

# OPEN MEETING



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MEMORANDUM RECEIVED

TO: THE COMMISSION

ORIGINAL

2011 FEB -2 P 1:31

FROM: Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: February 2, 2011

RE: IN THE MATTER OF THE APPLICATION OF UNS ELECTRIC, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS ELECTRIC, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA (DOCKET NO. E-04204A-09-0206)

On April 30, 2009, UNS Electric, Inc. ("UNSE" or "the Company") filed with the Arizona Corporation Commission ("Commission") an application for a rate increase for electric service in the above-docket.

UNSE is certificated to provide electric service as a public service corporation within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

UNSE sought Commission approval to include Black Mountain Generating Station ("BMGS") as a post test year adjustment to rate base in conjunction with a "revenue neutral reclassification" of its rates<sup>1</sup>, in the above docket. In Decision No. 71914, the Commission ordered that UNSE "shall be allowed rate base treatment of the Black Mountain Generating Station and the rate reclassification effective only upon" the completion of six steps.<sup>2</sup> The six steps are as follow:

- I. Staff shall complete its evaluation of BMGS and file its recommendation in this docket as a compliance item within 90 days of the date of this Decision;
- II. Commission determination confirming that BMGS should be included in rate base;
- III. UNS Electric, Inc. shall, with the assistance of Staff and RUCO, prepare and file in this docket as a compliance item within 60 days of the date of this Decision, schedules showing the inclusion of BMGS in rate base, with the appropriate operating adjustments, together with a proof of revenues demonstrating that the reclassified rates will produce the same revenue as authorized herein;
- IV. FERC approval of UNSE's acquisition of BMGS;

<sup>1</sup> Decision No. 71914 at 7, Ins. 9-21.

<sup>2</sup> Decision at 78, Ins 3-5.

Arizona Corporation Commission  
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- V. Completion of UNSE's acquisition of BMGS; and
- VI. Customer notice of the revenue neutral reclassification in a manner acceptable to Staff.

On December 21, 2010, UNSE filed schedules showing inclusion of in rate base with the appropriate operating adjustments; and a proof of revenues demonstrating that the reclassified rates will produce the same revenue as authorized in Decision No. 71914.

On page 13 of Decision No. 71914, the Commission provided Staff with the discretion to conduct the review it believes is necessary for BMGS and file a recommended order for the Commission's consideration. On December 21, 2010, in compliance with Decision No. 71914, Staff filed its Engineering Report on BMGS detailing its evaluation and recommendation regarding BMGS, based on the findings of Staff Consultants, W. Michael Lewis and Kenneth Strobl. Staff determined, based on a visual inspection of BMGS, discussion with UNSE personnel at BMGS, and reviews of UNSE responses to Staff Data requests, that BMGS is a well constructed facility and is back to full operation after the repairs to Unit No. 1.<sup>3</sup>

Staff and UNSE have completed Step I and Step III of the six prerequisites for including BMGS in rate base. However, UNSE still must obtain the Federal Energy regulatory Commission ("FERC") approval of UNSE's acquisition of BMGS, complete the acquisition of BMGS, provide customer notice of the revenue neutral reclassification, and seek Commission determination confirming that BMGS should be included in rate base.

### **Recommendations**

In order to assist UNSE's filing at FERC, Staff recommends that the Commission find that BMGS is fully operational and in good working condition.

Staff further recommends that UNSE file a request for inclusion of BMGS in rate base, and for approval of the related revenue neutral reclassification, upon completion of the following:

- A. Obtaining FERC approval,
- B. Acquisition of BMGS, and

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<sup>3</sup> Engineering Report on Black Mountain Generating Station at 10.

