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December 14, 2018

Arizona Corporation Commission
DOCKETED
DEC 14 2018
DOCKETED BY

Commissioner Andy Tobin
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

RE: Arizona Public Service Company (APS or Company)
Docket No. E-01345A-18-0002, Formal Complaint of Stacey Champion
Response to Letters dated November 1 and November 14, 2018

Dear Commissioner Tobin:

At your request, APS filed an updated bill impact analysis in this docket on October 26, 2018. This analysis reflected the actual rate choices made by residential customers from the newly designed residential rates approved in Decision No. 76295 (August 18, 2017). This updated analysis showed that, for the months of May through August 2018, 182,533 residential customers experienced an average monthly bill increase of over 10% for that four-month period. On an overall annual average residential class basis, the Settlement Agreement projected an increase of 4.54%,[1] while the Company's initial actual annual analysis[2] showed an annual average bill impact of 4.1%. The updated bill impact analysis provided in October showed an average residential class increase for the four-month period of 0.31%.

In your subsequent letters, you requested additional information about the customers with the significantly higher than average impacts, including a determination of the reason for the higher impact. You also sought information about the demographics of this group of customers.

APS generally believes it is more appropriate to review customer impacts due to new rates over a full year because a 12-month assessment aligns with test year calculations, and the Company's rates include seasonal differences. Nevertheless, per your request, the Company conducted a detailed analysis of these 182,533 customer accounts. The results of the analysis show the clear reason for the higher-than-average bill increases experienced by

[1] Exhibit A to Decision No. 76295, paragraph 4.1.a.
[2] Direct Testimony of Jessica Hobbick (July 31, 2018), Attachment JEH-1DR.

the majority of these customers during the four-month analysis period is that customers chose a rate plan that resulted in higher bills.

As APS has noted throughout this proceeding, many of the Company's customers do not select a service plan that a historical calculation may show to be the most economical plan for that customer. A variety of individual customer circumstances may contribute to this choice. Although APS encourages its customers to choose a rate plan that will maximize energy savings and lower monthly bills, the customer ultimately controls the selection of a preferred rate plan.

SUMMARY Residential Customers with Higher than 10% Increase May – August 2018		
Customers	**Percentage**	**Reason**
142,871	78.3%	Customers chose a rate plan that resulted in higher bills
Additional Identified Impacts		
17,166	9.4%	Price realignment to reflect cost causation
16,204	8.9%	Customer increased energy usage and/or peak demand
6,292	3.4%	Small monthly bill resulting in a larger percentage increase
182,533	100%	Total Customers Analyzed

I. ANALYSIS

Of the 182,533 customers analyzed, 142,871 (over 78%) did not select the rate plan that was recommended to them as their "best" plan (the rate plan that would reflect the lowest overall annual cost) through APS's individualized outreach during the transition period. As you will recall, the Settlement required APS to move customers to the updated rate option most like their existing rate, absent any proactive choice by the customer.[3] For almost half of the Company's residential customers, the best plan was the same as the most-like plan; however, for the customers in this analysis, not choosing their best plan created a higher-than-average bill increase. Had these customers selected their best rate plan, based on actual usage this past summer, all would have had lower bills and approximately 106,000 customers, or approximately 3 out of 4, would have experienced increases of less than 10%.

Further analysis of these 142,871 customer accounts shows the following based upon their actual usage during the studied months:

[3] Exhibit A to Decision No. 76295, paragraph 26.1.

- 92,587 customers (65%) would have received lower monthly bills during this time period had they been taking service under one of the new demand-based rate plans, Rate Schedules R-2 or R-3;
- 41,165 customers (29%) would have received lower monthly bills had they been taking service under one of the available basic rate plans, Rate Schedules R-XS or R-Basic; and
- the remaining 9,119 customers (6%) would have received lower monthly bills had they been taking service under the new time-of-use rate plan, Rate Schedule TOU-E.

