



# Word on the Street

BY KIMBERLY RUHT

Over the past few months, the Commission has been increasingly active in initiating new rulemakings, investigations and committees to examine public policy questions.

Last autumn, then-Chairman Little opened a docket to review, modernize, and/or expand the Arizona Renewable Energy Standards, Tariff Rules and Associated Rules. After providing a lengthy list of questions to the industry, by the end of 2016 the Commission had received dozens of responses from different stakeholders.

Also last year, the Commission directed Utilities Division Staff to begin a rulemaking process to change the Affiliated Interest Rules to help alleviate the regulatory burden that currently exists for utilities seeking to acquire a Class D or E water or wastewater system. To date, only one interested party has filed comments to Staff's proposed change and no further action has been taken by the Commission.

This year began with Commissioner Tobin initiating the process to revise the Arizona Universal Service Fund

rules to allow state matching funds for special construction projects as provided in the FCC's E-rate Modernization Orders in order to facilitate the construction of broadband infrastructure

ACC moves on streamlined regulation for water companies, Universal Service matching funds for construction projects and establishing policy committees

in rural Arizona. Interested parties and stakeholders have been meeting and filing comments on the proposed rules.

At the beginning of February, Commissioner Burns opened a docket to develop new transparency and disclosure rules relating to financial expenditures by regulated monopolies, intervenors

and other stakeholders. A week later, Commissioner Tobin opened a docket to gather information regarding the future of the Navajo Generating Station – a topic that received significant discussion during the Tucson Electric Power rate case discussion at February's Open Meeting.

More recently, during the ACC's Staff Open Meeting on March 1, 2017, the Commission passed Chairman Forese's Resolution No. 2017-001, authorizing the Chairman to create committees of the Arizona Corporation Commission to examine policy issues and make recommendations to the Commission as a whole. The Chairman will appoint other Commissioners to chair and oversee the committees.

The outcome of these dockets is yet to be determined, although it is clear that this Commission is one interested in being proactive about effecting change.

## BREAKING NEWS

- On 3/1, APS reached agreement with most parties in its rate case. The Settlement Agreement, which calls for a 4.5 percent rate increase will be filed with the ACC by 3/24.
- ACC Chair, Tom Forese is authorized to create committees to examine policy issues and make recommendations.
- Solar organizations agree to support APS rate settlement.

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ARIZONA INVESTMENT COUNCIL

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## CONSENT AGENDA

The February 2017 Open Meeting of the Arizona Corporation Commission convened at 10:00a.m. on Tuesday February 7th in the Phoenix Office and at 10:00 a.m. on Wednesday February 8th in the Tucson Office.

The following items were approved on the Chairman's Consent Agenda:

**RAILROADS**

The Commission approved an upgrade to Arizona Eastern Railroad's existing signals at State Route 75, mile post 379, in Duncan, Arizona. (Docket No. RR-02634A-16-0295).

**TELECOMMUNICATION**

The Commission canceled the Certificates of Convenience and Necessity ("CC&N") for OneLink Communications, Inc. (Docket No. T-04089A-16-0440).

Airus, Inc.'s performance bond requirement contained in Decision No. 73249 was removed. (Docket No. T-20695A-16-0433).

Smith Bagley, Inc. dba Cellular One of North East Arizona received approval to expand its Eligible Telecommunications Carrier ("ETC") service area. (Docket No. T-02556A-16-0355).

Through a generic docket investigation, the Commission approved an order updating its tariff requirements to mirror the Federal Communication Commission's ("FCC") most recent Lifeline and Link Up Orders. The revised tariffs will: (1) remove Link Up from the Company's Arizona Tariff, or for those Arizona ETCs that also receive high-cost support on Tribal Lands, include Link Up in their Arizona tariff for Tribal Lands only; (2) update the Arizona Lifeline Tariff to reflect the FCC's revised list of Lifeline eligible programs; and (3) comply with all FCC Lifeline requirements. (Docket No.

T-00000A-16-0420).

**WATER**

Willow Springs Utilities, Inc. received an extension of time to file a copy of the Certificate of Approval of Construction ("AOC") issued by ADEQ, a condition of the Company's CC&N. (Docket No. WS-20432A-05-0874).

