

ORIGINAL EXCEPTION



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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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

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AZ CORP COMMISSION
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2016 OCT 21 P 3:58

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 E-01575A-15-0312

Arizona Corporation Commission

DOCKETED

OCT 21 2016

DOCKETED BY *[Signature]*

CROCKETT LAW GROUP PLLC
2198 E. Camelback Road, Suite 305
Phoenix, Arizona 85016
602.441.2775

**EXCEPTIONS
OF
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**

1 Sulphur Springs Valley Electric Cooperative, Inc.,¹ (“SSVEC” or the “Cooperative”)
2 hereby files its exceptions to the Recommended Opinion and Order (“ROO”) filed in this docket
3 on October 12, 2016. SSVEC appreciates the great efforts of the Administrative Law Judge and
4 Utilities Division Staff (“Staff”) to address the important issues raised in this case. There was
5 agreement between Staff and SSVEC—and a lack of opposition from intervenors in the case—
6 regarding much of what was requested in the rate application. The areas of agreement include:
7 (i) revenue requirement; (ii) rate base; (iii) operating margin; (iv) the reset base cost of purchased
8 power; (v) the cost of service study; (vi) changes to service charges; (vii) changes to SSVEC’s
9 Service Conditions; (viii) changes to the commercial and industrial, large power, irrigation,
10 security lighting and street lighting rate schedules; and (ix) an increase in the monthly Service
11 Availability Charge in the Residential rate class from \$10.25 to \$25.00, accomplished in four steps
12 over four years with corresponding reductions in the volumetric energy charge.

13 Notwithstanding the many areas of agreement, the ROO fails to adopt at this time the
14 Cooperative’s request to implement a new Residential Partial Requirements Service, Standby
15 Service, Backup Service (“R-PR”) rate schedule for new partial requirements members, including
16 those with installed distributed generation (“DG”), who do not purchase all of their electricity
17 from SSVEC. The R-PR rate schedule would be administered in conjunction with a new Partial
18 Requirements Service, Standby Service, Backup Service tariff (“PR-1”) that compensates excess
19 distributed generation energy at avoided cost rather than the full retail rate. The proposed monthly
20 Service Availability Charge of \$50 in the new R-PR rate schedule would be implemented in four
21 steps over four years from an initial rate of \$10.25.

22 Likewise, the ROO fails to adopt the Cooperative’s request to grandfather existing partial
23 requirements members, including those with installed DG, under a new Residential Partial
24 Requirements Service, Standby Service, Backup Service (“R-PR-E”) rate schedule. The R-PR-E

25 ¹ SSVEC is a member-owned non-profit rural electric distribution cooperative headquartered in Willcox,
26 Arizona. SSVEC serves most of Cochise County and portions of Santa Cruz, Pima and Graham counties,
27 including the communities of Sierra Vista, Huachuca City, Patagonia, Elfrida, Benson, St. David, Bowie,
28 San Simon, Willcox, Sonoita and Pearce-Sunsites. SSVEC provides electricity to more than 58,000 electric
services including residential, small business, large commercial and irrigation, spread over 5,700 square
miles served by over 4,100 miles of energized lines. SSVEC is governed by an elected board of directors
who are directly accountable to the Cooperative’s members.

1 rate schedule would be administered in conjunction with a revised Net Metering tariff (“NM-1”).
2 The revised NM-1 tariff grandfathers existing net metered members under the old net metering
3 policy and provides the current retail rate as compensation excess energy exported to the grid and
4 banking of energy. The Service Availability Charge under the R-PR-E rate schedule increases
5 from \$10.25 to \$50.00 in four steps implemented over four years.

