



# Word on the Street

BY GARY YAQUINTO

The ACC's August open meeting was an eventful one, with decisions on the APS rate case, requirement for Johnson Utilities Company to file a rate case by the end of the year and rate adjustments for TEP and UNS Electric for their Lost Fixed Cost Recovery mechanisms.

Of special interest in this edition of the Monitor is a full description of the rate features approved by the Commission for APS as well as Commissioner amendments modifying the proposed Recommended Order and Opinion prepared by the ALJ.

In other news, the Commission's Ethics Committee, chaired by Commissioner Dunn held its first public meeting/workshop on August 31. The Committee's objective is to develop a code of ethics to govern the conduct of ACC Commissioners. As stated by Commissioner Dunn, "We need to make every effort to

draft a code that is lawful, practical, consistent, measured, and above all, ethical in directives."

At the workshop Commissioners were presented with a description of current laws and regulations governing the conduct of public officials. They were also provided an opportunity to identify areas of conduct that should be examined for possible inclusion in a code of ethics. From the discussion, several areas were identified: incorporating the ACC budgeting process, personnel decisions, clarifying ex-parte communications, reimbursed travel expenses, interacting with

unregulated entities, lobbyist registration and gift requirements.

In a letter to Commissioners ([LINK](#)), Mr. Dunn invited his colleagues on the bench to submit other suggestions for consideration by the committee.

The next ethics workshop is scheduled for September 15.

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ARIZONA INVESTMENT COUNCIL

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## CONSENT AGENDA

The August 2017 Open Meeting of the Arizona Corporation Commission convened at 8:00 a.m. on Tuesday August 15, 2017 in the Phoenix Office.

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

## RAILROAD



ADOT received approval to construct a new grade separated crossing at State Route 202, South Mountain Freeway at 59th Avenue, and to allow **Union Pacific Railroad** to remove the existing at-grade public crossing at that location. (Docket No. RR-03639A-17-0065).

## TELECOMMUNICATION



The following telecommunications companies received approval to cancel their Certificates of Convenience and Necessity (CC&N): **SNET America, Inc.'s** CC&N for resold telecommunications services (Docket No. T-03116A-17-0146); **1-800 Collect, Inc., dba Simple Business Solutions** CC&N to provide Alternative Operator Services (AOS) telecommunication services (Docket No. T-20832A-17-0130); **WDT World Discount Telecommunications, Co.'s** CC&N to provide competitive resold interexchange telecommunications services. Also, **Budget Prepay, Inc.** received approval to relinquish its designation as a lifeline-only Eligible Telecommunications Carrier (ECT) and withdraw its Arizona tariff. (Docket No. T-04079A-17-0139).

**Vitcom LLC** was issued a CC&N to provide Facilities-based Long Distance and Local Exchange and Access telecommunications services. (Docket No. T-20931A-15-0215).

Both **Airespring, Inc.** and **Bandwidth.**

**com CLE, LLC** received approval to terminate their \$25,000 and \$225,000 (respectively) performance bonds. In appropriate circumstances, the Commission has relieved telecommunication companies of this requirement when the corporations are in good standing, in compliance with the Utilities Division, and have had no complaints for the last few years. (Docket Nos. T-04122A-17-0147 and T-04079A-17-0139).

## GAS



The Commission approved an increase in **UNS Gas, Inc.'s** Lost Fixed Cost Recovery Tariff (LFCR). The new adjustment will be set at 0.1147 percent of the customer's bill, which will result in an increase of \$0.02 per month for a residential customer with an average monthly usage of 70 therms in the winter. The adjustment will take effect September 1, 2017. (Docket No. G-04204A-11-0158).

**Graham County Utilities, Inc.** received a 90 day extension, until September 30, 2017, to file a permanent rate application for its Gas division. In its 2006 financing order, the Commission ordered Graham County Utility to adopt an equity accumulation plan due to its highly leveraged capital structure. The Company was ordered to file a rate case by June 30th of the year after the member's equity reaches 30 percent of the total capital. (Docket No. W-02527A-06-0505).

