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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

DOUG LITTLE – Chairman
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Arizona Corporation Commission
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IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS 2016 RENEWABLE ENERGY STANDARD AND TARIFF IMPLEMENTATION PLAN	DOCKET NO. E-01933A-15-0239
IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF TUCSON ELECTRIC POWER COMPANY DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA AND FOR RELATED APPROVALS	DOCKET NO. E-01933A-15-0322 **POST-HEARING REPLY BRIEF FOR SOLON CORPORATION**

SOLON Corporation ("SOLON"), through its undersigned counsel, hereby submits its Post-Hearing Reply Brief in the above-captioned Docket.

In its Initial Post-Hearing Brief, SOLON argued for the following changes to Tucson Electric Power Company's ("TEP") rate design proposals in this case:

1) TEP's proposal requires an involuntary transition for eligible customers from the current GS-10 rate plan to the proposed MGS and LGS rate plans, leading to unpredictable and drastically increased rates for many customers. TEP's proposal should be rejected. If, however, the Commission requires customers to transition to a proposed MGS and LGS rate class, then TEP should be ordered to provide alternative two-part time-of-use plans prior to the expiration of any transition period, and MGS and LGS customers should be allowed to choose among these plans.
2) TEP's proposed 75% demand ratchet on lower load factor customers, such as those customers that would be eligible for the MGS rate, would lead to unpredictable and high rate increases for a large number of customers – not just a few outliers, and further fails to adequately serve its purpose to decrease peak demand. The Commission should reject TEP's proposal to use demand ratchets for MGS customers.
3) Further, prior to the Commission's decision in this case, TEP must release monthly billing determinants for each customer expected to transition to the MGS and LGS rate plans so the parties can further validate the expected impacts of TEP's above proposals.

SOLON continues to rely on the arguments and citations to the evidence provided in its Initial Post-Hearing Brief. SOLON provides below replies to certain of TEP's statements in its Initial Post-Hearing Brief.

I. DISCUSSION OF ISSUES

a. TEP's proposed transition plan for the proposed mandatory MGS rate plan fails to adequately address unreasonable bill impacts to commercial customers. A better solution is to give customers more plan choices within a specific rate class.

TEP argues on pages 30-31 of its Initial Post-Hearing Brief that both medium and small general service classes should be created from the current small general service class to reflect the current disparity in usage and load factors within TEP's current general service class. The purpose of splitting the general services customers into small, medium, and large classes appears to be based upon TEP's assertions that larger load and usage customers use the grid more efficiently, and should be rewarded.[1] Rather than simply providing these already more efficient customers with an additional rate plan choice, however, TEP proposes, in a very short period of time, to cause unreasonable rate shocks to a significant number of customers by requiring all eligible customers to move involuntarily to the proposed MGS and LGS three-part plans that incorporate a demand charge and ratchet.[2]

As to the proposed MGS customers, TEP claims it "has analyzed bill impacts for a sample of transitioning customers," and concludes that the "bill impacts are reasonable."[3] TEP fails to explain in its Initial Post-Hearing Brief argument, however, that TEP provided projected impacts for the proposed demand plans for only <u>32</u> select non-distributed generation customers.[4] TEP fails to demonstrate the effect of its proposals on any distributed generation customers and the thousands of other customers that would be

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[1] TEP Initial Post-Hearing Brief at 31.
[2] *See* SOLON Initial Post-Hearing Brief *generally*.
[3] TEP Initial Post-Hearing Brief at 31, *citing* Ex. TEP-43.
[4] *Id.;* Tr. at 1281:12-18 (no DG customers included).

required to migrate to a new rate plan.[5] Further, Exhibit TEP-43 demonstrated only the rate impacts caused by the migration of this small sample of customers from the proposed SGS rates to the proposed MGS rates, but not from the current GS-10 rates to the proposed MGS rates.[6]

