BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. – ELECTRIC DIVISION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN, AND FOR RELATED APPROVALS.

DATE OF HEARING: March 29, 2018 (Procedural Conference), August 9, 2018, (Pre-Hearing Conference), August 16, 2018.

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Belinda A. Martin

APPEARANCES: Ms. Jennifer A. Cranston, GALLAGHER & KENNEDY, P.A., on behalf of Duncan Valley Electric Cooperative, Inc.; and

Mr. Robert W. Geake, Staff Attorney, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. On September 12, 2017, Duncan Valley Electric Cooperative, Inc. ("DVEC" or "Cooperative") filed a Request for Pre-Filing Eligibility Review pursuant to the terms of Arizona Administrative Code ("A.A.C.") R14-2-107(C) and submitted its streamlined rate application for its Electric Division on October 3, 2017.
2. On March 29, 2018, the Commission approved a rate increase for DVEC in Decision No. 76629. The Commission also directed “that a limited phase 2 proceeding be conducted for the purposes of establishing an export rate for the Cooperative’s members exporting distributed generation, and to consider freezing new connections under DVEC’s net metering tariff.”

3. Pursuant to a Procedural Order issued March 15, 2018, a procedural conference was held on March 29, 2018. DVEC and the Commission’s Utilities Division (“Staff”) were present through counsel. During the procedural conference, the parties discussed scheduling concerns, notice requirements, and filing deadlines for the phase 2 proceeding.

4. On April 2, 2018, a Procedural Order was docketed setting a hearing on the phase 2 proceeding for August 16, 2018, and outlining other procedural and filing deadlines.

5. DVEC filed its Notice of Filing Direct Testimony of Steven Lunt, the Cooperative’s Chief Executive Officer, on May 15, 2018. Attached to Mr. Lunt’s testimony were forms of Distributed Generation Annual Export Rate Plan of Administration (“POA”), Net Metering Schedule “NM” (“Schedule NM”), and Distributed Generation Service Schedule “DG” (“Schedule DG”).

6. Also on May 15, 2018, DVEC docketed an Affidavit of Mailing and Publication, indicating that the notice of hearing was mailed to the Cooperative’s customers on April 25, 2018, and published in *The Copper Era* on April 18, 2018. No comments were received in response to the notice.


8. The Cooperative docketed its Notice of Filing Rebuttal Testimony of Steven Lunt on July 12, 2017.


11. The hearing convened on August 16, 2018, before a duly authorized administrative law judge. DVEC and Staff were present through counsel. Steven Lunt appeared on behalf of DVEC and

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1 Decision No. 76629, page 9.
Candrea Allen appeared on behalf of Staff. No members of the public were present to provide public comment and no written public comments were received. At the conclusion of the hearing, the matter was taken under advisement.

**Company Background**

12. DVEC is an Arizona member-owned, non-profit rural electric cooperative headquartered in Duncan, Arizona. DVEC provides electric distribution service to approximately 2,100 customers in Graham and Greenlee Counties, and approximately 340 customers in New Mexico. The Cooperative is a member of Arizona Electric Power Cooperative, Inc. ("AEPCO").

13. DVEC is a Class B utility as defined under the terms of A.A.C. R14-2-103. The majority of the Cooperative’s customers are residential, with the remainder being commercial, industrial, irrigation, and lighting customers. DVEC currently has only 12 distributed generation ("DG") customers, of which two are non-residential customers.

**Decision No. 75859 ("Value of DG Docket")**

14. In Decision No. 75859 (January 3, 2017), the Commission approved the use of two methodologies to calculate an export rate for an electric utility’s distributed generation customers; the Resource Comparison Proxy ("RCP") methodology, and the True Avoided Cost ("TAC") methodology. The RCP method is based on a five-year rolling weighted average of a utility’s solar purchased power agreements ("PPA"), up to and including the test year, and utility-owned solar resources used as a proxy for DG exports. The Commission directed that currently pending electric utility rate cases should use the RCP methodology to determine the appropriate export rate.

15. However, in Decision No. 75859, the Commission included the following Ordering Paragraph regarding cooperatives:

IT IS FURTHER ORDERED that the Cooperatives should be afforded flexibility to develop rate design solutions to the cost shift caused by DG and should not be required to comply with any one-size-fits-all requirements that would impose economic and operational hardships. The value of DG methodologies adopted herein represent our preference for how the value of DG should be assessed and export compensation rates set for the Cooperatives. However, it may be appropriate to use other methodologies or modified versions of the methodologies adopted herein that address the Cooperatives’

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2 Decision No. 75859, page 171.
3 Decision No. 75859, page 172.
unique circumstances. The appropriate method for determining DG compensation rates for 
the Cooperatives shall be determined on a case by case basis.\footnote{Decision No. 75859, page 180.}

