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BEFORE THE ARIZONA CORPORATION (

Arizona Corporation Commission
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COMMISSIONERS

GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS ARIZONA PROPERTIES.	DOCKET NO. G-04204A-11-0158 DECISION NO. **73142** **OPINION AND ORDER**

DATE OF HEARING: February 9, 2012

PLACE OF HEARING: Tucson, Arizona

ADMINISTRATIVE LAW JUDGE: Jane L. Rodda

APPEARANCES:

Michael W. Patten, ROSHKA DEWULF & PATTEN, and Bradley Carroll, UniSource Energy Corporation, on behalf of UNS Gas, Inc.;

Jarrett J. Haskovec, LUBIN & ENOCH, PC, on behalf of IBEW Local 1116;

Michelle Wood, on behalf of the Residential Utility Consumer Office; and

Wesley C. Van Cleve, Bridget Humphrey and Kimberly A. Ruht, Staff Attorneys, Legal Division on behalf of the Arizona Corporation Commission Utilities Division.

BY THE COMMISSION:

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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

1. UNS Gas, Inc. ("UNS Gas" or "Company") is a gas distribution company that serves approximately 146,500 customers in Mohave, Yavapai, Coconino, and Navajo Counties in northern Arizona, and Santa Cruz County in southern Arizona. UNS Gas is wholly-owned subsidiary of

UniSource Energy Corporation.

2. On April 4, 2011, UNS Gas filed an application with the Commission for a rate increase based on a test year ended December 31, 2010. UNS Gas' current rates and charges were approved in Decision No. 71623 (April 14, 2010).

3. On May 9, 2011, the Commission's Utilities Division ("Staff") notified the Company that its application met the sufficiency requirements of A.A.C. R14-2-103, and classified the Company as a Class A utility.

4. On May 10, 2011, the Residential Utility Consumer Office ("RUCO") filed an Application to Intervene, which was granted on May 23, 2011.

5. On May 20, 2011, Staff filed a Request for Procedural Schedule. The Request proposed a schedule that provided an opportunity for the parties to engage in settlement discussions, and included two tracks for filing testimony and a hearing, depending on whether settlement discussions were successful.

6. A Procedural Conference was scheduled for May 27, 2011, to discuss the hearing schedule and the form of public notice.

7. By Procedural Order dated June 2, 2011, the matter was set for hearing and a schedule was established for filing testimony. As requested, the schedule included time for settlement discussions and set two alternate hearing dates--one that would commence on January 12, 2012, in the event the parties reached a settlement, and one that would commence on February 9, 2012, in the event the parties did not reach a settlement.

8. On July 15, 2011, Local Union 1116, International Brotherhood of Electrical Workers, AFL-CIO ("IBEW Local 1116") filed an Application to Intervene. IBEW Local 1116 represents approximately 110 employees of UNS Gas. The intervention was granted on July 29, 2011.

9. On September 30, 2011, UNS Gas filed Affidavits of Publication and Mailing, indicating that Notice of the Hearing was published in the *Kingman Daily Miner* on July 31, 2011; in the *Arizona Daily Sun*, published in Coconino County, on July 31, 2011; in the *Courier*, a Daily newspaper published in the City of Prescott, Yavapai County, on July 31, 2011; and in the *Nogales International* on July 31, 2011, and August 2, 2011; and was mailed as bill inserts to all UNS Gas

customers beginning on July 5, 2011, and ending on August 1, 2011.[1]

10. On November 4, 2011, UNS Gas filed a Notice of Settlement Discussions.[2]

11. On January 12, 2012, RUCO, on behalf of all the parties to this docket, filed a Motion to Continue Deadlines for Surrebuttal and Rejoinder Testimony because the parties were attempting to resolve one or more major issues in this matter. The request was granted by Procedural Order dated January 12, 2012. The February 9, 2012, hearing date remained unchanged.

12. A pre-hearing conference convened on February 6, 2012, to discuss the conduct of the hearing. The parties reported that they had reached agreement on all outstanding issues, and requested that out-of-town witnesses be allowed to testify telephonically, or if there was no cross examination anticipated for a witness, to have that witness' written testimony admitted upon stipulation.

13. The hearing convened as scheduled on February 9, 2012, before a duly authorized Administrative Law Judge. For the Company, Mr. David Hutchens, UNS Gas' President, and Mr. Craig Jones, its manager of pricing, testified in person, and all the pre-filed written testimony of the other UNS Gas witnesses was admitted upon the stipulation of the parties. The parties agreed that the testimony of Mr. Grijalva, the witness for IBEW Local 1116, could also be admitted on stipulation. For RUCO, Ms. Jodi Jerich, RUCO's Director, and Mr. Rodney Moore, a rate analyst, both appeared telephonically, while the testimony of Mr. William Rigsby on the cost of capital, was admitted upon the stipulation of the parties. For Staff, Mr. Robert Gray testified in person; Mr. David Dismukes, who testified on the proposed decoupling mechanism, cost of service and rate design, and Mr. John Rosenkranz, who testified on natural gas procurement practices, appeared telephonically; and the pre-filed written testimony of all other Staff witnesses was admitted upon the stipulation of the parties.

14. On February 21, 2012, UNS Gas filed two late-filed exhibits as discussed at the hearing, consisting of a clean version of the Lost Fixed Cost Recovery ("LFCR") Plan of Administration ("POA"),[3] and revised redlined tariffs for residential customers and low-income

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[1] Ex A-22.
[2] Settlement discussions did not result in a Settlement Agreement, and thus, the litigation track identified in the June 2, 2011, Procedural Order controlled.
[3] As discussed later, the LFCR mechanism replaces the decoupling mechanism originally requested by the Company.

customers that include language to allow customers to switch between the LCFR rate and the opt-out rate during the first year that the rates are in effect.