While bill impacts to some affected customers required to migrate to the proposed MGS and LGS plans may indeed be reasonable as TEP argues, SOLON demonstrated (even with the very limited data SOLON was able to secure from TEP)[7] that TEP's proposed rate designs violate the fundamental rate design principle that rates should change gradually.[8] First, Mr. Seibel in his Direct Testimony and Exhibit SOLON-3 illustrated with available residential data the variable and scattered nature of bill impacts expected when customers move from two-part rates to three-part demand rates.[9] The spread of customer impacts cannot be fairly or accurately predicted by averaging customer data or averaging resulting impacts as in the Commission's traditional "H" schedules. SOLON repeatedly requested similar non-aggregated and unaltered commercial customer demand data to more accurately describe the same anticipated variable impacts for commercial customers, but TEP was unable or unwilling to provide the amount of data needed to accurately describe the expected impacts. TEP must release

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[5] Tr. at 1281:12-18; TEP Initial Post-Hearing Brief at 31 (MGS rate will contain approximately 4,000 customers).

[6] Tr. at 1280:14-17.

[7] *See* SOLON Corporation's Motion to Compel Disclosure of Data Request Served on TEP docketed on August 19, 2016; SOLON Corporation's Reply to Its Motion to Compel Disclosure of Data Request Served on TEP docketed on August 29, 2016; Transcript of Procedural Conference docketed on September 7, 2016; Transcripts of Hearing on September 16 and 19, 2016 (further discussion of requested data production); *see also* SOLON's Initial Post-Hearing Brief at 8-9 (data issues).

[8] *See* Ex. SOLON-5, at 4-14.

[9] *See* Ex. SOLON-4 at 43-45.

the monthly billing determinants for the MGS and LGS classes before any fully-vetted analysis can be completed and decisions made.

Mr. Seibel in his Surrebuttal Testimony was able to illustrate unreasonable impacts to real TEP customers even with a very limited sample of customer data available to SOLON (39 customers). He projected annual impacts of 28%-95% for school customers without distributed generation, and annual impacts as high as 3,654% for distributed generation customers, with most impacts to distributed generation customers expected to exceed 100%.[10] It is important to note, these percentage increases are not trivial dollar values, as the annual dollar bill increase for the customer with a 3,654% bill increase is over $52,000. Finally, during the hearing, TEP provided SOLON with a sample selected by TEP of another 378 commercial customer profiles that appeared to exclude distributed generation customers, and SOLON's analysis demonstrated unreasonable impacts within this sample too.[11]

In TEP's Initial Post-Hearing Brief, TEP indicated "Moreover, even SOLON agrees that approximately 80% of potentially transitioning SGS customers will see a rate increase of less than 2.2%."[12] Nowhere in Mr. Seibel's testimony does he make this absolute assertion, and in no way does he agree with this statement because SOLON has still not been provided by TEP with the data needed to appropriately evaluate this statement. TEP provided SOLON with 378 commercial customer profiles approximately 24 hours after TEP was ordered to do so by Judge Rodda during the hearing. Given TEP's reluctance or inability to provide all commercial customer data previously, and given the limited data selected by TEP for this partial production, it appears there are two potential additional scenarios to be evaluated before drawing a conclusion: (1) TEP

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[10] *Id.*; *see also* SOLON Initial Post-Hearing Brief at 14.

[11] SOLON Initial Post-Hearing Brief at 12.

[12] TEP Initial Post-Hearing Brief at 31.

either already had many customer profiles extracted from their databases and selected profiles that would experience lower than average bill impacts, or (2) given the short turnaround on the data, there was no effort to ensure these profiles were indeed a representative sample. Regardless, TEP has represented to all parties in this hearing in TEP's H-schedules that the bill impacts to average MGS customers will be between 2.2% and 5.1%.[13] Even a cursory review of the data presented by TEP or SOLON show this to be a completely inaccurate representation of the range of impacts. TEP's failure to adequately analyze impacts to over 4,000 Southern Arizona businesses cannot be overlooked.