**Initial Export Rate Calculation**

16. DVEC currently has one PPA. The facility covered by the Cooperative's Apache Solar 
ARM Power Purchase Agreement ("Apache Solar PPA") with AEPCO became operational in 
September 2017 – outside the Cooperative’s December 2016 test year. DVEC states that because it 
does not have sufficient data to employ either the RCP or TAC methodologies, the Cooperative 
designed its export rate proposal using a methodology like that approved by the Commission for other 
electric cooperatives.\footnote{Trico Electric Cooperative, Inc., Decision No. 75976 (February 24, 2017); Sulphur Springs Electric Cooperative, Inc., 
Decision No. 76465 (November 17, 2017); Mohave Electric Cooperative, Inc., Decision No. 76471 (November 20, 2017); 
and Graham County Electric Cooperative, Inc., Decision No 76693 (May 22, 2018.).} DVEC set its initial export rate based on its current base cost of power of power 
adjusted for the average purchased power cost adjustor ("PPCA") rate during the test year. DVEC then 
adjusted the initial export rate annually for the following six years to reach a final export rate in year 
seven. The final export rate is slightly higher than the per kWh rate included in the Apache Solar PPA.

17. Staff evaluated the PPA data provided by the Cooperative and found that the Apache 
Solar PPA was put in place after the test year and therefore, based on the requirements of the Value of 
DG Decision, had to be excluded from RCP calculations. Staff also asserted that information from only 
one PPA would be insufficient to establish a valid export rate. Accordingly, Staff uses the methodology 
approved by the Commission in other Phase 2 proceedings involving electric cooperatives.

18. Staff notes that DVEC's current base cost of power is $0.05843 per kWh as approved 
by the Commission in Decision No. 67433 (December 3, 2004). Staff observed that the Cooperative 
applies the same base cost of power across all customer classes. DVEC’s average PPCA rate during 
the test year was $0.02109 per kWh. Based on base cost of power and PPCA rate, Staff recommends 
an initial export rate of $0.07952 per kWh. Staff notes that this rate is a decrease of approximately 1.7 
percent from what is currently credited to net metering customers.

19. DVEC and Staff agree on an initial export rate of $0.07952. Going forward, both Staff 
and the Cooperative agree that the initial export rate would be updated annually, in accordance with 
Decision No. 75859, which limits the annual decrease to no more than ten percent of the export rate.
then in effect.

20. Staff asserts that a six-year de-escalation term is reasonable because it provides certainty for a specific period and allows for a gradual decrease in the amount that DG customers are compensated. In addition, it gives the Commission an opportunity to determine if the other methodologies of calculating the export rate may be appropriate in the future.

21. DVEC and Staff propose the following six-year export rate plan:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>EXPORT RATE</th>
<th>REDUCTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/1/2018 – 9/30/2019</td>
<td>$0.07952</td>
<td>N/A</td>
</tr>
<tr>
<td>10/1/2019 – 9/30/2020</td>
<td>$0.07157</td>
<td>10%</td>
</tr>
<tr>
<td>10/1/2020 – 9/30/2021</td>
<td>$0.06441</td>
<td>10%</td>
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<tr>
<td>10/1/2021 – 9/30/2022</td>
<td>$0.05797</td>
<td>10%</td>
</tr>
<tr>
<td>10/1/2022 – 9/30/2023</td>
<td>$0.05217</td>
<td>10%</td>
</tr>
<tr>
<td>10/1/2023 – 9/30/2024</td>
<td>$0.04696</td>
<td>10%</td>
</tr>
<tr>
<td>10/1/2024 – until changed by Commission Decision.</td>
<td>$0.04226</td>
<td>10%</td>
</tr>
</tbody>
</table>

22. DVEC's proposed POA contains a provision setting out the annual export rate. Under the terms of the POA, the change in export rate after October 1, 2024, may be implemented through the filing of a general rate case or the submission for Commission approval of a revised export rate under the terms of the POA. Because the form of POA sets forth the export rates with specificity for six years, DVEC and Staff believe that it is unnecessary for the Cooperative to file an export rate POA annually before 2024.

23. Given the specific facts of this case, we find that the initial export rate of $0.07952 is reasonable and we adopt it. Further, we find that the export rates as depicted in Finding of Fact No. 21 are consistent with the principal of gradualism and should be adopted. The form of POA attached to Mr. Lunt’s Direct Testimony, updated to reflect the schedule of export rates noted in Finding of Fact No. 21, is approved. We also find that DVEC need not file an annual POA until after October 1, 2024, at which time the Cooperative should submit either an export rate POA for Commission approval or docket a general rate case application.

**Ten Year Tranches**

24. Decision No. 75859 states: "A DG system that interconnects to a utility's distribution system after a DG export rate is set for that utility shall be placed on the DG export rate effective at the
time of the interconnection for a period of 10 years.\textsuperscript{6}

25. The Cooperative seeks a waiver of this requirement. DVEC asserts that requiring the Cooperative to freeze the export rate for ten years for new DG customers for each tranche over the next ten years would be an undue financial burden on DVEC. At hearing, Mr. Lunt testified that DVEC will incur additional costs for programming and maintaining a wide variety of billing parameters. Mr. Lunt stated that the Cooperative’s software vendor quoted a cost of $13,125 to implement the new billing program, and $2,625 per year for maintenance fees. The Cooperative currently has only 10 residential and two non-residential DG members and receives just one or two interconnection requests per year. DVEC contends that requiring implementation of ten-year tranches would result in a high per-customer cost to administer the new billing system. To minimize the costs, DVEC requests that all new DG customers be moved to the export rate in effect each year, rather than being frozen at the same rate for ten years.