Because the Highlands at Inde is an Arizona no-profit homeowner's association, it was determined not to be a public service corporation within the meaning of Article XV of the Arizona Constitution. (Docket No. W-20980A-16-0274).

ACC updates tariff to mirror  
FCC recent Lifeline and Link  
Up orders

Ash Fork Development Association, Inc. D/B/A Ash Fork Water's Decision 75805 received minor corrections, Nunc Pro Tunc. (Docket Nos. W-01004B-15-0313 & W-01004B-15-0342).

**ELECTRIC**

The 2017 Renewable Energy Standard and Tariff ("REST") Implementation Plans and Surcharge Tariffs were approved for the following companies: Duncan Valley Electric Cooperative, Inc., Sulphur Springs Valley Electric Cooperative, Inc., and Navopache Electric Cooperative, Inc. (Docket Nos. E-01703A-16-0228, E-01575A-16-0175, and E-01787A-16-0231).

The Commission approved

UNS Electric, Inc.'s Customer Communication Plan to educate customers regarding their rate options and how they can manage their bills. UNSE's plan aims to educate residential and small commercial customers about new optional Time-of-Use ("TOU"), Demand, and Demand TOU rate plans. The Plan also promotes energy efficiency tips and awareness that the new plans could help reduce the peak load on UNSE's generation and distribution systems. (Docket No. E-04204A-15-0142).

Mohave Electric Cooperative, Inc.'s Decision No. 75931 that authorized new permanent rates was corrected nunc pro tunc to include Exhibit A. (Docket No. E-01750A-16-0207).

**GAS**

A Settlement Agreement between Southwest Gas and the Commission's Safety Division resolving certain issues that arose from an incident that occurred in June 2015 in Bullhead City was approved by the Commission. (Docket No. G-01551A-15-0407).

## REGULAR AGENDA

## WATER AND WASTEWATER

Arizona Water Company. After more than ten years of litigation, the dispute between Arizona Water Company (“AWC”) and Cornman Tweedy 560, LLC finally concluded. This case involved a remand of a 2007 Decision (69722), in which the Commission found that AWC had fulfilled the conditions required by its initial Certificate of Convenience and Necessity (“CC&N”) (Decision No. 66893 April 6, 2004). After granting the initial CC&N to AWC, Cornman-Tweedy acquired property within AWC’s certificated service territory. The 2007 Decision (69722) remanded the matter for further proceedings to investigate whether AWC should continue to hold a CC&N for the Cornman-Tweedy property. At a subsequent Open Meeting (in February 2011), after the Commission had twice discussed but not voted on the Recommended Order, the Commission directed the Hearing Division to conduct an additional investigation into whether a public service corporation is providing reasonable service if it is not able or willing to provide integrated water and wastewater services.

AWC and Cornman-Tweedy disagreed on the nature of the proceeding. AWC asserted that the proceeding was attempting to delete a portion of its CC&N and therefore was governed by the case James P. Paul Water Company v. Arizona Corporation Commission. Cornman-Tweedy argued that the Commission had never issued AWC an unconditional CC&N and that, therefore, the proceeding dealt with questions of public policy and whether or not it was necessary or appropriate for AWC to serve the Cornman-Tweedy property if it could not provide integrated water and wastewater service. The Recommended Opinion and Order (“ROO”) concluded, among other things, that the Commission had granted

AWC an unconditional CC&N and that, absent the findings required by James P. Paul, it could not delete the relevant portion of AWC’s CC&N.

At Open Meeting, Commissioner Dunn proposed an amendment that adopted language from the exceptions filed by Cornman-Tweedy; if adopted, it would have granted Cornman Tweedy’s request to be excluded from AWC’s service territory, thereby deleting a portion of AWC’s CC&N. The Amendment failed in a 2-3 vote, with Chairman Forese and

ACC affirms Arizona Water Company’s retention of its CC&N in dispute with developer Cornman-Tweedy

Commissioner Dunn being the only ayes.

