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Arizona Corporation Commission

DOCKETED

OCT 31 2016

7 *Attorneys for Southwest Energy Efficiency*
8 *Project, Western Resource Advocates and*
9 *Arizona Community Action Association*

DOCKETED BY

10 **BEFORE THE ARIZONA CORPORATION COMMISSION**

11 DOUG LITTLE, Chairman
12 BOB STUMP
13 BOB BURNS
14 TOM FORESE
15 ANDY TOBIN

16 IN THE MATTER OF THE APPLICATION
17 OF TUCSON ELECTRIC POWER
18 COMPANY FOR THE ESTABLISHMENT
19 OF JUST AND REASONABLE RATES
20 AND CHARGES DESIGNED TO REALIZE
21 A REASONABLE RATE OF RETURN ON
22 THE FAIR VALUE OF THE PROPERTIES
23 OF TUCSON ELECTRIC POWER
24 COMPANY DEVOTED TO ITS
25 OPERATIONS THROUGHOUT THE
STATE OF ARIZONA AND FOR RELATED
APPROVALS.

Docket No. E-01933A-15-0239

Docket No. E-01933A-15-0322

**INITIAL BRIEF OF SOUTHWEST
ENERGY EFFICIENCY PROJECT,
WESTERN RESOURCE
ADVOCATES AND ARIZONA
COMMUNITY ACTION
ASSOCIATION**

19 This brief is submitted on behalf of Southwest Energy Efficiency Project
20 (“SWEEP”), Western Resource Advocates (“WRA”) and Arizona Community Action
21 Association (“ACAA”). The brief contains two parts: the first contains a discussion of
22 issues related to the rate case that are common to SWEEP, WRA and ACAA. The
23 second contains a discussion of issues specific to each of those Intervenors.
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I. INTRODUCTION

There are two competing narratives in this case. According to the Company, it can no longer recover its fixed costs through volumetric charges and instead must shift the collection of much of its revenue requirement into fixed charges like the basic service charge. The competing narrative offered by Intervenors in this brief is that continuing to increase fixed charges without first implementing properly designed time-of-use rates is contrary to established Commission policy, undermines energy efficiency and promotes increased consumption that will in turn increase costs for future ratepayers.

Fundamentally, Tucson Electric Power Company ("TEP") believes that the only way it can recover its fixed costs of providing service is to not only increase existing fixed charges but add new ones as well. That represents a dramatic shift from decades of Commission decisions that incentivized ratepayers to conserve electricity and use it efficiently has become more challenging. Now that those policies are having the desired impact does not mean it is time to abandon them. It simply means that the task of providing the Company with an opportunity to earn its authorized return while at the same time providing ratepayers with appropriate incentives to use the grid efficiently is more challenging.

Before the Commission decides that fixed charges are the only answer to this dilemma, it should consider the many alternatives that are available to implement which may either mitigate the problem or eliminate it entirely.

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II. THE COMPANY'S APPLICATION

The Company's original application in this case sought a revenue increase of approximately \$120 million. Originally, the Company planned to pass \$15 million in O&M costs associated with Springerville through the PPFAC.

After Staff and Intervenor testimony was filed, the Company reduced its revenue requirement to \$101 million. Thereafter, the Company and a number of parties entered into a revenue requirement settlement that reduced the proposed increase even further to \$81.5 million. That amount includes the \$15 million in O&M expenses associated with Springerville.

A. The Company's Ability to Earn its Authorized Rate of Return

The Company claims that even if the Commission authorizes an \$81.5 million revenue increase, it will be unable to earn its authorized rate of return. The Company contends that because of reduced usage per customer and reliance on volumetric charges to recover fixed costs, the Company is doomed to underearn from the day the Commission issues its decision. David Hutchens, TEP's CEO, stated:

So we are sitting here today talking about an 81 and a half million rate increase, and we know that when we step out the door on the first day those rates are in effect, we are already not going to be earning that much.

Transcript, Vol. I at 127-8. (Hereafter references to a Transcript will be by volume number and page number.

However, the Company's own filing seems to undercut the claim.

Schedule A-2 filed by the Company as part of its application tells a different story. The Company's last rate increase was in 2013 and it authorized a rate of return of 10%. Schedule A-2 shows that the Company's return on year-end common equity for that year

1 was 11.7% and a return on average common equity for that year of 12.12%. Therefore, it
2 was only three years ago that the Company actually exceeded its authorized rate of
3 return.

4 To be sure, the Company has an explanation for the numbers that mostly has to do
5 with how the leases for Springerville Unit 1 and the coal handling facilities are treated
6 from an accounting standpoint. Nevertheless, the point is that the Company's claims
7 about its inability to earn its authorized rate of return may be slightly exaggerated. Even
8 in 2014, the year following the Commission's last rate decision for TEP, the Company
9 actually earned its rate of return on one measure and fell just short on the other. It was
10 only after 2014 that earnings eroded and they eroded not because of declining usage per
11 customer or because of volumetric charges. Earnings eroded after 2014 because of the
12 Company's massive investment in plant of \$1.3 billion that had been made since the last
13 test year.

14 Indeed, the Company lists its \$1.3 billion in plant investment as a major
15 contributor to its rate request in this case. However, the decline in the Company's
16 earnings since 2014 has at least as much to do with the fact that the Company was not
17 earning any return on the \$1.3 billion as it does with any other factor. Vol. II at 341:2.

18 Q. So you weren't earning a return on that plant in those years, in the
19 intervening years, correct?

20 A. Correct.

21 Q. And so that would yield a lower return on equity, all other things
22 being equal, correct?

23 A. All other things being equal, yes.
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B. The Proposed Revenue in this Case is Almost Entirely Attributable to Plant Investment and Operating Costs

The settled revenue requirement in this case is \$81.5 million. Kenton Grant, the Company's chief financial officer, testified that the revenue requirement associated with the plant investment would be approximately \$70 million. Vol. II at 425-6. Combined with the \$15 million in operating expenses associated with Springerville, the total of \$85 million exceeds the settled revenue requirement in this case.

Of course, that is not to say that the Company's recovery of its fixed costs is unaffected by a decline in usage per customer or the use of volumetric charges to recover those fixed costs. The point is only that the sky is not exactly falling and certainly not to the point that it is necessary to reverse Commission decisions and policies over the last several decades that establish incentives for ratepayers to manage their consumption.

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III. INCREASING EXISTING FIXED CHARGES AND ESTABLISHING NEW ONES WILL NOT SOLVE THE PROBLEM AND WILL ONLY CREATE NEW ONES

It is clear from the testimony of numerous Company witnesses that the Company proposes to address the problem of unrecovered fixed costs with new and increased fixed charges. The Company's plan is to:

- 1) increase the basic service charge using the minimum system methodology;
- 2) establish one or more demand charges; and
- 3) establish energy charges at either marginal or actual cost.

Because demand charges are not a realistic possibility in this case, the Company had determined to load some portion of those demand costs into the basic service charge. It does so through the completely contrived minimum system methodology.

Up until now, the basic service charge has been an issue surrounded by very little controversy. For many years in Arizona, the basic service charge was derived by

1 combining the embedded cost of meters, drop lines and customer accounts to establish
2 the minimum charge. It is only recently that utilities have focused on the basic service
3 charge as a way of including demand costs that they believe cannot otherwise be
4 recovered through volumetric charges.

5 In this case, the Company's application proposed to double the basic service
6 charge from the existing \$10 to \$20 per month for residential customers. The \$20 was a
7 reflection not only of the minimum system methodology but also the Company's
8 marginal cost calculation for the basic service charge.