15. The Commission received many emailed public comments in opposition to the rate increase.[4] Besides general opposition to higher rates, customers objected to a decoupling proposal that they believed would increase their bills even if they used less gas. No customers appeared in person to give public comments at the hearing.

Summary of Positions

16. In its Application, UNS Gas requested an increase in revenue of $5,621,736, a 10.2 percent increase over adjusted test year revenues of $55,181,096.[5] UNS Gas requested a cost of equity ("COE") of 10.4 percent, and a fair value rate of return ("FVROR") of 6.81 percent on a Fair Value Rate Base ("FVRB") of $253,677,266.[6] In addition, the Company requested a revenue decoupling mechanism, which it called a Conservation Adjustment Tracker ("CAT"), to mitigate what it believed would be the negative financial impacts of complying with the Gas Energy Efficiency Rules approved in Decision No. 72042 (December 10, 2010).

17. In its direct testimony, RUCO recommended a revenue increase of $1,651,971, based on an adjusted FVRB of $252,913,441, a COE of 9.5 percent, and a FVROR of 5.56 percent.[7] In surrebuttal, RUCO updated its recommendations and agreed with Staff's adjustments, and resulted in a recommended revenue increase of $2,701,804.[8] RUCO opposed the proposed CAT, and in lieu of a decoupling mechanism proposed two possible alternatives--either moving more revenue to the fixed monthly rate (from $10.00 to $10.50 for residential customers) to enhance revenue stability; or providing the Company with an equity premium of five basis points (increasing the recommended COE from 9.50 percent to 9.55 percent).[9]

18. In its direct testimony, Staff calculated two revenue requirements using the two alternative methods of calculating FVROR presented in Mr. Parcell's testimony, and recommended a

[4] Many of which appear to be form emails sent in response to communications sent out by the Association for the Advancement of Retired Persons.
[5] Ex A-2, Schedules A and C-1.
[6] *Id.*
[7] Ex R-1 Moore Dir on rate base and revenue requirement at RLM-1.
[8] Ex R-3 Moore Surr at 2.
[9] Ex R-7 Jerich Dir at 2.

revenue increase of no more than $1,884,802, or 3.5 percent over test year revenues.[10] Staff recommended a FVRB of $254,378,245. Using Staff's FVROR alternate 1, which includes no additional financing cost on the increment between OCRB and FVRB, Staff calculated a revenue deficiency of $734,484, or 1.33 percent over test year revenues.[11] Under Staff's FVROR alternate 2, which assigned an additional one percent cost to the FVRB increment, Staff calculated a revenue deficiency of $1,884,802.[12] In its surrebuttal, Staff recommended a revenue increase of $2,701,804, or approximately 4.8 percent over test year revenues.[13] Staff recommended a FVROR of 6.26 percent on a FVRB of $253,379,837, which produced required operating income of $15,868,063.[14] In Staff's surrebuttal, total test year revenues remained unchanged at $55,143,180, and Staff recommended adjusted operating expenses totaling $40,927,697, which yielded net operating income of $14,215,483.[15] Based on Staff's recommended operating income, there is an operating income deficiency of $1,652,580, which after applying the gross revenue conversion factor of 1.6349, results in a recommended revenue requirement of $2,701,804.[16] Although Staff ultimately supports a revenue increase of $2.7 million based on its FVROR alternate 2, in surrebuttal, it provided the calculation of what the revenue requirement would be under FVROR alternate 1. Utilizing FVROR alternate 1 of 5.98 percent, Staff's surrebuttal adjustments would yield a revenue increase of $1,510,954.[17] In addition, in lieu of a decoupling mechanism, Staff proposed a cost recovery mechanism tied to measured lost revenues as a result of energy efficiency programs approved by the Commission.

19. IBEW Local 1116 did not offer testimony recommending a particular rate base or revenue requirement, but Mr. Grijalva testified that the union workers supported the Company's revenue request.[18] IBEW Local 1116 expressed concern that UNS Gas will need to address the

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[10] Ex S-6 Smith Dir at 4 and 11 and Schedule A.
[11] Ex S-6 at 4; Ex S-1 Parcell Dir at 45. Staff's alternate 1 FVROR is 5.98 percent.
[12] Ex S-6 at 4; Ex S-1 at 49. Staff's FVROR alternate 2 is 6.26 percent.
[13] Ex S-8 Smith Surr at 4 and Schedule A.
[14] Ex S-8 at Schedule A. Schedule A indicates a required operating income of $15,868,063, however, multiplying $253,378,837 by 6.26 percent, produces $15,861,578. The $6,485 difference is not material, and for purposes of this Order, we utilize Staff's schedules.
[15] Ex S-8 at Schedule A.
[16] Ex S-8 Smith Surr at 4, and Schedule A.
[17] Ex S-8 at Schedule A.
[18] Ex UX-1 Grijalva Dir at 4.

challenge of an "aging workforce" and anticipated retirements, which IBEW Local 1116 believes will require hiring new technicians while the more experienced employees are able to train them.[19] Mr. Grijalva supported UNS Gas being authorized to recover a greater share of its fixed costs through a higher fixed monthly customer charge.[20]