## WATER AND WASTEWATER

The Commission approved **A Peterson Water Company, Inc.'s** requested loan surcharge amounts. A Peterson received approval in April to incur debt to fund meter replacements and was required to file notice that the financing transaction occurred, after which it may request approval of a loan surcharge. The Company received a 20 year, \$33,035 loan at 5.75 percent. Its monthly loan

payment will be \$238.25, with the annual payment being \$2,859.02. Based on those figures, the Commission approved a monthly loan surcharge, per meter size. The monthly surcharge for both 5/8" x 3/4" and 3/4" meters will be \$5.41 per month. (Docket Nos. W-02678A-16-0334 & W-02678A-16-0335).

**Arizona Water Company** was granted an extension of time, until February 2, 2019, to file copies of a developer's Certificate of Assured Water Supply and any executed main extension agreements in connection with a CC&N extension. Arizona Water originally received this conditional CC&N in 2006 and subsequently was able to comply with the conditions on two of the three parcels of land within the CC&N. Because of the downturn in the economy, one of the three parcels did not develop as quickly as the others. However, the parcel owner still wishes to receive water service from Arizona Water and plans to proceed with development in the next 24 months. While Arizona Water had originally asked for a ten year extension, it was granted two years while the Commission reviews its current policy for granting CC&N time extensions. (Docket No. W-01445A-05-0389).

**EPCOR Water Arizona Inc.** and **Chaparral City Water Company** received approval for a pro forma merger, with EPCOR as the surviving entity and Chaparral City becoming another district within EPCOR. With Chaparral City already a subsidiary of EPCOR USA, it was determined that the merger was in the public interest because it will simplify the corporate structure and reduce reporting and accounting burdens. Also, the merger will not result in any changes to existing rates, terms and conditions of service, or technical, managerial or operational qualifications. (Docket Nos. WS-01303A-17-0141 & W-02113A-17-0141).

**Walden Meadows Community Co-op** received approval for a loan to pay for

## CONSENT AGENDA, CONTINUED

an emergency repair to a well. Walden Meadows can obtain a \$40,000 10-year amortizing loan with an interest rate of 5 percent. The Company is further authorized to use a surcharge mechanism, calculated based upon the actual terms of the WIFA loan and actual number of customers at the time of the loans closing. The surcharge will automatically expire at the end of the term or upon the full payment of the loan, whichever comes first. Finally, the proper regulatory treatment of the surcharge will be determined in a full rate case that is required to be filed no later than May 1, 2018. (Docket No. W-02369A-17-0236).

## ELECTRIC

**Tucson Electric Power**

**Company** received approval to adjust its Lost Fixed Cost Recovery (LFCR) charge. The

LFCR adjustment allows for the recovery of lost fixed costs, as measured by revenue per kWh, associated with the amount of energy efficiency (EE) savings and distributed generation (DG) that is authorized by the Commission and calculated to have occurred. While the February Decision in TEP's rate case approved minor modifications to the LFCR, those changes were not reflected in this filing because this application applies to lost fixed costs incurred in 2016, prior to the rate case Decision. The Commission therefore approved an LFCR charge of 1.8071 percent for EE and 0.7363 percent for DG, resulting in an approximate recovery of \$19.7 million for the 12 month collections period. For an average residential customer, using an average of 762 kWh per month, the customer's bill will increase by \$0.82. The rate will become effective on September 1, 2017. (Docket Nos. E-01933A-15-0239 & E-01933A-15-0322).

**UNS Electric, Inc.** received approval to adjust its LFCR charge. The LFCR adjustment allows for the recovery of lost fixed costs, as measured by revenue per kWh, associated with the amount of energy

efficiency (EE) savings and distributed generation (DG) that is authorized by the Commission and calculated to have occurred. The Commission approved an LFCR charge of 1.1693 percent for EE and 0.2761 percent for DG, resulting in an approximate recovery of \$2.5 million over the 12 month collection period. The average residential customer, using an average of 850 kWh per month, will see a bill increase of \$0.23 per month. The rate will become effective on September 1, 2017. (Docket No. E-04204A-15-0142).