9 As proposed by the Company, the basic service charge has ample room to grow to
10 accommodate the addition in the future of more demand costs. The Company disclaims
11 any desire to move toward a straight fixed variable rate but, without demand charges, that
12 is exactly the direction in which it's heading. In fact, Company expert Dr. Overcast
13 acknowledged that an economically efficient pricing system for two part rates would
14 establish an energy charge based on marginal costs and putting all other costs into the
15 basic service charge. Vol. IV at 720. Of course, nobody has proposed in this case to
16 recover all fixed costs in the basic service charge. That would require a \$93 basic service
17 charge.

18 Instead, the Company is proposing to take what used to be a simply derived basic
19 service charge and add to it various demand costs that the Company claims constitute
20 what is necessary for a minimum electric system. As a result, under the Company's
21 proposal, the basic service charge would include some amount for "minimum" poles,
22 transformers and conductors. Those are all costs that would otherwise be allocated to the
23 residential class as demand costs under the cost of service analysis. Intervenors reject
24 this approach and so does RUCO. According to RUCO's expert, Lon Huber:
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1 [T]he major question, as I see it, in this phase of the case is what fence line
2 you draw around the fixed charge. Historically the fence line has been
3 defined by the basic customer method.

4 Now the Company is recommending a significant change from how we
5 have defined these costs for decades, so this is a call that the Commission
6 is going to have to make at some point soon. Because moving up that
7 fence line as the Company proposes, opens up every future rate case to a
8 wide open field of possible fixed charges

9 ***

10 And now we have a proposal to basically muddy the one area where we
11 have some decent actual costs.

12 Vol. VII at 1463-4.

13 **IV. INSTEAD OF INCREASING FIXED CHARGES, THE COMMISSION**
14 **SHOULD FOCUS ON DEVELOPING WELL DESIGNED TIME-OF-USE**
15 **RATES**

16 Increasing fixed charges and establishing new ones is easy. There may be
17 customer resistance in the short term but both the Company and the Staff seem to think
18 that ratepayers will come to accept an electric bill that consists only of fixed charges
19 including demand charges and an energy charge based on fuel costs.

20 Whether the Company and the Staff are correct remains to be seen. However, it
21 would be shortsighted not to examine other alternatives that accomplish the same thing –
22 in terms of recovering fixed costs and reducing peak demand - and are consistent with the
23 Commission's long term goals of incentivizing conservation and promoting energy
24 efficiency.

25 The obvious alternative to fixed charges is a properly designed time-of-use rate.
Company witnesses have grudgingly acknowledged that a well designed time-of-use rate
can do a superior job of recovering fixed costs than the existing two part rate. *See*, Vol.
II at 351 (Hutchens: Q. But presumably what you mean is that with good design you
could do a better job of cost recovery for the Company? A. Yes. That would be my

1 version of good, yes). The Company still believes that a time-of-use rate is not as good a
2 price signal to the end use customer as a demand rate would be. Vol. XI at 2709. At the
3 same time, TEP acknowledges that time-of-use rates have reduced peak demand in other
4 utility service areas like Salt River Project.

5 All parties acknowledge that properly designed time-of-use rates should be cost
6 based. It is not so much the ratio between on-peak to off-peak rates that is important.
7 Instead, the issue is whether the numbers are reflective of real marginal costs.

8 Only two parties proposed time-of-use rates in this proceeding. The Company
9 proposed an on-peak rate based on short term marginal costs. As a result, the differential
10 between on-peak and off-peak is not very significant and will make it difficult to attract
11 customers to the Company's proposed time-of-use rate. Vol. VII at 1486.

12 RUCO witness Lon Huber took a longer term perspective looking at the next
13 marginal unit of generation from TEP's Integrated Resource Plan. Using that value as a
14 guide produces a higher on-peak rate that would actually have the effect of reducing peak
15 demand for TEP. Additionally, the differential between on and off-peak with RUCO's
16 proposed rate, combined with lower basic service charge, will provide a greater incentive
17 to TEP customers to migrate to the time-of-use rates.

18 Intervenors believe that it is critical that time-of-use rates be given a fair
19 opportunity to work before other more dramatic rate design changes are considered by
20 the Commission. It is clear that the Company's proposal will not provide much incentive
21 for TEP customers to move to the time-of-use rate. The Commission should adopt the
22 RUCO time-of-use proposal with \$10 basic service charge¹ and give it an opportunity to
23 work. It is only with the adoption of RUCO's proposal that we will be able to acquire
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25 ¹ Or, consistent with the testimony of SWEEP/WRA, with a \$7 basic service charge if the Commission decides to use the BSC level as a financial incentive to encourage customer enrollment in the time-of-use rates.

1 any meaningful data about customer response to the rates and to support any appropriate
2 adjustments in the next rate case.

3 **V. INTERVENOR POSITIONS**

4 **A. Southwest Energy Efficiency Project and Western Resource Advocates**
5 **– Rate Design**

6 This section addresses the rate design issues for SWEEP and WRA. Jeff Schlegel
7 testified on behalf of the Southwest Energy Efficiency Project (“SWEEP”), including on
8 some rate design issues, and Brendon Baatz testified on rate design issues on behalf of
9 SWEEP and Western Resource Advocates (“WRA”).

10 **1. Large Increases in the Basic Service Charge (BSC) for**
11 **Residential and Small General Service Customers are Not in the**
12 **Public Interest and Should Not be Approved.**

13 In his written and oral testimony, Mr. Baatz explained and documented
14 SWEEP and WRA’s opposition to an increased basic service charge (BSC).² Specifically,
15 they do not support higher BSCs for customers, particularly not the 50% increase in the
16 BSC proposed by TEP (TEP rejoinder position) nor the 100% increase proposed initially
17 by TEP.

18 SWEEP and WRA oppose a higher BSC for several reasons:

- 19 • Higher fixed charges reduce customers' control over their utility bills.

20 Customers cannot avoid this higher fixed charge nor mitigate the significant rate
21 increase – the majority of which is recovered in fixed charges.

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25 ² Brendon Baatz oral testimony, September 12, 2016; Direct Testimony of Brendon Baatz on behalf SWEEP and
WRA, p. 5-20; and Surrebuttal Testimony of Brendon Baatz on behalf SWEEP and WRA, p. 3-14

- 1 • The fixed charge increase results in very high rate increases for lower usage
2 and many low-income customers.
- 3 • Together, the two aforementioned results of a higher BSC create dual
4 disadvantages or a “double whammy” for customers — especially for lower usage
5 customers. First TEP increases its rates significantly. Second, TEP takes away a
6 large portion of a customer's control by recovering a significant portion of the rate
7 increase through higher BSCs. Consequently, TEP reduces a customer’s ability to
8 respond and mitigate the impact of the proposed rate increase.
- 9 • Higher fixed charges and other TEP-proposed rate design changes will lead to
10 higher electricity consumption.
- 11 • It is not necessary for fixed costs to be recovered through fixed charges. This
12 myth continues to be propagated by TEP witnesses. For decades significant
13 portions of fixed costs have been recovered through volumetric rates, and this
14 approach has been effective and is appropriate today, as a balancing of interests
15 between regulated utilities and customers.
- 16 • Higher fixed charges are not needed for TEP to recover its authorized costs. It
17 is effective for TEP to recover its authorized costs and to reduce peak demand
18 through properly-designed time-of-use (TOU) rates with lower BSCs (\$10 or
19 lower), without exposing customers to the significant problems of higher BSCs.
20 For these reasons Mr. Baatz concluded that TEP’s proposal is not in the public
21 interest; is not equitable; violates the rate design principle of gradualism; and violates a
22 23 24 25