6 Rather than approving SSVEC’s request with regard to the new tariffs for residential DG
7 members and the corresponding changes to net metering, the ROO orders a follow-on proceeding
8 to further address these requests by SSVEC. However, for reasons that are set forth fully in the
9 evidentiary record and briefing of this case, and summarized herein, SSVEC requests that the
10 Arizona Corporation Commission (“Commission”) grant its request at this time as follows:

- 11 1. Approving the Standard Offer Tariff that was attached as Rebuttal Exhibit
12 DWH-3 to the Rebuttal Testimony of David Hedrick (Hearing Exhibit A-6)
13 including: (i) the proposed new Partial Requirements Service, Standby
14 Service, Backup Service Schedule R-PR-E (with grandfathering, as
15 hereinafter described) for existing DG members; (ii) the proposed new
16 Partial Requirements Service, Standby Service, Backup Service Schedule
17 R-PR for new DG members; (iii) the proposed new Partial Requirements
18 Service, Standby Service, Backup Service Schedule PR-1; and (iv) the
19 proposed modifications to Net Metering Tariff Schedule NM-1, together
20 with any required waivers of the Commission’s Net Metering rules, A.A.C.
21 R14-2-2301 *et seq.*
- 22 2. Approving an export rate for excess energy exported to the grid by
23 residential members with installed DG which is the lower of SSVEC’s
24 short-term avoided cost, updated annually, and the rate contained in
25 SSVEC’s current solar purchase power agreement (“PPA”) which will
26 become effective by the end of 2016 (which information was provided to
27 Staff pursuant to a protective agreement in the rate case), with the rate being
28 updated with each new PPA. SSVEC would submit each new PPA to Staff
as it becomes effective and the new average blended rate would become
effective 30 days after submission.

24 In its rate application, SSVEC proposed a grandfathering date of April 15, 2015, for
25 members with installed DG or approved contracts to install DG. However, SSVEC would agree
26 to grandfather members with installed DG as of the date of the Commission’s approval of this
27 ROO if the Commission also approves Schedules R-PR, R-PR-E, PR-1 and NM-1 as requested
28 herein. Additionally, for members under the R-PR rate schedule, the export rate would be set as
described above.

1 SSVEC submits that all of the evidence necessary to approve the Cooperative's request as
2 set forth herein is already in the record and that a phase two proceeding is unnecessary. In its
3 Reply Brief in the Value and Cost of DG proceeding (Docket No. E-00000J-14-0023) (the "VOS
4 Docket"), Staff acknowledged that "Cooperatives are different in important respects from the other
5 utilities participating in this proceeding," and that "[g]iven this, and the fact that many
6 Cooperatives serve rural areas and have higher costs in general, any methodology(s) adopted by
7 the Commission should allow for the unique circumstances of the Cooperatives to be taken into
8 account."² It has also been acknowledged in the VOS Docket that DG customers are partial
9 requirements customers. In recognition of these realities, the recommended opinion and order in
10 the VOS Docket includes an ordering paragraph which states that "the Cooperatives should be
11 afforded flexibility to develop rate design solutions to the cost shift caused by DG and should not
12 be required to comply with any one-size-fits-all requirements that would impose economic and
13 operational hardships."³ In this case, SSVEC has proposed a rate design for DG members which
14 addresses the cost shift in a reasonable and measured way. Thus, SSVEC requests that the
15 Commission approve the revisions to the ROO that are set forth herein.

16 For the Commission's consideration and convenience, SSVEC has attached a proposed
17 amendment to the ROO which would incorporate the revisions requested by the Cooperative in
18 these exceptions.

19 **A. SSVEC Has Established an Under-Recovery of Fixed Costs Due to DG, and**
20 **the Cooperative Cannot Wait Longer to Address the Problem.**

21 SSVEC has established through testimony and other evidence in this case that the
22 proliferation of members with DG is the cause of the Cooperative's under-recovery of fixed costs.
23 SSVEC Chief Executive Officer Creden Huber testified that "the principal reason for filing this
24 rate case at this time is to make critical changes to the Cooperative's rate design that will enable
25 the Cooperative to better cover the fixed costs associated with providing electric service."⁴ He
26 further testified that "[t]he proliferation of PV systems in SSVEC's service territory has caused a
27 large increase in unrecovered fixed costs attributable to the Cooperative's net metered members"
28 and that "[t]he estimated annual lost fixed costs attributable to the 1,013 net metered members at

² Staff's Reply Brief at 14, lines 9-12 (Docket No. E-00000J-14-0023).

