, 2014), using
27

28 ¹⁵⁹ SSVEC has not stated whether the subpoenas were responded to.

¹⁶⁰ Letter from Rose Law Group to Crockett Law Group, dated June 9, 2016.

1 the streamlined application process under A.A.C. R14-2-107.

2 33. For purposes of this proceeding, the Cooperative and Staff reached an accord that
3 SSVEC's fair value of the Cooperative's jurisdictional rate base for the test year is \$208,373,755. No
4 party objected to the agreed FVRB. We concur with the parties that for purposes of this rate case,
5 SSVEC's FVRB is \$208,373,755.

6 34. In the test year, SSVEC had adjusted operating revenues of \$97,703,142, and adjusted
7 operating income of \$10,187,833, resulting in a rate of return on its FVRB of 1.95 percent.

8 35. In the test year, the Cooperative had a capital structure consisting of 63.50 percent long-
9 term debt and 36.50 percent equity. SSVEC's DSC is 1.85 and its TIER is 2.20.

10 36. A rate of return of 6.41 percent is just and reasonable.

11 37. It is reasonable to authorize an increase in SSVEC's gross revenue requirement of
12 \$3,171,421, an increase over test year revenues of 3.25 percent.

13 38. It is reasonable to update the base cost of power based on actual costs prior to
14 establishing new rates. The base cost of power of \$0.065857 is just and reasonable.

15 39. The standard Residential, Residential TOU, Residential Auxiliary Service, General
16 Service, General Service TOU, Unmetered Service, Large Power, Large Power TOU, Industrial,
17 Irrigation, Irrigation Load Factor, Controlled Factor Irrigation, Interruptible Irrigation, Security
18 Lighting, and Street Lighting rate schedules are reasonable and shall be adopted.

19 40. It is reasonable to require SSVEC to continue to offer its TOU tariffs to its customers.

20 41. It is reasonable to allow SSVEC to implement all authorized rates and charges indicated
21 herein.

22 42. Because the increase in revenues due to the additional authorized rate case expense and
23 the revenues that were originally intended to be generated through Residential DG rates are not
24 reflected in the rate schedules, the listed bill impacts are approximate.

25 43. It is reasonable to require SSVEC to files new rate schedules updating the bill impacts
26 and proofs of revenue that conform to our authorizations herein.

27 44. It is reasonable to hold the net metering and rate design portion of this docket for the
28 Residential classes open for a second phase of this proceeding to commence shortly following the

1 conclusion of the VOS docket in order that the findings in that docket can be applied to SSVEC's net
2 metering tariffs.

3 45. Until the conclusion of the second phase of this proceeding, and future order of the
4 Commission, it is reasonable to treat DG customers the same as non-DG customers in terms of rate
5 options.

6 46. The Company's proposed April 15, 2015, date for determining which DG customers
7 shall be subject to newly proposed rate options or net metering treatment is not reasonable. Going
8 forward, any DG customer who files an interconnection agreement prior to the effective date of a
9 Decision in phase two of this proceeding shall be treated the same as a DG customer who filed for
10 interconnection prior to that date.

11 47. It is reasonable to require SSVEC to file Plans of Administration for its Power Cost
12 Adjustor, Demand Side Management Adjustor, and its Renewable Energy Standard Tariff Surcharge
13 Adjustor for review and approval by the Commission.

14 48. It is reasonable to require SSVEC file a new implementation plan for its Demand Side
15 Management Adjustor in accordance with A.A.C. R14-2-2418(B), no later than June 1, 2017, and
16 should include an adjustor reset for review and approval by the Commission.

17 49. It is reasonable to eliminate the requirement that SSVEC submit a TOU analysis.

18 50. It is reasonable to approve the changes to the Services Charges and Service Conditions,
19 attached to the Rebuttal Testimony of David Hedrick, Rebuttal Exhibits DWH-1 and DWH-3, as
20 modified by Staff.

21 CONCLUSIONS OF LAW

22 1. SSVEC is a public service corporation within the meaning of the Arizona Constitution,
23 and A.R.S. §§ 40-203, -204, -221, -250 and -361.

24 2. The Commission has jurisdiction over SSVEC and the subject matter of the Rate
25 Application.

26 3. Notice of the Rate Application and hearing was provided in accordance with the law.

27 4. SSVEC's FVRB is \$208,373,755.