1 primary Bonbright criteria of ratemaking to discourage wasteful use of public utility
2 services.³

3 **2. The Basic Service Charge (BSC) Should be Determined Using**
4 **the Basic Customer Method. RUCO, SWEEP, WRA, and Other**
5 **Major Parties Focused on the Customer and Public Interest in**
6 **this Case Support the Basic Customer Method as the Correct**
7 **Method to Use to Determine the BSC. Employing the Basic**
8 **Customer Method Would Result in a Residential BSC that is \$10**
9 **or Less.**

10 In his written and oral testimony, Mr. Baatz rejected the Company's new
11 proposed methodology for determining the BSC (the minimum system method). He
12 showed that this proposed method departs from long-standing Commission practice; is
13 subjective; includes several categories of costs that are not customer related; and is not
14 common practice nationally.⁴ He also documented Professor Bonbright's criticisms of
15 this method.⁵

16 Mr. Baatz and Mr. Schlegel both testified that the major parties who are
17 focused on the customer and public interest in this case, including the Residential Utility
18 Consumer Office (RUCO) , SWEEP, and WRA, reject the Company's method for
19 calculating the BSC. Instead, these parties are all aligned in stating that the basic
20 customer method is the correct method to use. Exhibit SWEEP/WRA 3 compares TEP's
21 proposed BSCs to the BSCs developed by SWEEP/WRA and other parties using the
22
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24 ³ Ibid.

25 ⁴Brendon Baatz oral testimony, September 12, 2016; Surrebuttal Testimony of Brendon Baatz on behalf SWEEP
and WRA, p. 16-21; Jeff Schlegel oral testimony, September 12, 2016;

⁵ Ibid. at p. 8-9.

1 basic customer method.⁶ This exhibit reveals a clear distinction in the BSC amounts –
2 and demonstrates the results of using the basic customer method as the correct method.

3 Mr. Baatz testified that SWEEP and WRA support RUCO's testimony on
4 the basic customer method, and he concurs with RUCO that the basic customer method is
5 the correct method for determining the basic service charge, and the basic customer
6 method is in the public interest.⁷ Using that method should result in a residential BSC of
7 \$10 or less.⁸ While Mr. Baatz in his direct testimony calculated lower values for the
8 BSCs for residential (\$7.62) and general service (\$11.97) customers using the basic
9 customer method,⁹ as a compromise SWEEP is willing to support the current BSC level
10 of \$10 for residential customers.¹⁰ SWEEP is also willing to support the current BSC
11 level (\$15.50) or something close to that level for small general service customers, also as
12 a compromise, even though this level is higher than Mr. Baatz's calculation.
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15 **3. Properly Designed Time-of-Use (TOU) Rates with Lower Basic**
16 **Service Charges (BSCs) are a Superior Alternative to the**
17 **Company's Proposal to Implement Higher Fixed Charges.**

18 In their written and oral testimony, Mr. Schlegel and Mr. Baatz testified
19 that SWEEP and WRA recommend properly designed time-of-use (TOU) rates with
20 lower BSCs and shorter on-peak windows as a superior alternative to rate designs with
21 higher fixed charges and higher BSCs.¹¹
22

23 ⁶ SWEEP/WRA Exhibit 3.

24 ⁷ Brendon Baatz oral testimony, September 12, 2016; Surrebuttal Testimony of Brendon Baatz on behalf SWEEP
25 and WRA.

⁸ Ibid.

⁹ SWEEP/WRA Direct Testimony of Mr. Baatz, Exhibit 1.

¹⁰ Jeff Schlegel oral testimony, September 12, 2016.

¹¹ Brendon Baatz oral testimony, September 12, 2016; Direct Testimony of Brendon Baatz, p. 7-14; Jeff Schlegel
oral testimony, September 12, 2016; and Surrebuttal Testimony of Jeff Schlegel, p. 5-6.

1 Effective, customer-friendly TOU rates give customers more control over their
2 energy bills; have less harmful impacts on lower usage customers; help reduce wasteful
3 energy use and peak demand by sending strong price signals; and give TEP a reasonable
4 opportunity to recover its authorized costs. As such, properly designed TOU rates align
5 the interests of the Company with the interests of its customers.¹²

6 Effective, customer-friendly TOU rates are also necessary in order to achieve significant
7 reductions in peak demand. To achieve significant peak demand reductions, large
8 numbers of TEP customers must subscribe and respond to TOU rates. This outcome
9 necessitates TOU rates that are customer-friendly and effective.¹³

10 Mr. Schlegel and Mr. Baatz documented SWEEP and WRA's recommendations for
11 implementing effective, customer-friendly TOU rates.¹⁴ These rates should employ:

12
13 1. A Lower BSC – A lower BSC gives customers greater control over their
14 energy bills. Consistent with the basic customer method and the analysis and calculations
15 of Mr. Baatz, the BSC should be \$10 or less for residential customers, and around \$15.50
16 for small general service customers, based on the compromise offered by Mr. Schlegel
17 during oral testimony.¹⁵

18 2. Shorter on-peak windows (3 hours in both summer and winter) – A shorter
19 on-peak window makes it easier for customers to shift load to the lower-priced off-peak
20 period. An on-peak period that is too long requires more significant behavior change
21 making it less likely and more burdensome for customers to respond to. Therefore, fewer
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24 ¹² Ibid.

¹³ Jeff Schlegel oral testimony, September 12, 2016.

¹⁴ Brendon Baatz oral testimony, September 12, 2016; Direct Testimony of Brendon Baatz, p. 7-14; Jeff Schlegel oral testimony, September 12, 2016; and Surrebuttal Testimony of Jeff Schlegel, p. 5-6.

¹⁵ Jeff Schlegel oral testimony, September 12, 2016.

1 customers will enroll in the time-of-use rates, thereby defeating the purpose of offering
2 the rates in the first place, and resulting in less total reduction in peak demand.

3 3. Meaningful spread or differential (3-4x) between on- and off-peak prices –
4 A meaningful spread or differential is necessary to give customers an incentive to reduce
5 consumption and shift load. Additionally, it provides an opportunity for customers to
6 experience material bill savings from shifting load and reducing energy use.
7

8 4. Retain tiered rates – Tiered rates discourage wasteful energy use by
9 providing customers with an additional incentive to save energy.

10 Based on these criteria, Mr. Schlegel testified that TEP's proposed TOU rate is not
11 customer friendly or effective because the proposed on-peak periods are too long and the
12 differential between on- and off-peak rates is insufficient to drive customer behavior
13 change.¹⁶ He also testified that the RUCO-proposed TOU rate is the best available rate
14 design on the record. However, the RUCO-proposed rate would be more effective for a
15 larger number of customers if it employed a shorter on-peak window (3 hours versus 4
16 hours).¹⁷

17 Finally, Mr. Schlegel addressed the proposal to offer a different BSC for TOU
18 rates as a financial incentive to encourage TOU enrollment. Mr. Schlegel recommended
19 the following: (1) The BSC should remain at \$10 for standard, non-TOU customers,
20 based on the facts in the record and consistent with employing the basic customer method
21 to determine the BSC. (2) The BSC for TOU rates could be lowered to \$7 as a positive
22 incentive to encourage customers to enroll in TOU rates.¹⁸ The \$10 (or lower) BSC
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24
25 ¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ibid.