³ Recommended Opinion and Order at 172, lines 1-3 (Docket No. E-00000J-14-0023).

⁴ Hearing Exhibit A-2 (Huber Direct) at 5, lines 11-14.

1 the end of the 2014 test year under the existing residential rate is \$1,139,013.”⁵ The calculation
2 of the lost fixed costs attributable to DG during the test year is shown on Schedule DWH-8
3 (revised) which is attached to SSVEC witness David Hedrick’s direct testimony, and which was
4 admitted as Hearing Exhibit A-10. Staff validated this under-recovery of fixed in the direct
5 testimony of witness Eric Van Epps, who testified as follows:

6 Q. Is there evidence that the Company is under-recovering due to current DG
7 installations?

8 A. Yes. The Company has indicated that there was an under-recovery
9 associated with the proliferation of DG systems that equated to \$1,139,013
10 under the existing residential rate in its 2014 test year.

11 Q. Can the aforementioned under-recovery claim be substantiated?

12 A. Yes. If you were to set aside cross subsidization and the alignment of costs
13 with cost causation then it would be appropriate to assume that under-
14 recovery associated with the proliferation of DG in SSVEC’s service
15 territory would be equal to DG production, multiplied by unavoidable fixed
16 costs. For SSVEC, in addition to the total customer costs, the unavoidable
17 fixed costs would be the purchased power demand and the distribution wires
18 portion of the bill.⁶

19 The rate design proposed by SSVEC, including the new residential rate class for partial
20 requirements members, is an appropriate and reasonable way to address the under-recovery of
21 fixed costs which have been shown to be attributable to the proliferation of members with installed
22 DG. The ROO as written is deficient because it will result in shifting approximately \$315,000 in
23 test year lost fixed costs from members with DG to other Cooperative members via the energy
24 charge.⁷ Moreover, the continuation of this rate case into a second phase with grandfathering of
25 DG members up through and including the date of a final order in phase two, as recommended in
26 the ROO, will necessarily lead to many more DG installations under a rate design which has
27 already been shown to be deficient, thereby further exacerbating the existing cost-shift. Thus, the
28 ROO as written will not produce rates that are just and reasonable.

⁵ Hearing Exhibit A-2 (Huber Direct) at 5, lines 21-25.

⁶ Hearing Exhibit S-9 (Van Epps Direct) at 3, lines 12-24.

⁷ ROO at 15, lines 20-23; *see also* Hearing Exhibit S-8 (Paladino Surrebuttal) at 6, lines 5-7.

1 **B. SSVEC's Rate Application Met Sufficiency and All Other Legal**
2 **Requirements and the Commission Has all of the Evidence it Needs to**
3 **Approve the Cooperative's Request.**

4 SSVEC has provided all of the documentation required by law to support its proposals in
5 this case. Pursuant to A.A.C. R14-2-2305 ("Rule 2305"), SSVEC "must introduce solar-specific
6 cost of service studies and benefit-cost analyses proving the disparate treatment [of DG members]
7 is warranted."⁸ The record is clear that SSVEC did provide a compliant cost of service study and
8 a compliant cost-benefit analysis in support of its proposals in this case and Staff agreed.

9 **1. SSVEC's Cost of Service Study Met the Requirements of A.A.C. R14-**
10 **2-2305.**

11 Staff agrees that the cost of service study performed by SSVEC satisfies the requirements
12 of Rule 2305. While the Cooperative's cost of service study did not show the results for the
13 residential DG class separately from the residential non-DG class, SSVEC's expert witness
14 Hedrick explained that a separate study was not necessary:

15 The underlying reality with regard to the cost of providing service to residential
16 customers with or without installed DG is that the costs of providing service are
17 essentially the same, except for additional metering costs and billing costs for
18 customers with DG. Until such time that monthly demand data is available for all
19 customers with installed DG, it was determined that the fixed cost components for
20 the total Residential class would provide the best representation of costs. Therefore
21 the Residential DG group is included as part of the total Residential class for the
22 purpose of defining the costs of providing service. The under-recovery of costs
23 resulting from lost fixed costs from DG is calculated in a separate analysis included
24 in my direct testimony. The combination of the fixed costs of service defined in
25 the cost of service study and the under-recovery of those costs defined in the lost
26 fixed cost analysis provides the basis for SSVEC's analysis supporting separate rate
27 schedules for customers with installed DG.⁹

28 SSVEC provided testimony and evidence fully supporting the creation of a new class of
residential service for members with installed DG who purchase only a part of their energy
requirements from SSVEC. Staff agreed with SSVEC that separate tariffs for partial requirements
members "do not violate the Rule [2305]'s prohibition against discrimination."¹⁰

⁸ EFCA's Post-Hearing Brief at 2, lines 16-18 (emphasis in original).

⁹ Hearing Exhibit A-6 (Hedrick Rebuttal) at 11, lines 4-16.

¹⁰ Staff's Closing Brief at 11, lines 13-14.

2. **SSVEC Provided the Required Cost-Benefit Analysis in Compliance with A.A.C. R14-2-2305.**

In its Closing Brief, Staff concluded as follows:

[T]he Company performed an analysis of the lost fixed costs that it claims to under recover due to current DG installations, and Staff accepted the Company's evidence of a test-year under recovery of \$1,139,013.69. Staff submits that this evidence satisfies the benefit/cost analyses requirement of the rule. The Company also provided evidence that DG customers have different load characteristics than other residential customers participating in energy efficiency measures. The Company's evidence confirmed that the load characteristics are not similar, so the DG proposal does not violate the Rule in that regard.¹¹

SSVEC witnesses Judy Lambert and David Hedrick provided a cost of service study and an analysis of lost fixed costs attributable to members with installed DG. Staff agreed that SSVEC submitted the required cost-benefit analysis and concluded that the Cooperative's "proposed DG tariffs do not violate the Rule's prohibition against discrimination."¹²

3. **Residential DG Members Are Sufficiently Different from Residential Non-DG Members to Warrant a Separate Rate Class, and SSVEC Met its Burden of Proof in Justifying a Separate Rate Class.**

SSVEC presented ample evidence to support the creation of separate rate classes for members with installed DG who purchase only a part of their energy requirements from the Cooperative. Mr. Hedrick testified that members with installed DG are very different from other SSVEC members with respect to consumption, explaining as follows in his testimony:

[EFCA witness] Mr. Fulmer points to the bill frequency data for SSVEC which shows that the Cooperative does indeed have a significant number of low consumption customers. Mr. Fulmer's premise is that a customer with low use is the same as a DG customer that generates a portion of its own power. They are not the same. The average consumption for a Residential SSVEC customer without installed DG is 677 kWh per month. This represents the energy requirement for the average Residential customer without DG which is purchased from SSVEC. Mr. Fulmer states that the average consumption for a customer with solar PV is 218 kWh.¹³ This is not accurate and is misleading. A customer with solar PV "purchases" a net 218 kWh on average from SSVEC. As reflected on Exhibit DWH-8 of my direct testimony, the average customer with installed DG generates 1,026 kWh per month. That indicates that a residential customer with installed DG has an energy requirement in excess of 1,200 kWh per month (218 kWh + 1,026

¹¹ Staff's Closing Brief at 11, lines 6-12 (citations omitted; emphasis added).

¹² Staff's Closing Brief at 11, lines 13-14.

¹³ The 218kWh average for a customer with DG comes from Schedule H-4.03 as explained by Mr. Hedrick at the hearing. See Hearing Transcript Vol. II at 428, lines 9-10.