The Commissioners engaged in a significant discussion of this matter. Commissioner Tobin’s questions and comments focused primarily on two areas: (1) whether non-integration of water and wastewater services is evidence of inadequacy of service, and (2) whether the non-development of the Cornman Tweedy property evidenced inadequate service that should allow the deletion of AWC’s service territory.

Commissioner Dunn’s discussion focused on the proceeding’s longevity and his concern regarding AWC’s ability to work constructively with separate wastewater companies. In proposing his amendment, he stated that he did not believe that the language of the previous Commission orders reflected the Commission’s true

intent and was inclined to delete AWC’s territory for the reasons outlined in his amendment.

Commissioner Little’s comments focused primarily on the required legal analysis and evidence in the record. Commissioner Little spoke of the importance of protecting the rights contained in a CC&N. And, while all Commissioners expressed frustration at the complexity and confusion created by the numerous Orders, Commissioner Little stated that the Commission speaks through its ordering paragraphs in its Orders and not the discussion on the dias.

Two public commenters spoke in favor of the ROO. Chairman Forese engaged in a brief discussion with one of the public commenters regarding the commenter’s view of a CC&N as a property right but gave no indication about his personal view on the subject.

The ROO ultimately passed as written, affirming AWC’s retention of its CC&N in a 3-2 vote, with Chairman Forese and Commissioner Dunn voting no. (Docket No. W-01445A-03-0559).

Vernon Valley Water, Inc. was approved for significant rate increase. The Company provides water service to approximately 20 metered residential customers 18 miles east of Show Low in Apache County. Staff agreed with the Company’s proposed base rate increase because the evidence demonstrated the tiered rates approved in the Company’s last rate case resulted in customer’s conserving water. A revenue increase of 88 percent was approved, creating rates that would increase the average customer’s monthly water bill by \$33.50, or 93percent, from \$36.04 to \$69.54.

## REGULAR AGENDA, CONTINUED

WATER AND WASTEWATER,  
CONTINUED

Commissioner Tobin asked Utilities Division Staff and the Company why the Company's other systems are not being consolidated; and again reiterated his objectives for future small company consolidation to mitigate significant rate increases. The item was approved by a 5-0 vote. (Docket No. W-20540A-16-0333).

Pima Utility Company may incur an \$8.4 million loan. PUC is a Class B utility providing water and wastewater service to approximately 10,197 water customers and 10,083 wastewater customers in the Sun Lakes and adjacent communities in Maricopa County. The Commission approved PUC's request to incur a 15 year amortizing loan for \$8,370,000, with a five year maturity date, not to exceed a five year LIBOR plus two percent per annum. The loan will help retire an existing loan whose payment is due before July 25, 2017; reduce equity in the capital structure using debt capital in order to achieve and maintain a capital structure of approximately 65 percent equity and 35 percent debt; and fund infrastructure improvements, including well replacement, essential transmission line replacement, water tank rehabilitation, and sewer plant renovations. (Docket No. SW-02199A-16-0380 & W-02199A-16-0381).

Harrisburg Utility Company received approval to finance a new storage tank. The Company's application for financing approval to install a 20,000 gallon steel storage tank was previously heard at the 2016 December Open Meeting, but the Commission did not vote on the matter. Staff originally recommended denying the application because that they do not believe the storage tank is needed in the foreseeable future. Staff filed an updated Staff Report revising their recommendation, providing three options from which the Commission

may choose.

Commissioner Little proposed two amendments approving the financing. During the discussion, he expressed his dissatisfaction with Staff providing three options instead of working with the Company to recommend one preferable option for Commission consideration. Prompted by Commissioner Tobin, there was additional discussion regarding the cost estimates for the storage tank and if a SCADA system would be useful. Commissioner Little's Amendments were passed 4-1. Additionally, there was an ALJ Amendment making minor typographical errors. Item passed unanimously as amended. (Docket No. W-02169A-14-0307).