THE COMMISSION

February 2, 2011

Page 3

C. Issuance of Public Notice to its customers of the revenue neutral rate reclassification.



Steven M. Olea  
Director  
Utilities Division

SMO:All:lh\WVC

ORIGINATOR: Alexander Ibhade Igwe, CPA

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 GARY PIERCE  
Chairman

3 BOB STUMP  
Commissioner

4 SANDRA D. KENNEDY  
Commissioner

5 PAUL NEWMAN  
Commissioner

6 BRENDA BURNS  
Commissioner

7  
8 IN THE MATTER OF THE APPLICATION )  
9 OF UNS ELECTRIC, INC. FOR THE )  
10 ESTABLISHMENT OF JUST AND )  
11 REASONABLE RATES AND CHARGES )  
12 DESIGNED TO REALIZE A REASONABLE )  
13 RATE OF RETURN ON THE FAIR VALUE )  
14 OF THE PROPERTIES OF UNS ELECTRIC, )  
15 INC. DEVOTED TO ITS OPERATIONS )  
16 THROUGHOUT THE STATE OF ARIZONA )

DOCKET NO. E-04204A-09-0206

DECISION NO. \_\_\_\_\_

ORDER

15 Open Meeting  
16 February 17, 2011  
17 Phoenix, Arizona

18 BY THE COMMISSION:

19 FINDINGS OF FACT

20 1. On April 30, 2009, UNS Electric, Inc. ("UNSE" or "the Company") filed with the  
21 Arizona Corporation Commission ("Commission) an application for a rate increase for electric  
22 service in the above-docket.

23 2. UNSE is certificated to provide electric service as a public service corporation  
24 within portions of Arizona, pursuant to authority granted by the Commission.

25 3. UNSE sought Commission approval to include Black Mountain Generating Station  
26 ("BMGS") as a post test year adjustment to rate base in conjunction with a "revenue neutral  
27 reclassification" of its rates<sup>1</sup> in the above docket.

28 <sup>1</sup> Decision No. 71914 at 7, Ins. 9-21.

1           4.       In Decision No. 71914, the Commission ordered that UNSE “shall be allowed rate  
2 base treatment of the Black Mountain Generating Station and the rate reclassification effective  
3 only upon” the completion of six steps.<sup>2</sup> The six steps are as follows:

4           I.       Staff shall complete its evaluation of BMGS and file its recommendation in this  
5 docket as a compliance item within 90 days of the date of this Decision;

6           II.       Commission determination confirming that BMGS should be included in rate base;

7           III.       UNS Electric, Inc. shall, with the assistance of Staff and RUCO, prepare and file in  
8 this docket as a compliance item within 60 days of the date of this Decision,  
9 schedules showing the inclusion of BMGS in rate base, with the appropriate operating  
adjustments, together with a proof of revenues demonstrating that the reclassified  
rates will produce the same revenue as authorized herein;

10          IV.       FERC approval of UNSE’s acquisition of BMGS;

11          V.       Completion of UNSE’s acquisition of BMGS; and

12          VI.       Customer notice of the revenue neutral reclassification in a manner acceptable to  
13 Staff.

14  
15           5.       On December 21, 2010, UNSE filed schedules showing inclusion of BMGS in rate  
16 base with the appropriate operating adjustments; and a proof of revenues demonstrating that the  
17 reclassified rates will produce the same revenue as authorized in Decision No. 71914

18           6.       On page 13 of Decision No. 71914, the Commission provided Staff with the  
19 discretion to conduct the review it believes is necessary for BMGS and file a recommended order  
20 for the Commission’s consideration.

21           7.       On December 21, 2010, in compliance with Decision No. 71914, Staff filed its  
22 Engineering Report on BMGS detailing its evaluation and recommendation regarding BMGS,  
23 based on the findings of Staff Consultants, W. Michael Lewis and Kenneth Strobl. Staff  
24 determined, based on a visual inspection of BMGS, discussion with UNSE personnel at BMGS,  
25 and reviews of UNSE responses to Staff Data requests, that BMGS is a well constructed facility  
26 and is back to full operation after the repairs to Unit No. 1.<sup>3</sup>

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28 <sup>2</sup> Decision at 78, lns 3-5.

<sup>3</sup> Engineering Report on Black Mountain Generating Station at 10.



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B. Acquisition of BMGS, and

C. Issuance of Public Notice to its customers of the revenue neutral rate reclassification

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

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2011.

\_\_\_\_\_  
ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:All:lhmlWVC

1 SERVICE LIST FOR: UNS Electric, Inc.  
2 DOCKET NO. E-04204A-09-0206

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