20. Although the parties were not able to reach a settlement prior to the deadline established in the June 2, 2011, Procedural Order, by the time Staff and RUCO filed their Surrebuttal testimony and the Company filed its rejoinder testimony, the parties were in agreement on a revenue requirement, and there were no outstanding issues.[21]

21. The Company agreed, for purposes of this case, to all of Staff's adjustments to rate base, COE, FVROR alternate 2, revenue requirement and rate design as set forth in Staff's surrebuttal testimony. The Company also accepted Staff's proposed LFCR mechanism.[22] In addition, the Company agreed to a comprehensive review of the Negotiated Sales Program ("NSP") in its next rate case and understands that the current 50/50 sharing margin will be maintained and the NSP will continue "as is" pending future review.[23]

22. RUCO and IBEW 1116 also agreed to Staff's recommendations on rate base, cost of capital, revenue requirement and rate design, as set forth in Staff's *surrebuttal testimony*.[24] RUCO accepts Staff's proposed LFCR mechanism on the condition that there is an "opt-out" tariff.[25] Furthermore, RUCO recommended a Purchased Gas Adjuster ("PGA") surcredit for one year that would provide a monthly credit of $0.0164 per therm, resulting in a decrease of $0.74 in monthly gas costs, which RUCO states should mitigate the impact of the base rate increase for at least a year.[26]

23. UNS Gas agreed to propose a PGA surcredit as recommended by RUCO in its rebuttal testimony, which will result in at least $2.7 million in refunds to ratepayers in an attempt to mitigate the impact of the base rate increase.[27]

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[19] *Id.* at 6.
[20] *Id.*
[21] See Ex A-21 Issues Matrix.
[22] Ex A-4 Hutchens Rj at 3.
[23] *Id.* at 6.
[24] Ex R-3 and Transcript of February 9, 2012, hearing ("Tr.") at 17-18.
[25] Ex R-8 Jerich Sur at 1.
[26] Ex R-3 at v-iv.
[27] Ex A-4 at 7.

24. Consequently, by the time of the hearing, all parties to this proceeding recommended that the Commission adopt the following:[28]

Adjusted Rate Base	$253,379,837
Rate of Return	6.26%
Operating Income Required	$15,868,063
Net Operating Income Available	$14,215,483
Operating Income Excess/Deficiency	$1,652,580
Gross Revenue Conversion Factor	1.6349
Overall Revenue Requirement	$2,701,803

Rate Base

25. The parties agreed to plant-in-service values for the determination of Original Cost Rate Base ("OCRB"). The Company adjusted Customer Advances and Contributions in Aid of Construction ("CIAC"), which Staff and RUCO accepted.[29] The Company adopted for purposes of this rate case only, Staff's 50 percent downward adjustment of $19,820 to pre-paid Directors and Officers Liability Insurance, and Staff's $37,282 reduction to cash working capital.[30] The Company and RUCO accepted Staff's $824,165 adjustment to Accumulated Deferred Income Taxes.[31] Moreover, UNS Gas and RUCO agreed to Staff's Reconstructed Cost New Rate Base ("RCND") of $323,865,279.[32]

26. The adjustments to rate base agreed to by the parties are supported by the evidence and are reasonable. We adopt the parties' recommendations that, solely for purposes of this rate case,

[28] Ex A-21 and Ex S-8, RCS-6 at 2. Staff's surrebuttal schedules contain a rounding discrepancy, such that multiplying the FVROR of 6.26 percent by the FVRB as reported therein, results in a required operating income of $15,861,578, rather than the $15,868,063, reflected in the schedule and in testimony. In testimony and in the Joint Matrix, the parties refer to Staff's surrebuttal required operating income as $15,868,063. *See* Ex S-8 at 4. For purposes of this Order we will refer to the required operating income of $15,868,063. The FVROR necessary to generate this operating income is 6.2625595 percent. The discrepancy is not material.

[29] Ex S-6 at Schedule B; Ex R-1 at RLM-2.

[30] Ex A-10 Dukes Rj at DJD-4.

[31] Ex A-10 at 2 and RJD-4; Ex R-3 at 4 and RLM-3.

[32] Ex A-21.

UNS Gas' OCRB is $183,074,395, its RCND is $323,685,279 and its FVRB is the average of the two, or $253,379,837.[33]

Operating Income and Expenses

27. The Company reported adjusted test year revenues of $55,181,096.[34] Staff made net adjustments that reduced adjusted test year revenues by $37,916 to correct the Company's adjustment to reflect a 10 year period for customer and weather annualization.[35] Neither the Company nor RUCO objected to Staff's adjustments.[36] The evidence supports a finding that UNS Gas' adjusted test year revenues were $55,143,180.[37]

28. The Company proposed total adjusted operating expenses of $41,340,893.[38] In Surrebuttal, Staff recommended adjustments to operating expenses totaling ($413,196), resulting in recommended adjusted Operating Expenses of $40,927,697.[39]

29. The Company and RUCO accepted Staff's adjusted operating income of $14,215,483.[40]

30. UNS Gas states that it continues to believe that its positions on certain operating

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[33] In Decision No. 71623, we stated that future cases should include a more detailed and comprehensive evaluation of how fair value rate base is determined, including a determination of the accuracy of the RCND estimation process; whether it is appropriate to average OCRB and RCND to calculate FVRB; and how, or whether, the Commission should use cost of capital models as part of the determination of fair value rate of return. *See* Decision No. 71623 at 52. In this case, UNS Gas explained how it estimated RCND. Ex A-8 Dukes Dir at 28. Staff and RUCO accepted the Company's initial estimates and made adjustments they believed appropriate. Ex S-6 at 8 and Ex R-1 at RLM-2. Staff and RUCO appear to adopt the Company's estimate of RCND values without much, if any, discussion. We continue to believe that the significant difference in the OCRB and RCND, and resultant effect on FVRB, and consequently on rates, merits additional analysis in the future. As discussed above, the impact in this case is substantial (an increase of $2,701,803 versus $1,510,954). However, for purposes of this case only, we will adopt the FVRB and 6.26 percent FVROR agreed to by the parties. We continue to be concerned that the method of simply averaging OCRB and RCND to arrive at a company's FVRB may overstate significantly the rate base upon which it is authorized to earn a return and may result in a windfall return well beyond what may be considered just and reasonable, as described in Mr. Parcell's testimony.