## ELECTRIC

Trico Electric Cooperative, Inc.'s rate application was approved. Trico is a Class A non-profit, member owned, electric distribution cooperative providing service to approximately 43,000 customers in northwest Tucson, Marana, Corona de Tucson, Sahuarita, Green Valley, Three Points, Arivaca and Sasabe. Trico's goal in this application was to address a perceived increase in inequities regarding who pays for the cost to serve all customers. To accomplish that goal, Trico's application proposed: (i) modifications to the net metering tariff, (ii) increases to the monthly customer charges, (iii) implementing a two-tier inclining block monthly energy rate for its non-time-of-use ("TOU") customers, (iv) implementing a demand charge billing component for its residential and small commercial customers, and (v) adjusting how revenue is recovered from each customer class. Staff and Trico entered into a Settlement Agreement compromising on many of these items; however a number of the provisions contained were either not adopted by the Administrative Law Judge or were altered through Commissioner Amendments at

Open Meeting.

The Company received a modest revenue increase of 2.61 percent, or \$2,282,076, with a 6.33 percent rate of return on fair value rate base. Coupled with rate design changes, the monthly bill for an average residential customer will increase by approximately 1.75 percent.

Despite Trico's stated goals in filing the rate application, the Commission only approved a handful of the Company's requests. Trico will freeze its current residential TOU rate, but the Order explicitly states that this freeze does not constitute automatic elimination in the next rate case. Second, Trico was denied approval for a demand charge tariff. The Settlement Agreement intended to approve a demand charge tariff set at \$0.00 per KW to allow the Company to begin to educate its customers on the new demand component of the rate. However, the Order declined to approve a demand charge because the Commissioners do not believe that an actual tariff is required for the Company to provide customers with informational demand data. Third, the Settlement Agreement approved a \$24 Basic Customer Charge ("BSC") to address the Company's problems collecting fixed costs through the volumetric charge; however it was reduced to \$20 with the adoption of Commissioner Tobin's Amendment No. 1. Finally, Trico is not permitted to file a rate case with a test year ending earlier than June 30, 2018.

The conversation during open meeting centered on the treatment of current and future DG customers. All of the Commissioners agreed that the current net metering tariff will be frozen. However, there was significant discussion regarding the specific grandfathering language they wanted to adopt in this case versus the language approved in the Value of Solar Decision. The Commissioners settled on grandfathering

## REGULAR AGENDA, CONTINUED

**ELECTRIC, CONTINUED**

systems that have filed for interconnection prior to the effective date of this decision, and those grandfathered systems may continue to use current DG related rate design and net metering for 20 years from the date the system is/was interconnected. Additionally, the Commissioner's approved a DG Export Rate of \$0.0770 per kWh applicable to all new DG customers that file for interconnection after the effective date of this decision and prior to the effective date of a Phase 2, where it may be reaffirmed or modified.

Trico's rate application was approved as modified in a unanimous vote. (Docket No. E-01461A-15-0363).

Tucson Electric Power Company ("TEP") Rate Application was approved. TEP is a Class A electric utility that serves almost 415,000 customers in Pima County. TEP and eleven other parties entered into a Settlement Agreement on the revenue requirement portion. The Settlement Agreement contained a base rate increase of \$81.5 million, a capital structure of 49.97 percent long-term debt and 50.03 percent common equity, a cost of equity of 9.75 percent, a weighted average cost of capital of 7.04 percent, a fair value rate of return of 5.34 percent with a fair value increment of 1.0 percent. Additionally, the Settlement Agreement included in rate base \$49.6 million of post-test year plant and \$4.8 million of post-test year renewable generation that was verified and in-service as of June 30, 2016 (12 months of post-test-year).

TEP was granted a modest increase to its BSCs: the standard residential BSC went from \$10 to \$13 and the TOU BSC will be set at \$10. The Commission declined to adopt the Company's requested \$15 BSC due to concerns for the overall rate impact on customers. Additionally, the Commission eliminated the fourth

tier in the Company's residential rate structure and allowed two-tiers for the TOU rate offerings. The Commission approved an optional three-part demand rate for residential customers; however, in conjunction with that approval, the Company is required to develop a customer web portal with a comparison tool for customers.

A new Medium General Service ("MGS") rate was approved for customers with usage above 24,000 kWhs in two-consecutive months and demands between 20-300 KW. The MGS rate will be a 3-part rate with a ratchet and a BSC of \$40. The Commission approved a new Economic Development Rider as well as a Pre-Pay Pilot program. However, the Commission declined to approve any major changes to the Lost Fixed Cost Recovery Mechanism, besides allowing for the inclusion of "reliability must run generation."