1 kWh = 1,244 kWh) which is much higher than the average residential customer
2 without DG at 677 kWh per month.¹⁴ Thus, the data clearly demonstrates that
3 customers with installed DG are significantly different than the average SSVEC
4 Residential customer.¹⁵

5 Mr. Hedrick explained further as follows:

6 The average kWh consumption for Residential customers without installed DG is
7 677 kWh per month. However, it would be common for a Residential customer
8 with installed DG to have total load requirements ranging from 800 kWh per month
9 up to 2,000 kWh per month. This means that a customer with installed DG
10 producing 1,026 kWh per month would reasonably be expected to reduce his or her
11 energy consumption from SSVEC by 50% up to 100% of total energy requirements.

12 In contrast, a customer participating in energy efficiency measures and demand
13 response programs does not generate its own power and would reasonably expect
14 to reduce consumption by only a small percentage of the customer's total load. For
15 example, in the most recently filed report on DSM activities, SSVEC noted that the
16 average energy savings for a customer participating in the heat pump program was
17 57 kWh per month and the savings for a customer participating in the water heater
18 program was 85 kWh per month. Thus, the level of lost kWh sales and the
19 corresponding lost fixed costs is significantly and demonstrably greater for
20 customers with installed DG than the potential lost fixed costs for customer's
21 participating in energy efficiency measures and other demand response programs.

22 The creation of new rate classes for partial requirements customers is justified given the
23 unique characteristics of this residential sub-class, as demonstrated by the evidence presented in
24 this case.

25 **C. SSVEC's Proposed Changes to Net Metering Should be Approved.**

26 **1. Net Metering Under the Current Rules Results in Lost Fixed Costs for**
27 **SSVEC.**

28 SSVEC has proven a test-year under-recovery of fixed costs in the amount of
\$1,139,013.69, as acknowledged by Staff.¹⁶ SSVEC witness Hedrick presented testimony and
analysis which shows that this under-recovery is attributable to the proliferation of DG in the
Cooperative's service territory.¹⁷ Net metering under the existing rules is causing lost fixed costs
for SSVEC and the rules must change. SSVEC has proposed a rate design for DG members which

¹⁴ The 677kWh average for a residential customer without DG comes from Schedule H-5.0 as explained
by Mr. Hedrick at the hearing. Hearing Transcript Vol. II at 379, lines 16-19.

¹⁵ Hearing Exhibit A-7 (Hedrick Rejoinder) at 2-3. This testimony was corrected at the hearing by Mr.
Hedrick as shown in the Hearing Transcript Vol. II at 427-430.

¹⁶ Staff's Closing Brief at 11, lines 6-8.

¹⁷ Hearing Exhibit A-6 (Hedrick Rebuttal) at 14-15.

1 will produce rates that are just and reasonable under the facts of this case and that rate design
2 should be adopted.

3 **2. SSVEC Has Properly Considered the Known and Measurable Benefits**
4 **of DG.**

5 SSVEC witness Hedrick testified that “[t]he bedrock principle of rate design is that rates
6 must be based on costs that are known, measurable and of a continuing nature.”¹⁸ In other words,
7 “[t]he Commission should not approve rates that are based on unquantifiable future costs or
8 potential benefits.”¹⁹ Applying this foundational principal of rate-making, Mr. Hedrick addressed
9 each of the elements listed by EFCA witness Fulmer in this case, even though those elements
10 were drawn from UNS Electric’s 2014 integrated resource plan and not from any SSVEC-specific
11 data.²⁰ Mr. Hedrick testified that with the exception of avoided energy and fuel costs, there are
12 no other known and measurable avoided costs to be included in an export rate.²¹

13 It should also be noted that other parties, including intervenor EFCA, had an ample
14 opportunity to present evidence of the known and measurable benefits of DG in this docket. When
15 asked on cross examination why he did not conduct an analysis in this case based upon SSVEC’s
16 specific facts, EFCA witness Fulmer responded “[t]he simple reason was that I wasn’t requested
17 to by my client.”²² EFCA could have presented evidenced quantifying Mr. Fulmer’s alleged
18 benefits of DG but it chose not to do so.