In recognition of the extraordinary impacts to distributed generation customers, TEP has now proposed in its Initial Post-Hearing Brief to grandfather distributed generation customers who qualify for the MGS plan for a period to be determined in Phase 2 of this matter.[14] While SOLON views TEP's new grandfathering proposal as a step in the right direction, the proposal does not address the existing DG customers that will be automatically transitioned to the LGS class. These are the existing DG customers that experience the most extreme bill impacts. The two examples in Mr. Seibel's Surrebuttal Testimony of a health care facility and a local church that experience bill increases of 3,654% and 420% were due to a mandatory transition from GS-10 to LGS.[15]

The Commission Staff's and TEP's proposed transition plan for commercial customers recognizes their similar expectations of unreasonable impacts, but the transition plan only delays the unreasonable impacts for a short time, without giving affected customers who are unable to reduce their peak demand a reasonable option.[16] The proposed 9-month or 12-month transition period, and the proposal to keep the rate

[13] Ex. TEP-32, Schedule H-4 at 73-74.
[14] TEP Initial Post-Hearing Brief at 33.
[15] Ex. SOLON-4 at 43-45.
[16] Staff's Closing Brief at 17-18;

case open for 18 months to address the unfair impacts in some currently-unspecified way,[17] will not avoid the inevitable and unreasonable nature of the impacts. TEP's poorly-defined transition plan would be far less effective than either (1) providing MGS and LGS customers with permanent alternative rate options that include two-part rate plans such as those proposed for small commercial customers, or (2) rejecting TEP's proposed involuntary transition to three-part demand rates in this case. TEP's principal rate designer,[18] Mr. Bachmeier, agrees that rate gradualism is addressed for small commercial customers by allowing a customer a choice of rate plans,[19] so even if the Commission is not willing to delay implementation of the proposed MGS and LGS plan for medium-sized customers in this case, then at a minimum these customers should similarly be provided with other rate plan options within their rate class.

b. <u>TEP's proposed 75% demand ratchet should be rejected for the MGS class. TEP has not demonstrated that its proposed seasonality clause will adequately mitigate unreasonable impacts.</u>

In an attempt to mitigate the unfair impact of the demand ratchet, TEP has proposed a seasonality clause in the MGS tariff that will apply to only "a handful" or a "dozen or so" full requirements customers because the ratchet would be "overly punitive from a rate perspective" to those customers.[20] TEP has not provided, however, any data that indicates whether the seasonality clause addresses all the expected unreasonable customer impacts resulting from application of a demand ratchet. TEP's proposed seasonality clause excludes all distributed generation customers from the proposed seasonality clauses, even though distributed generation customers are likely to see rate

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[17] *See* TEP Initial Post-Hearing Brief at 32.

[18] Tr. at 1275:21-23.

[19] Tr. at 1301:20-24.

[20] Ex. TEP-31 at 15-16; TEP Initial Post-Hearing Brief at 35.

impacts in excess of 100%.[21] Further, the seasonality clause would apply to a limited period (October-April) that may not address the unreasonable impacts to seasonal customers with a longer season, such as a school year.[22]

II. CONCLUSION

For the reasons described in SOLON's Initial Post-Hearing Brief, as supplemented herein, SOLON respectfully requests the Administrative Law Judge and, subsequently, the Arizona Corporation Commission, make and adopt the following recommendations in this rate case:

1) Reject the Company's proposal to force an involuntary transition to the MGS or LGS rate plans.
2) If the Company is allowed to force an involuntary transition to the MGS or LGS rate class, the customer should be allowed to choose between a TOU two-part rate plan or a three-part rate plan.
3) Reject the Company's proposal to institute ratchets for all rate classes.
4) Prior to making a recommended opinion and order, require the Company to release all MGS and LGS monthly billing determinants for each customers expected to take service under these rate plans.

DATED this 14th day of November, 2016.

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[21] *See* Direct Testimony of Brian A. Seibel, Ex. SOLON-4 at 43-45.
[22] *Id.*

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Dated at Maricopa County, Arizona, this 14th day of November, 2016

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