1 covers the basic customer costs as determined using the basic customer method. It is not
2 appropriate or in the public interest to artificially increase the BSC to a level higher than
3 \$10, including for customers who choose not to enroll in time-of-use rates. If the
4 Commission determines it wants to provide a financial incentive through the level of the
5 BSC, then the \$10 should remain for the standard, non-TOU customers, based on the
6 facts and analysis in this case, and the BSC for TOU rates could be lowered to \$7 as a
7 positive financial incentive.

8 **B. Southwest Energy Efficiency Project**

9 **1. Energy Efficiency Program Costs Should be Recovered in Base** 10 **Rates**

11 In his direct and oral testimony, Mr. Schlegel explained and documented
12 that TEP has positioned energy efficiency as a core resource to meet energy needs and
13 load growth over the next decade at lowest cost.¹⁹ Indeed in TEP's 2014 Integrated
14 Resource Plan (IRP), TEP projects that energy efficiency will contribute ~22% of the
15 utility's future additional capacity resources from 2015-2028.²⁰ TEP's IRP also identifies
16 energy efficiency as its "lowest cost resource";²¹ and data from its IRP and annual
17 Demand Side Management (DSM) reports show that energy efficiency costs substantially
18 less than other resource options. For example, new natural gas combined cycle generation
19 costs ~7-to-9-times more than energy efficiency.²²

20 Currently, TEP does not treat the cost recovery of major energy resources
21 in a consistent and equitable manner, because TEP uses adjustor funding and shows the
22 adjustor cost recovery on the utility bill for some resources (energy efficiency), while
23

24 ¹⁹ Jeff Schlegel oral testimony, September 12, 2016; and SWEEP Direct Testimony of Jeff Schlegel, p. 8.

25 ²⁰ Ibid at p. 4-5; and Tucson Electric Power, 2014 Integrated Resource Plan, April 1, 2014.

²¹ Ibid.

²² Ibid.

1 recovering the costs of other resources in base rates and not being transparent to
2 customers regarding the ratepayer costs of these other energy resources (e.g. natural gas
3 and coal generation).

4 Mr. Schlegel testified that as a core resource meeting the real energy needs
5 of customers at lowest cost, energy efficiency should be adequately funded through a
6 stable, fully embedded funding and cost recovery mechanism — consistent with the
7 treatment of other energy resources, including coal, natural gas, and nuclear generation.
8 Specifically, he recommended that energy efficiency program costs be recovered in base
9 rates rather than in a separate adjustor mechanism, and that the Commission order TEP to
10 recover \$23 million annually — consistent with the total Commission-approved budget
11 for TEP's 2016 energy efficiency portfolio.²³

12 Under the SWEEP proposal, the Commission's review and approval of
13 energy efficiency programs and budgets would continue to be done through the DSM
14 Implementation Plan process. The DSM adjustor mechanism would also remain intact,
15 but it would be used as an adjustor to recover or refund any energy efficiency funding
16 amounts above or below the \$23 million in base rates needed to implement Commission-
17 approved programs. In this manner, the DSM adjustor mechanism would operate
18 similarly to the company's fuel adjustor, which Staff witness Van Epps acknowledged
19 during the hearings.²⁴ The Commission would continue to set the energy efficiency
20 budget during the DSM Implementation Plan proceeding, and the DSM adjustor
21 mechanism would be used to collect any amount above the level in base rates or to credit
22 back to customers any overcollection — similar to a fuel adjustor.

25 ²³ Ibid. at p. 6-9.

²⁴ Tr. at 2871

1 **2. TEP Should Treat All Energy Resources Equitably in Terms of**
2 **Disclosure and Transparency on Customer Bills and in Customer**
3 **Communications**

4 As part of his testimony, Mr. Schlegel provided recommendations to the
5 Commission to ensure that TEP treats all energy resources equitably in terms of
6 disclosure and transparency on customer bills and in customer communications.²⁵

7 Specifically, SWEEP recommends that TEP provide information to customers on the
8 ratepayer costs of major energy resources at all times via the web, and quarterly or
9 annually via a bill insert, email, and/or other communication – and not on the customer
10 bill itself. This information on the costs of energy resources could include a simple and
11 transparent pie chart that illustrates how each dollar of the utility bill is spent, with the
12 ratepayer costs associated with each and every energy resource (and other costs) clearly
13 delineated. Currently, TEP does not provide any such transparency regarding the
14 ratepayer costs of other major energy resources – on the utility bill or in any other
15 manner.
16

17 TEP (witness Smith, in rebuttal) and Staff (witness Van Epps, during the
18 hearing) raised concerns about transparency of costs on customer bills. At no time during
19 the proceeding did TEP demonstrate that the costs of other major energy resources are
20 provided in a transparent manner to customers. And TEP did not propose any solutions
21 for providing information to customers on the ratepayer costs of major energy resources
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²⁵ Jeff Schlegel oral testimony, September 12, 2016; and SWEEP Direct Testimony of Jeff Schlegel, p. 9-10.

1 in a consistent and transparent method. Staff witness Van Epps acknowledged that the
2 costs of other major energy resources are not disclosed or transparent to customers:²⁶

3 Q. [Hogan] ...looking at the bill, a customer wouldn't have any idea how much
4 the company spends on coal-fired generation, natural gas generation, anything
5 else, correct?

6 A: [Van Epps] Correct.

7
8 SWEEP continues to recommend that TEP should provide transparency
9 regarding the ratepayer costs of all major energy resources in a consistent manner.

10 SWEEP recommended that the Commission should order TEP, within 120 days of the
11 Commission order in this proceeding, to file a proposal to provide information to
12 customers on the ratepayer costs of major energy resources at all times via the web, and
13 quarterly or annually via a bill insert, email, and/or other communication.²⁷ TEP should
14 convene a stakeholder group to offer input on how best to provide the information, and to
15 review and comment on options and work products.

17 **3. TEP's Proposed Changes to the Lost Fixed Revenue Recovery (LFRC)**
18 **Mechanism Should be Rejected**

19 In the testimony of Craig Jones, TEP requests among other changes, that
20 (1) the LFCR provide for the recovery of lost fixed-cost revenues associated with retail
21 generation service; and (2) the cap on the LFCR be increased from 1% of total retail
22 revenues to 2%.

25 ²⁶ Tr. at 2873

²⁷ SWEEP Surrebuttal Testimony of Jeff Schlegel, pg. 3; and Schlegel oral testimony, September 12, 2016.

1 Mr. Schlegel testified that SWEEP does not support any of these proposed
2 changes.²⁸ The Commission should apply great caution in reviewing the Company's
3 proposal and should not approve any changes that increase the amount of lost fixed-cost
4 revenue recovery collected from customers compared to the existing LFCR mechanism.
5 The changes proposed by Mr. Jones will greatly increase the dollar amount collected in
6 the LFCR charge. SWEEP does not support the inclusion of generation costs in the
7 LFCR, and nothing in TEP's rebuttal has changed that position. Doubling the 1% cap to
8 2% would significantly increase the amount collected from customers, and increasing the
9 cap is not necessary if generation costs remain excluded from the LFCR as SWEEP
10 recommends.
11

12 SWEEP proposed full revenue decoupling as an effective approach to
13 address the issues TEP raised.²⁹ Mr. Schlegel testified to the problems with the Lost
14 Fixed Cost Revenue Recovery mechanism, including under cross-examination by TEP.³⁰
15 Full revenue decoupling with a symmetrical adjustment of over- or under recovered
16 revenues would address the issues and reduce risk for TEP and for its customers.
17

18 **4. The Enhanced Education and Behavior Aspects of TEP's**
19 **Proposed Prepay Program Should be Addressed in the Energy**
20 **Efficiency Implementation Plan Proceeding, and the Enhanced**
21 **Education Offering Should be Made Available to All Customers.**

22 TEP witness Denise Smith stated that TEP will propose an optional prepay
23 program in its Energy Efficiency Implementation Plan docket as a part of its portfolio of
24

25 ²⁸ Jeff Schlegel oral testimony, September 12, 2016; and SWEEP Direct Testimony of Jeff Schlegel, p. 10-11.