II. ADDITIONAL IDENTIFIED IMPACTS

The remaining 39,662 of the 182,533 customers in this analysis received higher than average increases due to one of the following impacts:

1. Realignment of prices within rate structures to reflect cost causation. There were 17,166 customers comprising this group of customers within the analysis. These customers saw increases to monthly bills due to structural changes in rate designs that reflect the ongoing gradual shift to cost-reflective rates that the Settling Parties pursued in the Settlement Agreement. Examples of these structural changes are:

- increased basic service charges for customers formerly on Rate Schedule E-12, redesigned to the new Rate Schedules R-XS, R-Basic, and R-Basic Large;
- elimination of the inclining kWh block structure for customers formerly on Rate Schedule E-12; and
- a shift in the difference between on-peak prices and off-peak prices within energy-only time-of-use rate structures (formerly Rate Schedules ET-1 and ET-2, which were redesigned to the currently effective Rate Schedule TOU-E).

2. Increased Usage. There are also 16,204 customers within this analysis group that experienced significantly higher demands during the May through August 2018 timeframe than in their 2015 baseline calculations. Many individual differences may have contributed to this increased demand, including an occupied home in 2018 that was not occupied in 2015, more individuals living in a residence, an increased number of household devices, additions to the residence, or simply a lesser attention to usage levels. This group includes the following:

- 10,973 customers averaged higher usage of 55% in addition to a higher demand; and
- 5,231 customers increased their monthly peak demand, some of whom may be experiencing their peak demand during the newly created 7 p.m. to 8 p.m. on-peak hour.

3. Small monthly bills. Another group of 6,292 customers have an average total monthly bill during the analysis period of less than $80, inclusive of any increase attributable to the Settlement Agreement. Therefore, a 10% increase in monthly bills for these smaller usage customers reflects a smaller dollar value than for the remainder of the customers in the analysis group (less than $20 per month).

III. DEMOGRAPHICS

With regard to the demographics of the customers included within this analysis group, the most definitive categorizations available to the Company are the number of limited-income customers that qualify for Rate Riders E-3 and E-4, and the location of customers within the Company's service territory (urban vs. rural).[4] An analysis of these two demographic factors within the overall analysis group of 182, 533 customers shows:

1. The group includes 6,494 customers being served under Rate Rider E-3 (customers qualifying for E-3 have an income equal to or less than 150% of the declared federal poverty level). This is 3.5% of the customers in the above-10% group, which is less than the overall percentage of E-3 customers (4.5%). Of these 6,494 customers, 76% are not on their most economical rate.

2. The group is comprised of 77% customers within the greater Phoenix metropolitan area and 23% in the remainder of the Company's service territory. For all APS customers, 69% are in the metropolitan Phoenix area and 31% are in rural areas.

In addition, APS conducted an analysis of income levels by zip code using publicly available information from the Internal Revenue Service.[5] This analysis shows that 55% of the 182,533 customers in the analysis group are in zip codes where the average income level is above the median annual income in APS's service territory.

IV. TARGETED OUTREACH

You also requested APS propose solutions for targeted outreach and education for these customers. As Ms. Hobbick mentioned in her testimony in this proceeding, the Company has continued its outreach to its customers with information on the specifics of the available rate plans.[6] In November of 2018, the Company sent bill inserts and e-mail communications reminding its Rate Schedule TOU-E (Saver Choice) customers of the winter super off-peak hours available to them. APS also continued its core *Shift, Stagger, and Save* transition education, specifically targeting customers on demand rates. Service plan education directed at community agencies that interact with the Company's limited-income customers is also ongoing.

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[4] Due to customer privacy concerns, APS neither requests nor stores demographic information on its customers.
[5] This information can be accessed at: https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-statistics-2016-zip-code-data-soi
[6] *See* Docket No. E-01345A-18-0002, Transcript Volume IV (September 28, 2018) at 653.

APS is currently formulating additional outreach plans for the upcoming months that will target the customers identified in this analysis with the goal of providing these customers with a better understanding of the new rate designs available to them along with ways to control costs and lower their monthly bills.

Sincerely,

Thomas L. Mumaw

Thomas L. Mumaw
TLM/bgs

cc: Docket Control
Chairman Tom Forese
Commissioner Bob Burns
Commissioner Boyd Dunn
Commissioner Justin Olsen
Parties of Record