The Commission approved a revised Rider R-3 Market Cost of Comparable Conventional Generation (MCCCCG) for **UNS Electric, Inc.** Rider R-3 specifies the methodology for calculating the rate to be paid for purchases of excess energy from Net Metering Facilities. For Net Metering customers, once a calendar year, generally with the October bill, UNSE credits the customers for any balance of excess kWh remaining. The payment for purchase of these excess kWh is at UNSE's applicable avoided costs and UNSE has defined its avoided cost at the average hourly MCCCCG as specified in Rider R-3. The Commission approved a higher Rider R-3 rate of \$0.0262112 per kWh (up from the previous year's \$0.0248272) for purchases of excess energy. (Docket No. E-04204A-17-0090).

**Sulphur Springs Valley Electric Cooperative, Inc.**

received approval for its 2017 Net Metering Tariff with Updated Avoided Costs. For Net Metering customers, once a calendar year, generally with the September bill, SSVEC credits the customers for the balance of any remaining excess kWh. The payment for the purchase of this excess kWh is at SSVEC's annual average avoided cost. The Commission approved a new avoided cost of \$0.0252 per kWh. (Docket No. E-01575A-17-0229).

## REGULAR AGENDA

Agenda Items #20 and #22 were pulled from the Agenda to be heard at a later date.

**WATER AND WASTEWATER**

**Arizona Commission's Generic Investigation into Current Regulatory Treatment of Contributions in Aid of Construction (CIAC) to Ensure Fairness to Ratepayers and Necessary Finances for Companies.** The Commission approved a new policy statement regarding the regulatory treatment of loan surcharge collections. CIAC is defined as any amount of money, services, or property received by a utility, from any person or government agency, any portion of which represents an addition or transfer to the capital of the utility, and which is used to offset the acquisition, improvement or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public.

Policy Statement No. 1 clarifies that when a utility is granted authorization to collect a surcharge for the purpose of making loan payments, and also has the requirement to file a subsequent rate case within 5 years, as long as the utility actually returns to the Commission for the rate case within the specified time frame, the monies collected by the loan surcharge will not be treated as CIAC, or any other regulatory liability. This is a return to a long held practice and it will ensure against over-recovery and protects the utility against rate base erosion.

Having a rate case to roll the remaining plant into base rates ensures the difference between return on and recovery of debt-financed plant, and that the debt service portion of loan surcharge collection is minimized. Under certain circumstances, a rate case within 3 years may be necessary. However, if any of the loan principal is forgiven by WIFA, or any other lender, CIAC will be deducted during the calculation of rate base to be amortized, to the fullest extent practicable, concurrently and in synchronization with the plant for which the loan principal is forgiven.

Commissioner Tobin's adopted amendment clarified that when a utility acquires another utility that has a regulatory liability, any regulatory liability related to the loan for loan forgiveness will carry over to the acquiring utility. (Docket No. AU-00000A-17-0151).

**Cordes Lakes Water Company** received an emergency rate and finance surcharge. In June, the Company experienced an undetected leak, resulting in substantial depletion of its water storage and system wide outages. Cordes Lakes responded by hauling water and providing bottled water to its customers. In this application, the Company sought both an emergency surcharge (to pay for the expenses of the emergency), as well as a financing surcharge, to fund necessary capital improvements to permanently address the water demand and supply imbalance. The Commission concluded that this circumstance constituted an emergency within the definition of the law and approved a monthly emergency surcharge by meter size as follows: \$1.52 for 5/8" x 3/4" and 3/4" meters; \$2.53 for 1" meters; \$5.07 for 1.5" meters and \$8.11 for 2" meters.

Cordes Lake requested approval of between \$650,000 and \$875,000 in financing to fund (1) the construction of a new well, (2) rehabilitation of Well Nos. 2 and 5, (3) water storage improvements, (4) replacement of a hydropneumatic tank at Well No. 4, and (5) replacement of aging customer meters. However, the Commission only authorized the Company to incur a \$450,000 - \$500,000 loan from either WIFA or CoBank to fund three of the projects: (1) the construction of a new well, (2) water storage improvements, and (3) the hydropneumatic tank replacement. A financing surcharge was approved as follows: \$2.73/3.09 for 5/8" x 3/4" and 3/4" meters; \$4.55/5.15 for 1" meters; \$9.10/10.30 for 1.5" meters and \$14.57/16.48 for 2" meters.