26. Staff believes that the costs that would be incurred for having to implement 10 different rates for ten years constitute a financial burden on the Cooperative, and that it is not appropriate to require DVEC to incur additional costs that outweigh the benefits received by its customers. Staff recommends a waiver of the 10-year tranche requirement. As such, each year all customers on the new Schedule DG tariff would be moved to the new export rate established in this Decision and under the POA.

27. We find that the evidence demonstrates that the Cooperative’s compliance with the requirement that the export rate in effect when each new DG customer interconnects with the distribution system must be frozen for 10 years would be an undue financial burden on the Cooperative and its members.\textsuperscript{7} Accordingly, we find that Staff’s recommendation that the Commission waive this requirement for DVEC and allow the Cooperative to give customers on Schedule DG the annual export rate each year as approved by the Commission, is reasonable and should be adopted.

\textbf{Applicability to Residential and Non-Residential Customers}

28. Decision No. 75859 states that all customers on a net metering tariff or customers who

\textsuperscript{6} Decision No. 75859, page 175.

\textsuperscript{7} The Commission granted similar waivers to Mohave Electric Cooperative, Inc. and Graham County Electric Cooperative, Inc.
have an approved interconnection agreement prior to the effective date of a decision in a phase 2 proceeding, may continue to receive service from a utility under DVEC’s current net metering tariff. Staff asserts that the findings of the Value of DG docket were meant to apply solely to residential customers; non-residential customers were excluded from the Decision.

29. DVEC seeks to grandfather all existing net metering customers under the new Schedule NM tariff, including its two commercial net metering customers. The Cooperative also wishes to apply the authorized export rate to all new DG customers, whether residential or non-residential. DVEC states that it only receives one or two interconnection requests per year and it is unknown how many of them would be non-residential. DVEC also notes that it historically has applied the same DG policies to residential and non-residential, alike. The Cooperative contends that excluding what it anticipates would be relatively few new non-residential DG customers would be burdensome to DVEC and unfair to its members. For these reasons, DVEC requests a waiver from the applicability of Decision No. 75859 regarding the exclusion of non-residential customers from the new tariffs.

30. In her testimony, Ms. Allen testified that it is Staff’s understanding that Decision No. 75859 applies solely to residential customers. However, Ms. Allen stated that Staff believes the Cooperative has shown good cause for allowing DVEC’s new Schedules DG and NM to apply to both residential and commercial customers.

31. Given the specific circumstances of this case, we find Staff’s recommendation that the Commission waive the Decision’s provisions that limit its terms to residential customers and allow Schedules DG and NM to apply to both residential and non-residential customers, is reasonable and should be adopted.

32. Thus, we approve the forms of tariff Schedule DG and Schedule NM attached to the Direct Testimony of Steven Lunt, as updated to reflect the findings herein.

**CONCLUSIONS OF LAW**

1. DVEC is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-250 and 40-251.

2. The Commission has jurisdiction over DVEC and the subject matter of the application.

3. Notice of the Application was given in accordance with Arizona law.
4. The authorized rates and charges are just and reasonable.

ORDER

IT IS THEREFORE ORDERED that Duncan Valley Electric Cooperative, Inc. - Electric Division shall compensate its distributed generation customers who apply for interconnection after the effective date of this Decision the export rates as depicted in Finding of Fact No. 21.

IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. - Electric Division shall file with Docket Control, as a compliance item in this docket, on or before September 28, 2018, its approved Distributed Generation Annual Export Rate Plan of Administration, Schedule DG, and Schedule NM in a form substantially similar to those attached to the Direct Testimony of Steven Lunt, updated to reflect the findings in this Decision.

IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. - Electric Division, after the initial filing directed in the Ordering Paragraph above, need not file a Distributed Generation Annual Plan of Administration until after October 1, 2024, at which point the Duncan Valley Electric Cooperative, Inc. - Electric Division should submit either a new Distributed Generation Annual Export Rate Plan of Administration for Commission approval or docket a general rate case application. The rates in effect on October 1, 2024, shall remain in effect until further order of the Commission.

IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. - Electric Division’s Schedule DG shall apply to new residential and non-residential DG customers who apply for interconnection after the effective date of this Decision.

...
IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. - Electric Division’s Schedule NM shall apply to existing residential and non-residential net metering customers and to customers who apply for interconnection before the effective date of this Decision, unless the customers choose to receive service under the new Schedule DG.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

[Signatures]

IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT, Interim Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 20th day of September, 2018.

MATTHEW J. NEUBERT
INTERIM EXECUTIVE DIRECTOR

DISSENT

DISSENT
BAM/sa
SERVICE LIST FOR: DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - ELECTRIC DIVISION

DOCKET NO.: E-01703A-17-0278

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