²⁹ Jeff Schlegel oral testimony, September 12, 2016; and SWEEP Direct Testimony of Jeff Schlegel, p. 11.

³⁰ Jeff Schlegel oral testimony, September 12, 2016.

1 programs, consistent with SWEEP's procedural recommendation to address the program
2 in that proceeding.³¹ TEP has also included a prepay tariff in its rate case application.

3 Mr. Schlegel and Mr. Baatz testified to SWEEP's significant concerns
4 about prepay programs and tariffs.³² Prepay tariffs can pose significant risks to elderly
5 and limited-income customers because of the immediate electrical service shutoff
6 provision for nonpayment. Additionally, customers who do not have steady incomes or
7 do not fully understand the consequences of nonpayment can find themselves in
8 situations where they are disconnected from power frequently. To that end, adequate
9 consumer protections are essential.

10 Mr. Schlegel also explained that pre-pay tariffs must incorporate adequate
11 and appropriate energy conservation/management education and usage feedback so that
12 customers increase their awareness of their energy consumption and energy costs,
13 comprehend their usage patterns, and understand the options and the tools available to
14 them to reduce energy use and costs.³³

15 Mr. Schlegel discussed SWEEP's recommendations for TEP's prepay
16 program and tariff.³⁴ He recommended that TEP's prepay efforts be treated as two
17 distinct offerings to customers: (1) An optional prepay tariff; and (2) An enhanced
18 customer education, information, and behavior feedback program to encourage customers
19 to manage and reduce their energy bills and costs. Any customer choosing to be on the
20 optional prepay tariff should receive the enhanced customer education, information, and
21

22 ³¹ Jeff Schlegel oral testimony, September 12, 2016; and Surrebuttal Testimony of Jeff Schlegel, p. 5-6.

23 ³² Jeff Schlegel oral testimony, September 12, 2016; Direct Testimony of Jeff Schlegel, p. 14-15; and Direct
24 Testimony of Brendon Baatz, p. 30-32.

25 ³³ Jeff Schlegel oral testimony, September 12, 2016; Direct Testimony of Jeff Schlegel, p. 14-15; and Surrebuttal
Testimony of Jeff Schlegel, p. 5-6.

³⁴ Ibid.

1 feedback services, in addition to the appropriate consumer protections. This is a must and
2 should be required by the Commission.

3 In addition, the enhanced customer education, information, and feedback
4 program to be reviewed and approved by the Commission as part of the Energy
5 Efficiency Implementation Plan process should be made available to all residential
6 customers, so that all customers have the opportunity to benefit from the enhanced
7 education and behavior feedback. This enhanced education and feedback program, if
8 approved, should not be limited solely to customers who elect to be on the optional
9 prepay tariff.

10 In this manner, the enhanced education and feedback services should
11 always be provided to customers on the prepay tariff. But in addition, the enhanced
12 education and feedback services should be developed and implemented as a broader
13 energy efficiency program offered to all customers, including those who are not on the
14 prepay tariff. If the education and feedback services are providing cost-effective benefits
15 to customers, then the services should be offered to all customers.

16 In addition, as Mr. Baatz testified, the prepay tariff and associated rates (e.g., the higher
17 BSC proposed by TEP) should reflect the cost savings to TEP.³⁵

18 **D. Western Resource Advocates**

19 WRA supports the settlement agreement treatment of the balanced draft issue for
20 San Juan.

21 **E. Arizona Community Action Association.**

22 **Economic State of Tucson**

23 It is important to discuss the economic condition of the low-income families who
24 may be asked to pay these rates. Nearly half of all Arizona households lack the liquid

25 _____
³⁵ Surrebuttal Testimony of Brendon Baatz on behalf SWEEP and WRA, p. 21.

1 assets to cover three months' expenses, making them extremely vulnerable if they were to
2 lose a job, have their car break down, wind up in the hospital, or have some other
3 unforeseen expense.³⁶ A quarter of the jobs in Arizona are low-wage; in the last fifteen
4 years, low-wage workers have seen a decline in real wages of 6%.³⁷ Arizona currently
5 has the sixth highest underemployment rate in the country, meaning that even for people
6 willing and able to work, they may not be able to find a job suiting their education and
7 skill set.³⁸ Tucson is the 5th poorest city in America, with 35% of the population having
8 incomes less than \$25,000 per year.³⁹ According to the Women's Foundation of
9 Southern Arizona, the necessary income for self-sufficiency for a household with one
10 adult and one child is \$46,723.08, and the income needed for a household with two adults
11 and a child is \$53,825.33.⁴⁰ A two-person household at 150% FPG makes 94% less
12 money than is required for self-sufficiency, and a three-person household makes 78% less
13 than what is needed for self-sufficiency.

14 In a survey performed by the University of Arizona, thirty five percent of
15 households in poverty reported cutting or skipping meals, along with 38% of households
16 in deep poverty. Eighty two percent of households in poverty and 78% of households in
17 extreme poverty are "housing burdened," a situation in which households must spend at
18 least 30% of their income on housing costs. Overall, 20% of households in poverty and
19 32% of households in extreme poverty said that they don't have enough to make ends
20 meet.⁴¹

23 ³⁶ <http://scorecard.assetsandopportunity.org/latest/measure/liquid-asset-poverty-rate>

24 ³⁷ http://www.bls.gov/oes/current/oes_az.htm, <http://www.epi.org/publication/charting-wage-stagnation/>

24 ³⁸ <http://www.bls.gov/lau/stalt.htm>

24 ³⁹ <http://www.cbsnews.com/media/americas-11-poorest-cities/>

25 ⁴⁰ http://www.womensgiving.org/wp-content/uploads/2014/12/AZ12_SSS_Web_050212-1.pdf. The report was issued in 2012; reported values are in 2016 dollars.

25 ⁴¹ <http://arizona.openrepository.com/arizona/handle/10150/331815>

1 **Affordability**

2 Within this context one should specifically examine the affordability of energy in
3 TEP's service territory. It is important to discuss the idea of "fuel poverty," which is
4 typically defined as having energy costs larger than 10% of a household's income. Fuel
5 poverty is not simply a symptom of income poverty, but a unique problem that must be
6 addressed directly if it is to be solved. Not only does income factor in to fuel poverty, but
7 the price of energy and the quality of housing stock and home appliances impact fuel
8 poverty as well.⁴² In fact, energy is more expensive for poor households, with low-
9 income households spending 30% more per square foot for energy than non-low-income
10 households.⁴³

11 In testimony, TEP's expert witness said "I don't see affordability as an issue" and
12 "the customers who need assistance have it available." Vol. IV at 787:8. It is true that
13 there are assistance programs available to TEP customers, several of which are
14 generously provided by TEP itself. Unfortunately, these programs do not assist all who
15 need and are eligible for help. At the federal level, there is the Low-Income Home
16 Energy Affordability Program (LIHEAP), which served less than 5% of eligible
17 households in Arizona in 2015.⁴⁴ There's also TEP's bill assistance program, which is a
18 very generous donation from the company's shareholders, but it served less than 500
19 people in 2015. There's also the Lifeline discount program, which serves approximately
20 20% of TEP's eligible customers. An overwhelming majority of TEP's low-income
21 population was unable to access these necessary services in 2015. Additionally,
22 programs to increase assistance, such as automatic enrollment in Lifeline, aren't being
23

24
25 ⁴² <http://sticerd.lse.ac.uk/dps/case/cr/CASEREport69.pdf>

⁴³ http://groundswell.org/frompower_to_empowerment_wp.pdf

⁴⁴ <http://neuac.org/wp-content/uploads/2015/10/2016LADStateSheetsFINAL.pdf>

1 implemented quickly enough. It is in this light that affordability must be considered in
2 ratemaking.