19 **3. The Export Rate should Be Set at the lower of SSVEC’s Short-Term**
20 **Avoided Cost or the Weighted Average Cost as Contained in its Solar**
21 **Purchase Power Agreements, with Updating to Include Each New**
22 **PPA.**

23 In the rate case, SSVEC proposed to set the rate it pays for excess energy exported to the
24 grid by DG members at the Cooperative’s short-term avoided cost,²³ or \$0.025800 per kWh,²⁴ as
25 opposed to the retail rate of the electricity. SSVEC witness Hedrick testified that “the

26 ¹⁸ Hearing Exhibit A-6 (Hedrick Rebuttal) at 18, lines 4-5.

27 ¹⁹ Hearing Exhibit A-6 (Hedrick Rebuttal) at 18, lines 4-5.

28 ²⁰ Hearing Exhibit EFCA-6 (Fulmer Direct) at 12-15; see also EFCA’s Post-Hearing Brief at 12, lines 18-19.

²¹ Hearing Transcript Vol. II at 469, lines 4-18.

²² Hearing Transcript Vol. IV at 943, lines 12-15.

²³ Hearing Exhibit A-6 (Hedrick Rebuttal) at 17, lines 7-8.

²⁴ Hearing Exhibit A-1 (Application), Attachment 4, page 64.

1 Cooperative's avoided cost is equal to only the energy and fuel components of the wholesale
2 rate."²⁵ He explained that "SSVEC purchases the majority of its wholesale power requirements
3 from the Arizona Electric Power Cooperative ("AEPCO") under a contract with a fixed charge
4 for production capacity costs."²⁶ Thus, the fixed costs under the AEPCO contract are not avoided
5 when power purchases by SSVEC are reduced as a result of DG.²⁷

6 Notwithstanding its rate case position on the export rate, SSVEC will agree to set the
7 export rate at the lower of its short-term avoided cost and the average blended rate contained in
8 its PPAs, as described above.

9 CONCLUSION

10 SSVEC requests that the Commission approve the Standard Offer Tariff that was attached
11 as Rebuttal Exhibit DWH-3 to the Rebuttal Testimony of David Hedrick (Hearing Exhibit A-6)
12 including (i) the proposed new Partial Requirements Service, Standby Service, Backup Service
13 Schedule R-PR-E (with grandfathering as described herein); (ii) the proposed new Partial
14 Requirements Service, Standby Service, Backup Service Schedule R-PR; (iii) the proposed new
15 Partial Requirements Service, Standby Service, Backup Service Schedule PR-1; and (iv) the
16 proposed modifications to Net Metering Tariff Schedule NM-1, together with any required
17 waivers of the Net Metering rules, A.A.C. R14-2-2301 *et seq.* SSVEC further requests that the
18 Commission approve an export rate for excess energy exported to the grid by residential members
19 with installed DG which is the lower of SSVEC's short-term avoided cost or the average blended
20 rate of SSVEC's PPAs with updating to include each new PPA as described above. These
21 modifications to the ROO will produce rates that are just and reasonable and will appropriately
22 recognize that cooperatives should be afforded flexibility to develop rate design solutions to the
23 DG cost shift that protects them from economic and operational hardships.

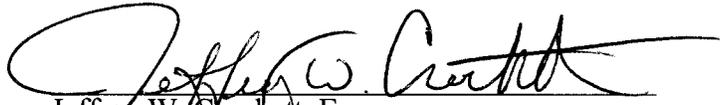
24
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26
27 ²⁵ Hearing Exhibit A-6 (Hedrick Rebuttal) at 17, lines 8-9 (emphasis added).

28 ²⁶ Hearing Exhibit A-6 (Hedrick Rebuttal) at 17, lines 9-11.

²⁷ Hearing Exhibit A-6 (Hedrick Rebuttal) at 17, lines 11-12.

1 RESPECTFULLY submitted this 21st day of October, 2016.

2 CROCKETT LAW GROUP PLLC

3 

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10 this 21st day of October, 2016, with:

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15 COPY of the foregoing hand-delivered
16 this 21st day of October, to:

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PROPOSED AMENDMENT # 1

DATE PREPARED: October 21, 2016

COMPANY: Sulphur Springs Valley Electric Cooperative, Inc.