[34] Ex S-6 at 15.

[35] *Id.* at 16.

[36] Ex A-21 at 4; Ex A-9 Dukes Reb at 2; Ex R-3 at 5.

[37] Ex S-8 at RCS-6.

[38] Ex A-2 at C-1.

[39] Ex S-8 at RCS-6 at 7; Staff's adjustments reduced Bad Debt Expense; disallowed 50 percent of Incentive Compensation; disallowed 100 percent of Executive Compensation allocated to operations; disallowed 100 percent of Supplement Executive Retirement Plan ("SERP"); reduced Industry Dues; reduced Rental Expense and Printing and Mailing Expenses; reduced Rate Case Expense; adjusted Interest Synchronization; excluded 50 percent of Officers and Directors Insurance Expense; lowered Property Tax Expense; and recalculated Income Tax Expenses to comport with Staff's other recommendations.

[40] Ex A-4 at 1 and Ex R-3 at 1.

expenses[41] are reasonable and can be supported by the evidence, but that the Company agrees that for this rate proceeding, it will accept Staff's recommended adjustments.[42] The Company states that it reserves its right to raise its arguments in support of its earlier positions in a subsequent proceeding.[43]

31. The adjustments to Operating Revenue and Expenses, as recommended by Staff, and accepted by the Company and RUCO, are supported by the evidence and are reasonable. Consequently, we find UNS Gas' adjusted test year operating income to be $14,215,483.

Cost of Capital

32. To determine its cost of capital, UNS Gas proposed using its actual capital structure as of December 31, 2010, which comprised 49.18 percent long-term debt and 50.82 percent common equity.[44]

33. In its direct testimony, the Company proposed a cost of debt of 6.74 percent.[45] To determine a COE, UNS Gas' witness employed a Discounted Cash Flow ("DCF") analysis which yielded a range between 10.1 and 10.5 percent, and a risk premium analysis which indicated a range between 10.4 to 10.6 percent. Based on the foregoing, UNG Gas proposed a COE of 10.5 percent.[46] Applying its capital cost components to its capital structure, the Company proposed a weighted average cost of capital ("WACC") of 8.65 percent.[47] Employing the methodology the Commission adopted in Decision No. 70665 (December 24, 2008) (Southwest Gas' 2008 rate case), that utilized the fair value increment (i.e. the difference between OCRB and FVRB) to derive an adjusted capital structure and calculate a WACC thereon, the Company recommended a FVROR of 6.81 percent.[48] The Company utilized a 2.0 percent return on the FVRB increment (i.e. the difference between RCN and OCRB).

34. Staff and RUCO accepted the Company's proposed cost of debt and capital structure,

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[41] E.g. Directors and Officers Liability Insurance, Cash-Based Incentive Compensation, Stock Based Incentive Compensation, SERP, Rate Case Expense and Property Tax Expense.
[42] Ex A-10 at 1-2; Ex A-4 at 3.
[43] Ex A-4 at 3; Ex A-10 at 1-2.
[44] Ex A-16 Grant Dir at 10; Ex S-1 at 21.
[45] Ex A-16 at 9.
[46] Ex A-18 Hadaway Dir at 2. The Company's witness did not include a Capital Asset Pricing Model ("CAPM") analysis because he believed that under current market conditions, with an "artificially" low Treasury Bond rate, the CAPM did not produce reliable results. *See* Ex A-18 at 42.
[47] Ex A-16 at 10.
[48] *Id.* at 11-13.

but proposed different COEs.[49]

35. In direct testimony, RUCO utilized the DCF method and CAPM to calculate UNS Gas' COE.[50] RUCO recommended a 9.5 percent COE for UNS Gas, which was on the high side of its results, which ranged between 3.83 and 9.47 percent.[51] Applying its recommended cost components to UNS Gas' capital structure, RUCO derived a WACC of 8.14 percent.[52] RUCO recommended a FVROR of 5.96 percent, which was the 8.14 percent original cost rate of return less RUCO's recommended inflation adjustment of 2.18 percent.[53]

36. Staff utilized DCF, the CAPM and Comparable Earnings to estimate UNS Gas' COE.[54] Staff's analyses resulted in a range between 9.0 percent to 10.5 percent, and Staff recommended a COE for UNS Gas at the midpoint, or 9.75 percent.[55] Combining the Company's capital structure with Staff's recommended cost components, Staff derived a recommended WACC of 8.27 percent.[56] David Parcell, Staff's cost of capital witness, testified that because the increment between fair value and OCRB is not financed with investor-supplied funds, it is reasonable to assume the increment has no financing cost, and to calculate the FVROR based on a capital structure with a cost-free component equal to the increment of FVRB over the OCRB.[57] Staff utilized its cost-free approach to calculate a FVROR of 5.98 percent. Staff also calculated a FVROR using a methodology that incorporated a 1 percent "real" risk-free return, that removes the rate of inflation form the nominal risk-free rate on the FVRB increment.[58] Under Staff's second alternative, Staff derived an overall FVROR of 6.26 percent.[59]