The Recommended Order originally required Cordes Lake to file a rate case no later than June 30, 2018, using a 2017 test year. However, the Company would like to file sooner so it may have new permanent rates in effect before the surcharge is terminated, and therefore requested an Amendment that would allow it to use a 2016 test year. Commission Tobin offered a verbal amendment making that modification and it was unanimously approved.

Both Commissioners Tobin and Dunn admonished the Company, and emphasized the importance of these improvements, considering how many complaints they both continue to receive from customers. (Docket No. W-02060A-17-0228).

The Commission voted to amend a previous decision for **Lagoon Estates Water Company** (Decision No. 74441), allowing the Company to replace the onerous compliance requirement of installing a new 15,000 gallon storage tank, with a mixing/blending plan at an existing well instead. The Company worked with Commission Staff and ADEQ to develop this lower cost alternative. While the Company's manager was not present for the discussion, Staff stated that the Company was aware of the potential modification to Order No. 74441 and was in full support of it. The Commission unanimously approved the change, stating they were encouraged by the collaborative and cost saving efforts of the parties. (Docket No. W-01825A-13-0329).

The Commission ordered **Johnson Utilities Company** to file a rate case by December 31, 2017. Earlier this summer, precipitated by the indictment of George Johnson and former Commissioner Gary Pierce, the Commission ordered Staff to examine the books and records of Johnson Utilities. Over the course of the initial investigation, and in discussions with the Company, Staff recommends a rate case, rather than a rate review, to be



## REGULAR AGENDA, CONTINUED

undertaken to provide a more economical, judicial, and comprehensive understanding of the situation; Staff recommended Johnson Utilities be ordered to file a rate case by November 1, 2017 or otherwise be subject to an order to show cause to demonstrate why an interim manager should not be appointed.

Johnson Utilities stated that it was supportive of filing a rate case. However, it claimed since it had not been on notice to begin preparing a rate case until the Staff Report was published in early August, the Company would not be able to file a full and complete rate case application until December 31, 2017. There were a number of Commissioners, including Chairman Forese and Commissioner Tobin, who expressed serious concern over what they considered the Company's consistent delay tactics. And considering his previous suggestion that a rate case be ordered, as opposed to a rate review, Commissioner Dunn expressed his dismay at the Company's claim that it was not on notice. However, Commissioners Little and Burns thought it prudent to extend the time until December 31 to ensure a full and robust application in light of the difficulty of using a split test year. A RUCO representative also expressed support for the later filing date, citing additional rate case expense in preparing a rate case expeditiously.

A verbal amendment was offered to push back the filing date until December 31, 2017 and was approved 3-2, with Chairman Forese and Commissioner Dunn voting no. Finally, the item was approved as amended with a 4-1 vote, Chairman Forese the only nay. (Docket No. WS-02987A 08-0180).

**ELECTRIC**

The Commission approved **APS's 2017 Renewable Energy Standard Implementation Plan and Energy Adjustor (REST Plan)**. APS filed its original 2017 REST

Plan in July of 2016, however, because of a provision contained in the APS Settlement Agreement, the Company filed an Amended Plan to reflect that the revenue requirement associated with certain programs will be removed from the adjustor mechanism and placed into base rates. The approved REST Plan authorizes continuation of all existing programs except the Solar Water Heater Program, and while it does not approve any new programs, it will expand the funding for its interconnection and Green Choice programs. APS also received approval to self-certify the renewable energy and RECs used in the Green Choice Program. A \$129.3 million budget was approved, with \$110.0 million to be collected through the adjustor mechanism. That amounts to a charge for non-DG residential customers of \$0.010694 per kWh with a monthly cap of \$4.28. Finally, the Commission granted a waiver for the Distributed Energy carve-out requirement of the Renewable Energy Standard Rules for 2017.

There was a significant conversation between the Commissioners and Solar Hot Water Heater advocates concerning how to meaningfully address the program's lack of participation; however, there was no appetite to reinstate the program at the time. (Docket No. E-01345A-16-0238).