3 **Weatherization Enhancements**

4 In Ms. Smith's testimony, she stated that the company has "enhanced the
5 weatherization program through the low income assistance agencies and streamlined the
6 process to get more energy savings devices into the hands of low income customers."

7 Vol. VIII at 1873. This is very welcome news, and deserves praise. In a service territory
8 where low-income households spend \$200 to \$400 more on electricity due to poor
9 housing stock, these improvements can't come quickly enough.⁴⁵

10 **Deferred Payment Plan**

11 ACAA's direct testimony requested that the length of the deferred payment plan
12 be maintained at six months and not be reduced to three months, as was proposed by the
13 Company. The Company has agreed to maintain the payment plan length at six months,
14 allowing vulnerable customers a greater likelihood of paying off old debts and being on
15 good financial terms with the company.

16 **Lifeline Rates for Master Meter Customers**

17 In Mr. Jones' rebuttal testimony, he suggested that households eligible for Lifeline
18 who are master metered should not be able to receive the Lifeline discount. During the
19 course of the hearing, this position was reversed. This is a wonderful development, as
20 this will continue to extend valuable assistance to households in need.

21 **Modify the Termination Notice to Include Customer Assistance Information**

22 In ACAA's direct testimony, it was requested that disconnect notices be modified
23 to include information about bill assistance and weatherization providers in the
24

25

⁴⁵ <https://uanews.arizona.edu/story/renters-spend-less-on-housing-but-more-on-energy-ua-study-finds>

1 customer's area. TEP has agreed to make these modifications, making the information
2 more accessible to vulnerable customers and hopefully averting disconnections.

3 **Increase TEP's Bill Assistance Contribution to \$200,000.00.**

4 Recognizing that the Corporation Commission can't order the shareholders to take
5 any specific action, ACAA has requested that TEP increase its bill assistance contribution
6 to its low-income customers by \$50,000. As has been detailed above, the need in the
7 Tucson area is significant, and this would be an effective way to deliver assistance to
8 customers in need.

9 **Hold Low-Income Customers Harmless from Deposit Rules**

10 In ACAA's direct testimony it was proposed that low-income customers be held
11 harmless from TEP's proposed rule change allowing the company to require more
12 frequent deposits. Similarly, ACAA requested that low-income customers be held
13 harmless from the proposal to have deposits expire under more stringent circumstances.
14 Little analysis was provided to justify the changes to these rules. In Ms. Smith's
15 testimony, she said that the company's bad debt was "creeping up," but couldn't quantify
16 the change. More distressingly, Ms. Smith was unable to quantify the impact that
17 increasing deposits collected from low-income customers would have on the bad debt.
18 The impact on vulnerable customers, however, is very well understood. The average bill
19 for a TEP residential customer is \$105.57, meaning that the average deposit shouldn't
20 exceed \$211.14. In the Federal Reserve's "Report on the Economic Well-Being of U.S.
21 Households in 2015," 55% of respondents said they wouldn't be able to cover an
22 emergency expense greater than \$200.⁴⁶ If households aren't able to come up with this
23 payment, service won't be restored. Utility shutoffs have been shown to be a consistent
24

25 ⁴⁶ <http://www.federalreserve.gov/econresdata/2016-economic-well-being-of-us-households-in-2015-Economic-Preparedness-and-Emergency-Savings.htm>

1 cause of forced moves, with one study showing that unaffordable utility bills were the
2 second leading cause of homelessness for families.⁴⁷ With such dire risks and no
3 evidence presented to quantify the benefits to the company, Lifeline customers should be
4 held harmless from the proposed changes in deposit rules.

5 **Increased enrollment in Lifeline**

6 As was discussed in the preceding sections, a large majority of the households
7 eligible for Lifeline rates are not currently enrolled. This leads to an increased home
8 energy affordability gap, causing these families to skip meals, doctor's appointments, and
9 more families lacking sufficient income to make ends meet. TEP has done a fair amount
10 of outreach on this program, but one method that has not been implemented is automatic
11 enrollment for people who receive energy assistance. This program has already been
12 implemented in Arizona by SRP, increasing enrollment 3-5%. TEP has committed to
13 "investigate" the program, offering "some information" in six to eight months, and after
14 that, "I don't know." Vol. VIII, at 1873, 1901. The lack of specifics in this statement are
15 concerning, but even more concerning is the lack of commitment to raise Lifeline
16 enrollment. There are too many people needlessly paying unaffordable bills to wait an
17 unknown amount of time for the program to be studied and possibly never be
18 implemented. ACAA requests an implementation plan, with input from interested
19 stakeholders, be prepared within 90 days of implementation of the rates in this case.

20 A key point brought up in Ms. Smith's testimony is that, presently, the Company
21 has no way to collect the extra costs that enrolling additional Lifeline customers would
22 incur. That's a fair point; in fact, reasonable cost recovery is listed as one of the five
23

24
25 ⁴⁷

<http://www.ucdenver.edu/academics/colleges/SPA/researchandoutreach/Buechner%20Institute%20for%20Governance/Centers/CEPA/Publications/Documents/HomelessExecutive%20Summary-FINAL-2-27-07.pdf>

1 best-in-class criteria used to rate low-income affordability plans.⁴⁸ To this end, it would
2 be appropriate for the company to recover the costs of enrolling additional Lifeline
3 customers through one of its adjustor mechanisms. ACAA believes the LFCR would
4 work best in this situation. By pursuing this plan, thousands of vulnerable households
5 will get the assistance they need to provide a safe and healthy home for their families.⁴⁹

6 **Prepay Program**

7 ACAA is steadfast in the position that the prepaid program should not be
8 implemented. For reference, this program would have customers add credit to an
9 account, draw it down as energy was used, and disconnect the customer when the balance
10 reaches zero. The company has been insistent that this program is just another option for
11 customers, and that anyone may choose it. In practice, these programs are
12 overwhelmingly utilized by low-income customers. The percentage of customers in
13 SRP's MPower program with incomes less than \$30,000 rose every year the program was
14 monitored, with the final reported value at 82%. APS's pilot program had a low-income
15 usage between 63% and 69%.

16 Furthermore, the idea that this is a choice that any customer may make is
17 contradicted by the fact that prepaid energy is more expensive than post-pay energy.
18 Customers will be spending an extra \$5 per month, or \$60 per year, in order to participate
19 in the prepay program. This is equivalent to the customer purchasing an additional 78
20 kWh per month, or 940 kWh per year. Assuming a customer uses 400 kWh per month
21 (the mode of the dataset pictured in Jones Rebuttal Testimony, page 19), the customer

22
23 ⁴⁸ http://www.fsconline.com/downloads/Papers/2007%2011%20BestPractice_RateAffordability.pdf

24 ⁴⁹ These calculations assume that there is no benefit to the company, and therefore, non-participants by enrolling
25 additional customers onto the Lifeline rate. The weight of the research on this topic demonstrates that this is not the
case. A more sophisticated cost recovery mechanism would account for these benefits and only collect the net cost
of the Lifeline program so as to avoid over collection from non-participants. The specific benefits accrued vary by
utility, requiring further research in this topic to provide more accurate cost recovery.