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[49] Ex S-1 at 3; Ex R-6 Rigsby Surr at 2.
[50] Ex R-5 Rigsby Dir at 4.
[51] *Id.* at 5.
[52] *Id.* at 31.
[53] *Id.* at 6.
[54] Ex S-1 at 3.
[55] *Id.* at 3.
[56] *Id.* at 4.
[57] *Id.* at 45.
[58] *Id.* at 48. Staff utilized a nominal risk-free rate of 4.0 percent, and subtracted the inflation rate of 2.0 percent, to derive a maximum real risk-free rate of 2.0 percent Mr. Parcell used the mid-point between zero and the maximum real risk-free rate of 2.0 percent, but argued that any value between 0 and 2.0 percent could be utilized.
[59] *Id.* at 49. Mr. Parcell noted that the FVRB increment return is in addition to the return that the Company's investors already earn on their investment in the Company, and that in this sense, an above-zero cost rate for the FVRB increment is a bonus to the Company that would have to find its justification in policy considerations instead of in pure economic or financial principles. . . ."

37. For purposes of this proceeding, the parties agreed to Staff's recommended WACC of 8.27 and FVROR alternate 2 of 6.26.[60]

38. Staff's FVROR alternate 2 is based on a methodology of calculating the cost of capital that Staff has proposed as an alternative in several prior cases, and is in the middle of the various cost estimates presented in this proceeding. Based on the totality of circumstances, we accept the parties' consensus for FVROR, however, in adopting Staff's second alternative recommendation, we are not stating a preference for this method of determining an appropriate FVROR in the next UNS Gas rate case, or in other rate cases for other companies. Under the circumstances of this case, we find that a COE of 9.75 percent, WACC of 8.27 percent, and FVROR of 6.26 percent, are supported by the evidence, and are fair and reasonable in this instance.

Revenue Requirement

39. We concur with the parties' recommendations as set forth above, and find that there is an operating income deficiency of $1,652,580. With the agreed gross revenue conversion factor of 1.6349, we authorize UNS Gas a gross revenue increase of $2,701,803, or 4.9 percent over adjusted test year revenues.

40. The Company states that with the addition of the LFCR mechanism, the additional revenues of approximately $2.7 million will allow the Company to continue to provide safe and reliable service.[61]

Rate Design Issues

41. In this proceeding, UNS Gas expressed concern that the interplay of a low recommended revenue requirement and the adverse impacts of meeting the Commission's energy efficiency mandates would adversely affect the Company's ability to earn its authorized return, would negatively impact its Baa3 credit rating, and lead to an inability to attract capital on reasonable terms.[62] In its direct testimony, the Company proposed its CAT, a decoupling mechanism, which the Company claimed was designed to (1) account for losses due to the Commission's Energy Efficiency Standard; (2) help mitigate the financial disincentive inherent in the Gas Energy Efficiency Rules;

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[60] Ex A-4 at 1; Ex R-6 at 2.
[61] Tr. at 43-44.
[62] Ex A-3 at 5.

and (3) mitigate the Company's dependence on commodity sales to achieve its authorized revenue.[63] To enhance revenue stability, the Company also proposed increasing the monthly customer charge for each customer class (e.g. $10.00 to $11.00, for the residential class).[64] In addition, the Company proposed to rectify what it believes is a substantial subsidy to the low income assistance customers enrolled in the Customer Assistance Residential Energy Support ("CARES") program by all other ratepayers.[65]

42. RUCO opposed the CAT because while it would benefit the utility, RUCO believed there were no demonstrated benefits for ratepayers.[66] RUCO states that because UNS Gas is a distribution utility and not a gas production utility, it only builds new infrastructure when there is a demand from new customers, and that reduced consumption by existing customers would not save construction costs associated with new distribution infrastructure.[67] RUCO believes that given the current financial conditions and ratepayer opposition, implementing decoupling at this time is not in the public interest.[68] However, RUCO states that it recognizes the value of a financially healthy utility, and in order to enhance revenue stability, RUCO proposed two alternatives to the CAT in its direct testimony: 1) increasing the monthly fixed charge for residential customers from $10.00 to $10.50; or 2) adding a premium of five basis points to RUCO's COE, from 9.50 percent to 9.55 percent.[69] In its surrebuttal testimony, RUCO continued to oppose decoupling, but indicated it could accept Staff's proposed LFCR mechanism contingent upon there being an opt-out rate.[70] RUCO supports on opt-out rate to provide ratepayers with choice, while not impairing either the Commission's energy efficiency efforts or the utility's financial health.[71] RUCO asked UNS Gas to design an opt-out rate that would replicate the effect of the LFCR in a manner similar to the opt-out rate in the proposed settlement agreement in the Arizona Public Service rate case.[72] The opt-out rate

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[63] Ex A-5 Jones Dir at 7-9.
[64] *Id.* at 5.
[65] Ex A-5 at 31-39.
[66] Ex R-7 at 3.
[67] *Id.* at 6.
[68] *Id.* at 4.
[69] *Id.* at 2.
[70] Ex R-8 at 1; *See also* Tr. at 87-89.
[71] Tr. at 20.
[72] Ex R-8 at 3.

gives customers the option of not incurring the LFCR mechanism by paying a flat $1.50 per month extra.[73] RUCO believes offering ratepayers a choice for how they want to pay for the energy efficiency revenue losses is important, but that a flat rate also sends a better price signal by allowing consumers to see the full benefits of their conservation efforts.[74]