The Commission approved **APS's 2017 Demand Side Management Implementation Plan and Adjustor Mechanism**. The DSM Plan will continue its 2016 portfolio of programs, albeit with a few modifications. For example, APS will no longer offer incentives for residential and non-residential CFLs but will offer LED outdoor lighting instead. Additionally, in response to a previous Commission Order, APS developed a residential demand response, energy storage and load management program (DRESLM Program) to facilitate energy storage technology. That program is the subject of a separate docket, described below. The Commission approved a budget of \$66.6

million. Also, Commissioner Tobin's two amendments passed, which require APS's 2018 DSM Plan to increase the Low Income Weatherization Program budget by \$1 million and allocate an additional \$2 million to its DRESLM Program.

During public comment, the conversation between stakeholders, Staff and the Commissioners centered around a shift from incentives for individual homeowners towards focusing more on school and low income programs. (Docket No. E-01345A-16-0176).

The Commission approved **APS's new Demand Response, Energy Storage and Load Management Program (DRESLM Program)**. The DRESLM Program will deploy a variety of commercially available residential load management, demand response, load shifting and energy storage technologies that have not yet been widely used in Arizona DSM programs. There are three elements to the Program: battery storage, thermal storage, and demand response. The Commissioners approved a Company-proposed amendment, with a friendly amendment by Chairman Forese, which required customers participating in both the battery storage and thermal storage programs to be placed on either the R-2 or R-3 rate. Customers participating in only the thermal storage program may also choose the TOU-E rate schedule. (Docket No. E-01345A-15-0182).

**Arizona Public Service Rate Case** The Commission approved a rate increase for Arizona Public Service, which was the product of a Settlement Agreement signed by 29 out of almost 40 intervenors. The Settlement provides for an \$87.25 million non-fuel, non-depreciation revenue requirement increase, equating to an approximately 4.5% bill impact for residential customers. The Company's proposed cost of capital structure was used, with 44.2 percent debt and 55.8 percent common equity. With an embedded cost of debt of 5.13, an authorized return on equity of 10 percent, and a 0.8 percent return on the fair value increment, APS

## REGULAR AGENDA, CONTINUED

was allowed a 5.59 percent fair value rate of return.

The Commission-approved rate designs differ materially from those that APS currently offer. All customers will be transitioned from their current rate plan to the newly approved rate plans between January and May 1, 2018. The new residential rate plans are as follows:

- R-XS is a standard rate for non-DG, low usage customers with a small basic service charge (“BSC”) of \$10;
- R-Basic is a standard rate for non-DG customers using between 600-1,000/kWh per month with a \$15 BSC;
- R-Basic Large is a standard rate for non-DG customers using more than 1,000/kWh per month with a \$20 BSC;
- TOU-E is a time-of-use rate available to all customers. The BSC is \$13 with on-peak hours between 3 pm and 8 pm and winter super off-peak hours from 10 a.m. to 3 p.m.;
- R-2 is a three-part demand rate available to all customers with a BSC of \$13 and on-peak hours between 3 p.m. and 8 p.m.;
- R-3 is another three-part demand rate available to all customers with a BSC of \$13 and on-peak hours between 3 pm and 8 p.m. (similar to APS’s current demand rate); and
- R-Tech is an optional demand rate for customers with qualifying on-site technology.

For new residential customers with DG interconnected after September 1, 2017, the Resource Comparison Proxy Rate for exported energy will be \$0.129/kWh and the self-consumption offset rate for TOU-E will be \$0.105/kWh. Grandfathered DG customers will continue to take service under full retail net metering and will continue to take service on their current tariff schedule for the length of the grandfathering period.

Other important provisions of the Settlement Agreement included:

- A \$15 million dollar refund to customers for collected but unspent Demand Side Management Adjustor Clause funds;
- APS will not file a new rate case prior to June 1, 2019;
- AZ-Sun II, a program to expand access to utility-owned rooftop solar for low and moderate income Arizonans, Title I Schools and rural governments;
- AG-X, a modification to the buy-through rate for Industrial and Large General Services customers;
- Cost deferral mechanisms for: (1) the installation and maintenance of the Selective Catalytic Reduction controls at Four Corners Generating Station, (2) the Ocotillo Modernization Project, and (3) changes to the Arizona property tax rate;
- A federal tax expense adjustor mechanism; and
- Eligible limited income customers will receive a 25 percent bill discount, and \$1.25 million annually will be made available for a bill crisis program.