1 would have to decrease their usage by 20% every month in order to break even with a
2 similar post-pay customer. Why would a customer choose such a bad deal for herself?
3 One defining aspect of the prepaid program is that there is no deposit required. Given
4 this knowledge, it makes perfect sense that a customer in a financial bind, unable to come
5 up with a several hundred dollar deposit, would choose the most favorable option in the
6 short term, only to wind up with a deal that's much worse in the long term.

7 Not only are bills higher with prepay, but customers pay more just to pay their
8 bills. In the APS pilot, 63% of payments were made at kiosks, which suggests that the
9 majority of payments will be in person cash payments for TEP as well. Paying at a
10 storefront entails an additional \$1 per payment for processing. Previous reports
11 documented prepay customers making 4 payments in the winter and 7 payments in the
12 summer on average. Given 6 months of winter and 6 months of summer, this averages to
13 5.5 payments per month. An equivalent post-pay customer would make one monthly
14 payment, giving an extra 4.5 payments per month for prepay customers. Adding an
15 additional \$4.50 to the customer's monthly bill is equivalent to an additional 71 kWh per
16 month or 846 kWh per year. On top of that, there's the additional cost of the time and
17 energy to get to the payment center several times a month, which is not quantified here.
18 Our 400 kWh customer would have to cut their bill by 37% in order to break even with
19 an equivalent post-pay customer.

20 On the topic of payment centers: in Ms. Smith's testimony, she stated that one of
21 the payment centers for TEP is ACE Cash Express, offering check cashing, title loans,
22 and other similar products. The Consumer Financial Protection Bureau has taken action
23 against the company for illegal debt collection tactics.⁵⁰ In 2007 ALL the major utilities
24

25 ⁵⁰ <http://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-ace-cash-express-for-pushing-payday-borrowers-into-cycle-of-debt/>

1 in Arizona including UNSE, UNSG and TEP, agreed to no longer accept payments
2 through payday lenders, the intent being that utilities shouldn't lead customers to
3 predatory lenders. It is incomprehensible that TEP has returned to this practice and
4 ACAA asks the Company to stop this practice at once.⁵¹

5 Additionally, prepay customers lose many of the customer service features that
6 allow vulnerable customers to maintain service. If a post-pay customer were to have a
7 high medical bill, or their car broke down, or they lost their job, they could reach out to
8 the utility, inform them of the situation, and negotiate a later payment date or a payment
9 plan to help them manage a difficult situation. For prepay customers, customer service is
10 mechanized: four hours after a No Credit Disconnect notice is sent, the power shuts off.
11 No negotiations, no considering circumstances, just an automatic shutoff. Without the
12 ability to work with the company to delay a shutoff, it will be harder to provide bill
13 assistance to maintain continuous service for the customer. This could cause customers
14 receiving assistance to go without electricity in the summer heat. Customers also lose
15 access to budget billing, a tool that has consistently helped financially troubled customers
16 manage their electricity bills and avoid spikes in energy payments.

17 Finally, the most glaring defect in the prepay program is the frequency of
18 disconnection. APS's Updated Disconnect Analysis reported 9,180 total disconnections,
19 of which roughly one third lasted an hour or less.⁵² One would assume that these
20 customers forgot that their balance had gotten so low and immediately rectified the
21 situation when their power was shut off. This gives weight to the argument that prepaid
22 power functions more as a collections mechanism than as an energy efficiency tool. Of
23 course, there are disconnection events with longer duration, with some of them lasting for
24

25 ⁵¹ http://www.opportunitystudies.org/repository/File/weatherization/AZ_Payday_Loan.pdf

⁵² APS Prepay Program Updated Disconnect Analysis – DRAFT, Navigant Consulting, November 6, 2015.

1 hundreds of hours. APS doesn't provide an in-depth analysis of the causes of
2 disconnection, but this topic has been studied elsewhere. A paper from the University of
3 Cambridge analyzed 2.3 million prepay customers and found the only variable that was
4 significantly related to the number of disconnections was whether a customer was having
5 "financial constraints." Households that were financially constrained experienced an
6 average increase in the number of disconnections between 19 and 35 percent.⁵³ In this
7 case, it seems that the financial constraints that pushed customers toward prepaid
8 electricity are the same constraints that cause them to lose power on prepaid electricity.

9 The company has emphasized the use of its mobile app to make payments and
10 monitor energy usage. Ms. Smith said that, right now, payment through the mobile app
11 requires a checking account. That may not be an option for many of the customers who
12 would enroll in prepay. Arizona has the third highest unbanked population in the United
13 States, with a total of 12.8% of homes unbanked. Unsurprisingly, the problem is much
14 worse for families with less income; 37% of households with annual income below
15 \$15,000 are unbanked, as are 20% of households with income between \$15,000 and
16 \$30,000.⁵⁴ There's also the issue of access to a smartphone. Households with income
17 under \$30,000 have 52% smartphone ownership, while 87% of households above
18 \$75,000 have smartphones.⁵⁵ Of the low-income households with smartphones, half have
19 had to cancel or suspend service due to financial constraints.⁵⁶ The company has
20 acknowledged that it can't be certain if a customer receives a low balance alert; to
21 address this problem, they require the customer to state that they "are watching and
22 looking at their notifications the company has sent." Vol. VIII at 1880. Even if the

23
24 ⁵³ <http://www.econ.cam.ac.uk/dae/repec/cam/pdf/cwpe1214.pdf>

⁵⁴ https://economicinclusion.gov/surveys/2013household/documents/tabular-results/2013_banking_status_Arizona.pdf

⁵⁵ <http://www.pewinternet.org/2015/10/29/the-demographics-of-device-ownership/>

⁵⁶ <http://www.pewinternet.org/2015/04/01/us-smartphone-use-in-2015/>

1 customers have agreed to this, they won't be able to foresee an unexpected emergency
2 expense or loss of income that would require them to suspend mobile service. With an
3 increasing number of low-income households becoming smartphone dependent, it's
4 unlikely that they will have separate internet access through which they can receive
5 alerts.⁵⁷ One of the essential utility customer protections is that customers must receive
6 adequate notice of a pending disconnection; with this program, TEP can't guarantee that
7 the customer will receive notice at all.

8 The ACC Staff has proposed, and TEP has agreed, to operate the prepay program
9 initially as a pilot. If it must go forward, this is the most preferable option. In order for
10 the pilot to be meaningful, several actions must be taken. First of all, the company needs
11 to quantify the savings created by customers participating in prepay. Ms. Smith has said:
12 "we expect savings, but [they are] unquantifiable at this time, and I believe
13 unquantifiable in the future." She has said this is because "you would have to kind of
14 create an alternate universe where these customers didn't go on the pre-pay program to
15 know what the savings were." Vol. VIII at 1896. By that logic, any behavioral
16 efficiency program would require two universes to measure savings; one in which the
17 customer received the treatment, and one in which they did not. Rather than pursue this
18 option, many utilities measure behavioral efficiency savings through experimental
19 design. The Company could use similar tools to derive an accurate result. It's essential
20 that this value be discovered so that prepay customers can be charged fairly. Prepay
21 customers are paying extra fees for the cost to participate in the program; they should
22 receive the benefits they generate by being in the program. That's just basic fairness.