Like many electric cases in the last few months, significant focus was on renewable energy issues. The Commission approved RUCO's RPS Credit option, providing DG customers with more certainty if they elect the option. The Commission adopted the same grandfathering provision as in Trico's case: systems that have filed for interconnection prior to the effective date of this decision will be grandfathered, and those grandfathered systems will be able to continue to use their current rate design and net metering for 20 years from the date the system is/was interconnected.

Additionally, Similar to UNSE, an additional meter charge of \$2.05 for residential customers and \$0.35 for SGS, or a onetime fee of \$142.95 or \$23.74 respectively, will be charged to cover the incremental cost of the bidirectional meters needed to serve DG customers. In furtherance of evolving rate design to incorporate and promote additional

technological advances, Commissioner Tobin proposed two amendments that require TEP's DSM Plans to increase the focus on energy efficiency, demand response, and load management programs that reduce the customers' energy demand during the period of system peak demand and to develop programs that facilitate residential energy storage technology.

Commissioner Tobin made the potential closure of Navajo Generating Station ("NGS") a high priority. He expressed serious concern about the jobs that will be lost when the plant closes and wanted to know additional information on the steps TEP will be taking with respect to that plant. There was a lengthy discussion on two provisions of the amendment that would have prevented TEP from making any decisions regarding the closure of the plant prior to the Commission's review of the submitted information. Those provisions were removed from the Amendment to prevent the Commission from tying TEP's hands at an upcoming NGS owner meeting. The only Commissioner not in favor of the amendment was Commissioner Burns. Commissioner Burns expressed concern about the Commission interfering with TEP's decision-making, noting that there is potential for the environmental compliance requirements for this facility, coupled with the lost costs of alternative generation options, to cost TEP customers a substantial amount of money in the future. The Amendment was approved as amended.

The Commission declined to adopt either Burns Amendment No. 1 or No. 2, which would have instituted a buy-through program in TEP's service territory. Commissioners Little and Dunn declined because they wanted to hear APS's conclusions on its buy-through program before expanding the program to other utilities, and

## REGULAR AGENDA, CONTINUED



## ELECTRIC, CONTINUED

Commissioner Tobin stated that while he does not support a buy-through program today, he is looking more and more into the future possibility of supporting it.

Overview of Amendment Outcomes: Hearing Amendment as amended to reflect grandfathering policy passed; Tobin Amendment No.1 passed as amended; Tobin Amendment No. 2 passed; Tobin Amendment No. 3 passed; Tobin Amendment No. 4 withdrawn; Tobin Amendment No. 5 passed as amended; Tobin Amendment No. 6 passed as amended; Tobin Amendment 7 passed; Burns' Amendments No. 1 and 2 did not pass; and Company Amendments passed.

The item passed unanimously as amended. (Docket Nos. E-01933A-15-0239 & E-01933A-15-0322)

Southline Transmission, L.L.C. was granted a Certificate of Environmental Compatibility ("CEC") to construct and operate 72 miles of new transmissions line in Arizona, as part of a 370 mile electric transmission line and associated facilities in New Mexico and Southern Arizona. The Arizona portion of the line is comprised of 72 miles of new construction and an additional 121 miles of upgraded Western Area Power Administration ("WAPA") transmission lines. The Southline Transmission project will enter Arizona approximately 5-miles north of Interstate-10, travel west past the City of Wilcox, through the City of Tucson and terminate at Tucson Electric Power Company's Tortolita Substation. (Docket No. L-00000AAA-16-0370-000173). An amendment sponsored by Commissioner Dunn and unanimously adopted by the Commission now requires Southline to obtain WAPA's agreement to adhere to specific conditions contained within Southline's CEC for the portion of the

upgraded line that crosses intervenor Mountain View Ranch's property.

The Commission approved to change Tucson Electric Power's Purchase Power Fuel Adjustor Clause ("PPFAC") to a credit of \$(0.001956) per kWh by no later than April 1, 2017. (Docket No. E-01933A-12-0291).