28 5. The rates and charges authorized herein are just and reasonable and should be approved.

ORDER

1
2 IT IS THEREFORE ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. shall
3 file, within 30 days of the effective date of this Decision, a revised schedule of rates and charges
4 consistent with the discussion herein, a typical bill analysis, and a proof of revenue showing that based
5 on the adjusted test year level of sales, the revised rates will produce no more than the authorized
6 increase in gross revenues.

7 IT IS FURTHER ORDERED that the revised schedule of rates and charges shall be effective
8 for all services provided on and after the first billing cycle of November 2016, and shall remain in
9 effect until further order of the Commission.

10 IT IS FURTHER ORDERED that the net metering and residential and residential DG rate
11 design portion of this docket shall remain open.

12 IT IS FURTHER ORDERED that phase two of this proceeding to consider any proposed
13 changes to Sulphur Springs Valley Electric Cooperative, Inc.'s net metering tariffs and proposed rate
14 options for Residential and Residential DG customers shall commence shortly after the issuance of the
15 Decision in the VOS docket.

16 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. shall notify
17 its affected customers of the revised schedules of rates and charges authorized herein by means of an
18 insert in its next regularly scheduled bill and posting on its website, in a form acceptable to the
19 Commission's Utilities Division.

20 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. shall
21 provide written notice to customers affected by the implementation of the Residential Auxiliary Service
22 tariff with an explanation of the effects of the change. The notice should include an explanation of the
23 grounds for refusal for establishment of service pursuant to A.A.C. R14-2-203(C)(1).

24 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. shall
25 provide written notice to customers affected by the elimination of the General Service RV Park tariff
26 and being moved to the Large Power tariff, with an explanation of the effects of the change. The notice
27 should include an explanation of the grounds for refusal for establishment of service pursuant to A.A.C.
28 R14-2-203(C)(1).

1 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. shall
2 provide written notice to customers affected by the elimination of the Seasonal Power Service tariff, if
3 any, and being moved to the Large Power tariff, with an explanation of the effects of the change. The
4 notice should include an explanation of the grounds for refusal for establishment of service pursuant to
5 A.A.C. R14-2-203(C)(1).

6 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. shall
7 continue to offer time-of-use rates to its customers.

8 IT IS FURTHER ORDERED that the Service Charges and Service Conditions changes attached
9 to the Rebuttal Testimony of David Hedrick, Rebuttal Exhibits DWH-1 and DWH-3, as modified by
10 Staff, are approved, and Sulphur Springs Valley Electric Cooperative, Inc. shall file with Docket
11 Control revised Service Charges and Service Conditions consistent with this Decision, as a compliance
12 item in this docket, within 30 days of the effective date of this Decision.

13 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. shall file
14 comprehensive Plans of Administration for its three adjustor mechanisms.

15 IT IS FURTHER ORDERED that Sulphur Springs Valley Electric Cooperative, Inc. shall file
16 a new implementation plan for its Demand Side Management Adjustor in accordance with A.A.C. R14-
17 2-2418(B), no later than June 1, 2017, which shall include an adjustor reset.

18 IT IS FURTHER ORDERED that the time-of-use rate analysis directed in Decision No. 73349
19 (modifying Decision No. 71274) is eliminated.

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1 IT IS FURTHER ORDERED that in its next rate application, the cost of service study for the
2 Residential Auxiliary Rate Schedule customers shall be included as part of the Residential Class, rather
3 than the General Service class, and the General Service RV Parks Rate Schedule customers shall be
4 included as part of the Large Power class, rather than the General Service class.

5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

7
8
9 CHAIRMAN LITTLE

COMMISSIONER STUMP

10
11 COMMISSIONER FORESE

COMMISSIONER TOBIN

COMMISSIONER BURNS

12
13 IN WITNESS WHEREOF, I, JODI A. JERICH, Executive
14 Director of the Arizona Corporation Commission, have hereunto
15 set my hand and caused the official seal of the Commission to be
16 affixed at the Capitol, in the City of Phoenix, this
_____ day of _____ 2016.

17
18 JODI A. JERICH
EXECUTIVE DIRECTOR

19
20 DISSENT _____

21
22 DISSENT _____
BM/rt

1 SERVICE LIST FOR:

SULPHUR SPRINGS VALLEY ELECTRIC
COOPERATIVE, INC.

2 DOCKET NO.:

E-01575A-05-0312

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