Date: June 24, 2016

To: Charles Wesselhoft  
   Deputy County Attorney

From: C.H. Huckelberry  
   County Administrator

Re: TRICO Electric Cooperative Rate Case Before the Arizona Corporation Commission  
   and Proposed Settlement Discussion

The rate case before the Arizona Corporation Commission (ACC) has multiple components,  
including an impact on renewable energy production. I understand there has been at least  
one preliminary discussion regarding settlement of this rate case, a portion of which you  
were able to attend.

In addition, there appears to be another discussion scheduled for July 2016. So that the  
County’s position is clear, I am providing this guidance. A copy of such will be provided to  
the Board of Supervisors for their information and discussion as they deem warranted.

1) Grandfathering of Solar Net Metering Facilities. As the operator of a major public  
utility serving approximately 275,000 customer connections, it would be very  
desirable to have internal fiscal policy decisions retroactive to the date it was decided  
they were appropriate. Obviously, we cannot, and no other utility should be able to  
do so. In fact, in my experience with utility rate setting, they are always prospective  
rather than retrospective: which means that if a change is warranted, it should be  
made sometime after an actual rate decision is made. Unfortunately, the threat of a  
retroactive policy position has already cost Pima County rate payers, since we were  
forced to abandon plans for a utility size system related to our Corona de Tucson  
wastewater facility due to this provision. I strongly recommend that any decision  
regarding net metering be made with an effective date in the future, not the past. I  
would further suggest the future date be set when the utility meets the targeted goal  
of achieving the required percentage of supply by renewable sources.

2) Customer Charges. In my understanding of the meeting, there was a discussion that  
converted the demand charge for residential and small commercial users to a fixed  
cost. Such has absolutely nothing to do with demand charge. I do not blame the  
utility for trying to shift their revenues to the fixed model, receiving a fixed monthly  
increase from all customers is very predictable. However, such has absolutely nothing  
to do with demand charges. What I understand about the demand charge is that it
is a rate charged to a customer based on some hypothetical amount that will apply to their peak use. In my view, this is what time of use charges are. Those variable time demand charges allow customers to actually plan their schedule such that they consume energy during off-peak hours at a lower cost. To confuse fixed fees with demand charges is clearly inappropriate, and the County will oppose any and all demand charges, no matter how they are structured. A fixed fee per month charge may be appropriate, but it should not be confused with, or disguised as, a demand charge.

3) **Net Metering.** The concept of net metering and credits for same were not invented by the consumer. It is a concept promoted by the electric utility to provide incentives to increase renewable supply generation. It is clearly inappropriate to now try and disavow their concept. Further, it should not even be discussed until the renewable energy goals have been met by the respective utilities. However, given that the utilities now believe they have made a bad deal with the rate payers, any transition and/or reduction in net metering credits should occur over a number of years and be phased over several years. Reimbursement of the value of excess energy generated by an individual provider should continue at the same value it is today and reduced to the amount requested by the utility over a three to five-year period.

Please represent the above as the County’s position regarding settlement.

I would like to note that the aggregate rate increase which, by our estimate, is approximately 4.5 percent, is generally acceptable. However, the issues associated with: 1) grandfathering; 2) demand charges, and 3) eliminating net metering credits are completely unacceptable.

CHH/anc

c: The Honorable Chair and Members, Pima County Board of Supervisors