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

OPEN MEETING DATES: October 27-28, 2016

AGENDA ITEM: U-_____

Page 16, line 22,

DELETE the text beginning on line 22 of page 16 and continuing through the end of line 22 on page 17, and REPLACE with the following:

SSVEC presented evidence that it has experienced a significant under-recovery of fixed costs. We believe that the Cooperative has demonstrated that its under-recovery can be attributed substantially to the adoption of rooftop solar in its service area. Although a separate COSS schedule for residential DG customers is not required, it likely would have been beneficial. However, SSVEC's significant under-recovery of fixed costs cannot be ignored. We disagree with EFCA that the creation of a separate residential DG customer class, in-and-of itself, is discriminatory. Nor do we believe that failure to provide a solar-specific COSS or benefit/cost analysis pursuant to A.A.C. R14-2-2305 necessarily prohibits implementation of tariffs for partial requirements customers such as residential DG members. Each case depends on the evidence presented. In this instance, SSVEC has provided sufficient evidence to support the creation of a separate residential DG customer class.

We note also that the Cooperative does not have a lost fixed cost recovery mechanism, nor does it have investors who can absorb lost costs—all losses fall back to the Cooperative's members. Although Staff's recommendation for three part rates consisting of a monthly charge, demand charges, and an energy charge may be reasonable at a future point in time, because of SSVEC's current system and equipment limitations such a design is not feasible at this time.

Given the two-part rate design, it is necessary to place more of the fixed costs of the Residential customer class in the monthly service availability charge and rely less on the energy charge to cover the fixed costs. The changes to the monthly service availability charge will be implemented over four years. Thus, we believe the proposed standard Residential rate schedule and the new Residential DG rate schedules are just and reasonable.

SSVEC should file new rate schedules and proofs of revenue that conform to our authorizations.

Page 29, line 18,

INSERT after footnote 118 on line 18 the following:

In exceptions filed to the recommended opinion and order, SSVEC agreed that it would use as its export rate the lower of SSVEC's avoided cost, with annual updating, and the blended average rate contained in SSVEC's PPAs, with the rate being updated with each new PPA.

Page 32, line 20,

INSERT after footnote 141 on line 20 the following:

In exceptions filed to the recommended opinion and order, SSVEC modified its grandfathering request to grandfather members with installed DG as of the date of the Commission's approval of this order if the Commission approves Schedules R-PR, R-PR-E, PR-1 and NM-1 as requested by the Cooperative.

Page 34, line 1,

AFTER the word adopted, ADD the sentence "We agree."

Page 34, line 2,

DELETE the text beginning on line 2 of page 34 and continuing through the end of line 11 on page 35, and REPLACE with the following:

We note that cooperatives are different in important respects from the other utilities participating in the VOS docket. Cooperatives including SSVEC serve rural areas and have higher costs in general. Thus, the cooperatives should be afforded flexibility to develop rate design solutions to the cost shift caused by DG and should not be required to comply with any one-size-fits-all requirements that would impose economic and operational hardships. Given that SSVEC has demonstrated an under-recovery of fixed costs attributable to customers with DG, deferring a final decision on DG rates would be a substantial burden on SSVEC.

Page 41, line 15, Finding of Fact 39,

BETWEEN the words "standard Residential" and "Residential TOU", INSERT the words "Residential DG-Existing," Residential DG-New, PR-1, NM-1,"

Page 41, line 27,

DELETE Findings of Fact 44 and 45 and renumber accordingly.

Page 42, line 6,

DELETE Finding of Fact 46 and replace with a new Finding of Fact 46 as follows:

The grandfathering date for determining which Residential DG tariff applies to each customer with DG shall be the date of this order.

Page 43, line 10,

DELETE the ordering paragraphs on lines 10-15 of page 43.

Make all other conforming changes.