43. Staff opposed full decoupling and the proposed CAT because it would have resulted in surcharges for lost revenues which had nothing to do with energy efficiency, such as price or weather.[75] Staff stated that one of the problems with true decoupling is that by decoupling revenues and costs from sales, rates can start to reflect accumulated inefficiencies.[76] Staff proposed its LFCR mechanism to preserve the performance/rate relationship by tying any lost fixed cost recovery to energy efficiency savings.[77] Staff's proposed LFCR mechanism would give UNS Gas greater amounts of fixed cost recovery as it meets Commission-defined energy efficiency goals.[78] Under Staff's proposal, in the first year, the Company would be allowed to recover by means of a per therm surcharge, the total amount of the anticipated 2012 lost base revenues assuming it achieves 100 percent of its 2011 energy efficiency savings.[79] The amount would be trued-up to actual lost base revenue in the 2013 reconciliation process.[80] If the Company does not meet 100 percent of its 2012 energy savings goals, the difference between the 100 percent it was allowed to collect, and the actual lost revenues, would be refunded to ratepayers during the 2013 reconciliation process. If UNS Gas does not meet its 2012 savings goals, it would only be allowed to recover the percentage of actual 2012 savings in the next year.[81]

44. The Company agreed to accept Staff's proposed LFCR mechanism and RUCO's opt-out rate in lieu of its proposed CAT.[82] The terms of the LFCR mechanism are set forth in the POA, a

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[73] *Id.* at 5.
[74] Tr. at 89.
[75] Ex S-9 Dismukes Dir at 9.
[76] *Id.* at 21.
[77] *Id.* at 21-22.
[78] *Id.* at 22.
[79] *Id.*
[80] *Id.* at 23.
[81] Ex S-9 at 34; Tr. at 124.
[82] Ex A-4 at 2. Tr. at 29.

copy of which is attached hereto as Exhibit A.[83]

45. The LFCR mechanism will only be collected from residential and small commercial customer classes.[84] The POA includes an annual cap of 1 percent of revenues, such that if the LFCR adjustment results in a surcharge and the annual incremental increase exceeds one percent of applicable revenue, any recovery of revenue in excess of the cap will be deferred until the next future adjustment period in which these costs would not cause the annual increase to exceed the cap.[85]

46. The Company will make its LFCR filing by May 1st each year, and Staff will use its best efforts to review the filing so the new LFCR surcharge can go into effect July 1st each year.[86] The new surcharge would take effect only upon Commission approval.[87]

47. In proposing the LFCR mechanism, Staff recommended that Staff perform an annual audit/evaluation to confirm UNS Gas' compliance with the Commission's energy efficiency rules and/or adjust the savings reported by the Company.[88] Furthermore, if Staff is not able to perform the audit, it could select an independent consultant to oversee the process, and UNS Gas would be responsible for funding the evaluation up to $50,000.[89]

48. The version of the POA submitted by the parties does not contain Staff's recommendation concerning responsibility for the audit/evaluation process. Although Staff's witness testified that the POA contained all of Staff's recommendations concerning how the LFCR mechanisms would work,[90] he was not asked specifically whether the POA should include the audit/evaluation process. We find that such audit or evaluation is important to ensure the LFCR mechanism, a new type of cost recovery mechanism in this jurisdiction, is functioning as intended. We find that Staff's recommendation concerning the audit/evaluation process is reasonable and should be adopted, and that as a material provision, should be included in the final version of the

---

[83] The mechanism retains the essential elements of Staff's concept as originally proposed, but has been modified slightly to change the date of filing compliance reports from April 15th to May 1st, to simplify the number of reports, and to include the opt-out rate. *See* Tr. at 60-61, 66, and 116.

[84] Ex S-10 Dismukes Surr at 2; POA at ¶ 2.

[85] Ex S-10 at 2; POA at ¶ 3; Tr. at 118-121.

[86] POA ¶ 4; Tr. at 61-62.

[87] POA at ¶ 4; Tr. at 61-62 and 123-124.

[88] Ex S-9 at 24 and 32.

[89] Ex S-9 at 26.

[90] Tr. at 117.

POA that will be filed in compliance with this Order.

49. RUCO recommended that the opt-out rate be available to ratepayers on a trial basis for the first year, so that ratepayers can switch between the LFCR mechanism and the opt-out rate to determine which rate they prefer.[91]

50. The Company agreed that for the first year, ratepayers should be allowed to switch between the LFCR mechanism and the opt-out rate, as long as there is a minimum period of 3 months on each tariff.[92] Staff also agreed with the proposed opt-out rate.[93] The Company filed tariffs which include the parties' agreed terms for the LFCR opt-out rate.[94] Copies of these tariffs are attached hereto as Exhibit B, and incorporated herein by reference.

51. The parties have agreed to the Surrebuttal rate schedules proposed by Staff, attached hereto as Exhibit C, and incorporated herein by reference.[95] The Company states that Staff's proposed rate design comports with the Company's proposal and moves rates toward the system average rate of return.[96] The Company reserves the opportunity to propose raising the monthly customer charge in a future rate case.[97]

52. In addition, Staff recommended that the Commission order UNS Gas to evaluate alternative rate designs, including an inclining block rate structure for residential and commercial customers in the next rate case.[98] The Company agreed in principle to consider alternative rate designs in its next rate case, but did not commit to proposing inclining block rates at this time.[99]

53. RUCO also recommended that the Company establish a monthly PGA surcredit for one year to mitigate the financial impact of the base rate increase.[100] The surcredit would be funded from the existing over-collected balance in the Company's PGA account.