23 Before the pilot is analyzed, TEP should invite stakeholders to give input on the
24 relevant data to be recorded and analyzed. The largest topic of discussion in the APS

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⁵⁷ <http://www.pewinternet.org/2015/04/01/us-smartphone-use-in-2015/>

1 stakeholder group was the size of the disconnect effect. Knowing that it was such a
2 divisive issue, the company should commit to deriving a precise value. Disconnection
3 length and frequency vary by month, as does energy use, which should be addressed in
4 the disconnect effect value. There are a number of options that could be used to model
5 the disconnect effect robustly, or it could be measured directly. A rough outline of the
6 experiment would entail selecting two groups, setting up one of the groups on the prepaid
7 plan, and the other group would get all of the information and feedback and notices but
8 not be subject to automatic disconnection. If properly controlled, the difference in energy
9 consumption between the two groups will yield the disconnect effect.

10 Additional analysis must be performed to determine how low-income customers
11 respond vs. non-low-income customers. It's important to know if low-income customers
12 are experiencing more disconnections or spending more time disconnected than the
13 average customer. If it turns out there are issues, it will help to discover where important
14 customer protections should be added. Also, any surveys of customer satisfaction should
15 include a comparison post-pay group to determine the relative satisfaction between
16 programs. Finally, we have to make sure that it's actually energy efficiency that's being
17 measured. After analyzing TEP's proposal, Staff said it "is not convinced any program
18 that is designed to cut off power due to the customer's inability to pay is in accordance
19 with the Arizona Administrative Code ("A.A.C.") § R14-2-2401 (17) definition of EE."
20 If the reported savings are actually customer deprivation from being unable to afford to
21 keep the lights on, then prepaid electricity shouldn't be included as an energy efficiency
22 measure.

23 **Fixed Charges**

24 ACAA has requested that the fixed charges be held at \$10 for low-income
25 customers. It's uncontroversial to say that low-use customers are disproportionately

1 affected by increases in fixed charges, as the increase will make up a larger part of their
2 bill than a high-use customer's bill. Throughout ACAA's testimony it was demonstrated
3 that low-income customers are more likely to be low-use customers. The company's
4 primary retort to this is that some low-income customers are high use customers. This is
5 true; there are a few outliers. However, TEP's expert witness very clearly stated "we
6 don't make rates based on the actual costs for every customer. We make rates on the
7 average cost for customers within the class." Vol. IV at 799. On average, Lifeline
8 customers use 11% less energy than non-Lifeline residential customers. The average
9 difference across Arizona between low-income and non-low-income bills is 25%. The
10 difference of reported values can be explained by the self-selection bias of Lifeline
11 customers and the fact that roughly 80% of low-income customers are represented in
12 Residential rates rather than Lifeline rates. The presence of outliers can't be used to
13 ignore what is a clear and consistent trend, that low-income customers, on average, use
14 less energy than non-low-income customers.

15 Raising the fixed charge impacts the affordability of the rates. The more costs are
16 recovered through the fixed charge, the higher the customer's bill is before they've even
17 flipped on a light switch, and the less control they have over the bill's final total. In the
18 previous paragraph on affordability it was demonstrated that, although low-income
19 assistance is available, the overwhelming majority of eligible customers aren't able to
20 access it. Given this unfortunate reality, affordability must be considered in designing
21 rates. One simple way to do this is to maintain the \$10 fixed charge in order to give
22 customer maximum control over their bill.

23 **Tiered Rate Discount**

24 ACAA proposed a discount that would allow for customers in deep poverty (0 –
25 50% FPG) to receive a discount larger than what's available to households at 51-100%

1 FPG, which is larger than the assistance offered to households from 101-150% FPG.
2 This was motivated by an attempt to connect households in higher need with greater
3 assistance. Households in deep poverty in Pima county spend 17.5% of their income on
4 energy, while households from 51%-100% FPG have an energy burden of 9.3%, and the
5 energy burden for households from 100% FPG to 150% FPG is 5.7%.⁵⁸ In this instance,
6 a \$15 credit may be enough to make bills affordable for the highest tier, but the
7 households in deep poverty will still have a hard time making ends meet. Providing
8 assistance in a more targeted manner will make bills more affordable to more of TEP's
9 customers. Not only does this provide more households with affordable electricity, it
10 benefits the utilities as well. Charging a lower total bill for low-income customers has
11 been shown to increase bill coverage, the percent of the bill paid by the customer. For
12 example, it is better for the company to be paid 90% of an \$80 bill than 70% of a \$100
13 bill. Along with this increase in revenue, higher bill coverage results in lower costs to
14 collect (phone calls, door hangers), fewer disconnections and reconnections, a lower
15 carrying cost of debt, and other non-energy benefits, further increasing the value
16 delivered to the utility. This has been observed in Indiana, Colorado, New Jersey, and
17 other states.⁵⁹

18 Dr. Overcast stated that he supported "something close to" the proposal ACAA
19 put forward. Vol. IV at 734. He also noted that "a one-size-fits-all approach results in a
20 program that really does not fit anyone." Vol. IV at 734. It's in that spirit that ACAA
21 proposed this approach. ACAA's proposal will move away from the current one-size-
22 fits-all flat discount that customers now receive and instead offer them assistance
23 proportional to their need, allowing for more affordable rates for all Lifeline customers.
24

25 ⁵⁸ Home Energy Affordability Gap

⁵⁹ <http://www.synapse-energy.com/sites/default/files/Low-Income-Assistance-Strategy-Review-14-111.pdf>

1 In Mr. Jones' testimony, he expressed agreement with the proposed program
2 conceptually, which was welcome news. Since the concept is agreeable to the Company,
3 the parties can work together to iron out any implementation issues. It is important to
4 ensure that the proper people are receiving the correct discounts, but intense scrutiny
5 often comes at the cost of eligible customers not receiving the discount. If this proposal
6 goes forward, it would be important to implement a system of continuous improvement,
7 ensuring that the right people are getting the right benefits and eligible customers aren't
8 being excluded from the program. This is a discount program that has worked for many
9 utilities to improve payment patterns, reduce energy burdens, and decrease the cost to
10 serve customers. It's a program that has helped low-income customers across the country
11 manage their bills and keep the lights on. These are concepts that, one assumes, all
12 parties to this case would like to see implemented, and ACAA offers our assistance in its
13 effective implementation.

14 **Lifeline Rates**

15 ACAA has proposed to hold Lifeline customers harmless.

16 In Mr. Jones' testimony, he said "for the most part, I would say once a rate is
17 frozen it should stay frozen until attrition eliminates all participants in that rate." Vol. IX
18 at 2066:7. This sentiment seems especially wise in this circumstance, as moving the
19 frozen Lifeline customers to the proposed rates would result in a significant rate shock.
20 With the proposed increase, eight of the frozen rates will see increases above 20%, six
21 will see increases above 30%, and three will see increases above 40%. This would result
22 in a severe hardship if these customers were suddenly forced to add these costs to their
23 energy burdens. These customers should be held harmless from such a sharp increase,
24
25

1 and the company should follow Mr. Jones' prescription of keeping a frozen rate frozen
2 until attrition eliminates the participants in the rate.

3 DATED this 31st day of October, 2016.

4 ARIZONA CENTER FOR LAW IN
5 THE PUBLIC INTEREST

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11 ORIGINAL and 13 COPIES of
12 the foregoing filed this 31st day
13 of October, 2016, with:

14 Docketing Supervisor
15 Docket Control
16 Arizona Corporation Commission
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18 Phoenix, AZ 85007

17 COPIES of the foregoing
18 electronically mailed this
19 31st day of October, 2016 to:

20 All Parties of Record

21 
22 _____