On August 19, 2017, the new rates to begin collecting the approved revenue requirement went into effect; however the transition to new rate designs will not begin until January 2018. Between now and January 2018, APS will conduct outreach efforts to educate customers on the new rate choices.

During the Open Meeting discussion, there were a number of amendments proposed by the Hearing Division and the Commissioners.

The approved Hearing Division Amendment corrected a few clerical errors, included more specific language for the SCR cost deferral, and clarified that the crisis bill assistance program will be funded from the revenue requirement.

Commissioner Little’s Amendment No. 1 adopted APS’s and EFCA’s proposed optional rate for large commercial customers that eliminates the demand ratchet, off-peak demand charge, and declining block demand charge.

Commissioner Tobin’s Amendment No. 1 requires APS to conduct and file an energy storage analysis whenever it is acquiring new resources.

Commissioner Tobin’s Amendment No. 2 requires APS to develop a program for water utilities to help reduce water loss, electricity consumption, and peak demand use.

Tobin Amendment No. 3 changed the grandfathering date for DG customers submitting interconnection applications for DG systems from August 19, 2017 to August 31, 2017.

Commissioner Dunn proposed three separate Amendments. Amendment No. 1 would have required the rate case docket to remain open as APS evaluated forest bioenergy as part of its resource portfolio, and sparked discussion about whether the rate case was the appropriate place for the item. Commission Little initially opposed the Amendment, not because he did not agree that forest bioenergy was an important topic, but because there was no evidence in the current docket to support this Amendment. He suggested that it should instead be addressed in the IRP or REST docket. The Company, Chairman Forese, and Commissioners Tobin and Dunn all support the topic, but agreed to amend the Amendment to remove the requirement that the docket remain open. Therefore, the Company was ordered to file a report on three different forest bioenergy scenarios.

Dunn Amendment No. 2 was withdrawn, but its intent was to reduce the R-Basic BSC by two dollars while maintaining the same energy charge, and then transferring that revenue requirement to be collected through a higher BSC for the R-Large class.

## REGULAR AGENDA, CONTINUED

This Amendment elicited discussion about the types of customers that would be on each rate, and raising concern about the impact of the amendment on the fixed income and low income population.

Dunn Amendment No. 3 extended the availability of the R-Basic Large plan for existing customers on another rate until September 1, 2018. Dunn Amendment No. 3 will allow existing customers adequate time to evaluate the new rate plans. Both the Company and RUCO were in favor of the Amendment.

Dunn Amendment No. 4 sought to provide deadlines for APS's customer education and outreach plan, as well as to require Commission Staff to approve the final education plan. Commissioner Dunn wanted to make sure that existing customers received extensive and sufficient notice and education on new rates, especially the change of the on-peak time period. This Amendment was also withdrawn, given that the transition to new rate design would not occur for several months under the terms of the Settlement Agreement.

Commissioner Burns proposed a number of Amendments that addressed his concern that a vote on the APS rate case now, while he has a pending legal matter before the Superior Court, was inappropriate. Burns' Amendment No. 1 amended the ROO to remove all determinations and resolutions and extend the time clock. Burns' Amendment No. 2, as an alternative to No. 1, would have made an order in this rate case an Interim Order, requiring APS to post a bond and be subject to a full refund should the decision later be deemed unlawful. Burns' Amendment No. 3 would have required APS to extend the stay out provision for an additional year until June 1, 2020. All amendments were rejected in 4-1 votes.

Additionally, Commissioner Burns had a number of questions for the Company that he felt had gone unanswered throughout the rate case process. However, all of the questions more or

less related to the ongoing litigation between Commissioner Burns and the Company, rendering it inappropriate for the Company to respond.

Ultimately, the APS rate case was approved in a 4 – 1 vote. Burns, as the sole dissenting vote, wrote a dissenting opinion that can be found in the docket.