54. The Company and Staff agreed to RUCO's PGA surcredit proposal.[101] The Company

[91] Tr. at 30-31 and 88-89.
[92] Tr. at 30-31, 33, 40-41, and 57-58.
[93] Tr. at 111 and 113.
[94] Ex A-25 (filed on February 21, 2012).
[95] Ex A-4 at 5.
[96] *Id.*
[97] *Id.*
[98] Ex S-9 at 8; this recommendation was omitted from the Joint Issues Matrix.
[99] Tr. at 49-51 and 63-64.
[100] Ex R-3 at 13.
[101] Tr. at 27-28, 31-32, and 101.

stated that it would file within thirty days of the end of the hearing, a proposed surcredit to refund an amount at least equal to the base rate revenue increase, or approximately $2.7 million.[102]

55. On February 29, 2012, UNS Gas filed an Application to approve a temporary PGA credit adjustment of 4.5 cents-per-therm for the period May1, 2012, through April 30, 2014.[103]

56. The Company's CARES program is available to ratepayers whose combined household income is at or below 150 percent of the federal poverty level. Currently, CARES customers receive a discount of $3 off the monthly charge and a $.15 discount on the first 100 therms of usage in the winter.[104]

57. The Company is concerned about the financial effect of increasing numbers of CARES customers and the growing subsidization by all other ratepayers.[105] Initially, the Company proposed eliminating the discount on the monthly charge and increasing the discount on winter consumption to $.25 on the first 100 therms.[106] Staff opposed eliminating the discount on the customer charge and recommended increasing the commodity discount to $.18 per therm.[107] Ultimately, the parties agreed that the CARES program should remain as is, and agreed that the Company should be allowed to pursue a more robust process for determining eligibility.[108]

58. The impact of the rates proposed by Staff and agreed to by all other parties, depends on monthly usage. The impact of the proposed rates for different consumption levels is set forth below:[109]

Average therms per month	Total Margin *Present Rates*	Total Margin *Proposed Rates*	Increase	% Increase
5	$11.64	$11.72	$0.08	.70%
10	$13.27	$13.43	$0.16	1.24%
20	$16.54	$16.87	$0.33	1.99%
35	$21.45	$22.02	$0.57	2.68%

102 Tr. at 27-28 and 35.
103 *See* Docket No. G-04204A-12-0069.
104 Ex A-5 at 31.
105 Ex A-5 at 32; Ex A-6 Jones Reb at 31; Ex A-7 Jones Rj at 2.
106 Ex A-5 at 34-35.
107 Ex S-9 at 66.
108 Tr. at 74-75, 127. Ex A-4 at 5.
109 Ex A-7 schedule H-4.

50	$26.35	$27.17	$0.82	3.11%
75	$34.53	$35.76	$1.23	3.56%
100	$42.70	$44.34	$1.64	3.84%
250	$91.75	$95.85	$4.10	4.47%
500	$178.50	$181.70	$8.20	4.73%

The average monthly usage (based on annual consumption) for the residential class is approximately 45 therms. Under current rates, the bill of a residential consumer using 45 therms would reflect a distribution charge of $24.72.[110] Including the cost of gas (assuming the average PGA rate of $0.7395/therm during the test year), the bill for a residential customer using 45 therms a month would be $58.00.[111] Under the proposed rates, the distribution charges for a residential consumer using 45 therms would increase to $25.45,[112] an increase of $0.73, or approximately 3 percent. Because the February 2012 PGA rate is currently lower than the test year average, the total bill, (distribution rates plus PGA rate) would be $54.41.[113] If UNS Gas' proposed temporary credit adjustment to the PGA of 4.5 cents-per-therm is approved, it would decrease the bill of a residential consumer using 45 therms by $2.03 per month.[114]

59. The rate design that all parties have agreed to, including the LFCR mechanism and the concept of the PGA credit, is fair and reasonable, reasonably designed to recover the authorized revenue, and is in the public interest. We adopt the rates and tariffs attached hereto as Exhibits B and C. We direct UNS Gas to file a revised POA (Exhibit A) that conforms to the discussion herein.

<u>Other Issues – Gas Procurement and Negotiated Sales Program, Etc.</u>

60. Staff recommended the following with respect to gas procurement and the NSP:[115]

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[110] *I.e.*, The monthly customer charge plus the margin rate intended to cover non-gas operating costs. $10 + 45(0.3270) = $24.72.

[111] Ex S-9 at DED-18; $10 + 45(0.3270) + 45(0.7395) = $58.00.

[112] $10 + 45(0.3434) = $25.45.

[113] $10 + 45(0.3434) + 45 (0.6435) = $54.41.

[114] 45($0.045) = $2.03.

[115] *See* Ex S-11 Rosenkranz Dir at 2-3 and Ex S-13 Rosenkranz Surr at 6. The NSP allows the Company to participate in the competitive bidding process of its transportation customers who are seeking to purchase gas supplies for their own use. *See* Ex A-8 Dukes Dir at 16. The NSP is intended to provide: (1) an alternative source of supply for transportation customers; (2) lower gas costs for firm sales customers through the sharing of margins on NSP sales; and (3) an opportunity for the Company to improve its earnings. *See* Ex S-11 at 22, citing Decision No. 59399 at 9.

(a) UNS Gas should consider modifying its price hedging program to:
   (i) lift the prohibition on non-discretionary purchases during the months of August, September, and October;
   (ii) utilize other financial transactions, in addition to swaps; and
   (iii) reduce the initial stabilization purchase quantities for delivery months that are two and three years out to reduce the risk of over-hedging due to overly-optimistic long-term sales forecasts;

(b) The Company should ensure that there is a complete record of all final offers received, and any non-price factors used for evaluating offers, when it conducts a request for proposals;

(c) UNS Gas should submit a comprehensive pipeline capacity plan to the Commission by October 1, 2012;

(d) UNS Gas should modify the Purchased Gas Adjustor reports to include the following information:
   (i) Report winter-period firm purchases and other call option transactions as a separate category on the Purchased Gas Detail Report;
   (ii) Include the quantity of gas covered by financial hedge transactions;
   (iii) Report total NSP revenue, the total NSP margin, and the amount of NSP margin retained by the Company;
   (iv) Separate out the margins related to the affiliate contract for the Black Mountain Generating Station from the NSP margins for reporting purposes;
   (v) Report for each pipeline:
      a. the total pipeline reservation cost before capacity release credits;
      b. the amount of capacity released during the month; and
      c. the capacity release credits received;

(e) Separately report excess gas sales that are done for balancing purposes and excess gas sales that are discretionary sales for resale, and show the margin calculation for each discretionary off-system sale;

(f) UNS Gas should include asset management agreement (AMA) revenue in the calculation of the Natural Gas Cost Rate, not as an adjustment to the PGA Bank Balance; and

(g) UNS Gas should conduct a comprehensive review of the benefits and costs of the NSP, and file testimony on the NSP as part of its next rate case application.

61. UNS Gas supports all of Staff's recommendations, as reflected in Staff's surrebuttal, concerning gas procurement and the NSP.[116]

62. In its Application, UNS Gas proposed a number of wording changes to its Rules and Regulations.[117] Staff agreed with most of the proposed changes, but recommended: (1) keeping language that allows the Company to request when a customer has life support equipment and

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[116] Ex A-4 at 6-7.
[117] Ex A-5 at 39-40.

preventing service termination of those on life support equipment;[118] (2) retaining non-residential deposits for up to 24 months and basing refunds on the most recent 12 months of activity;[119]and (3) eliminating the proposed $20 fee for a door hanger used in the disconnection process.[120] Staff recommended adjusting language in Section 3.A.1 of the Rules and Regulations regarding proof of identification.[121]

63. UNS Gas states that for purposes of this case only, the Company will not oppose Staff's recommendations regarding: (1) keeping life support language in the Rules and Regulations (although the Company questions the applicability of such language to a gas utility); (2) no $20 door hanger fee; and (3) adjusting language in Section 3.A.1 to expand methods for verifying identification.[122] The Company did not dispute, or address Staff's recommendation concerning non-residential customer deposits,[123] and therefore, we conclude that the Company accepts this recommendation.[124] All of Staff's recommendations concerning UNS Gas' Rules and Regulations, as expressed in the testimony of Robert Gray, are reasonable, and should be adopted. Consequently, we adopt UNS Gas' proposed Rules and Regulations, as modified by Staff.

64. The Commission's Pipeline Safety Section 2010 audit indicated only one finding of probable non-compliance, which Staff reports has been corrected, and its 2011 safety audit indicated no findings of probable non-compliance.[125]

65. The Company requests approval of the 2011 Technical Update and related proposed depreciation rates contained in the testimony of Dr. White.[126] None of the other parties opposed or adjusted the Company's proposed depreciation rates. Consequently, we adopt the depreciation rates contained in Dr White's 2011 Technical Update.[127]

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[118] Ex S-4 Gray Dir at 3.
[119] *Id.* at 4.
[120] *Id.*
[121] *Id.* at 6-7.
[122] Ex A-21 at 10.
[123] *See* Ex A-6 at 34-35.
[124] This was not listed as an issue in the Joint Matrix.
[125] Ex S-3, Waite Dir at 3.
[126] Ex A-3 Hutchens Reb at 5.
[127] Ex A-20 White Dir at REW-2.

CONCLUSIONS OF LAW

1. UNS Gas is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-250, 40-251, and 40-367.

2. The Commission has jurisdiction over UNS Gas and the subject matter of the above-captioned case.

3. The fair value of UNS Gas' rate base is $253,379,837, and applying a 6.26 percent rate of return on this fair value rate base produces rates and charges that are just and reasonable.

4. The rates, charges, approvals, and conditions of service established herein are just and reasonable and in the public interest.

ORDER

IT IS THEREFORE ORDERED the UNS Gas, Inc., is hereby authorized and directed to file with the Commission, on or before April 30, 2012, revised schedules of rates and charges consistent with the discussion herein.

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service rendered on and after May 1, 2012.

IT IS FURTHER ORDERED that UNS Gas, Inc. shall notify its customers of the revised schedules of rates and charges authorized herein by means of an insert, in a form acceptable to Staff, included in its next regularly scheduled billing.

IT IS FURTHER ORDERED that UNS Gas, Inc. shall file with Docket Control as a compliance item in this Docket, a revised Plan of Administration of the Lost Fixed Cost Recovery mechanism within fifteen (15) days of the effective date of this Decision.

IT IS FURTHER ORDERED that UNS Gas, Inc. shall file with Docket Control as a compliance item in this Docket, a modified Statement of Rules and Regulations consistent with the discussion herein, within fifteen (15) days of the effective date of this Decision.

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IT IS FURTHER ORDERED that in its next rate case filing, UNS Gas, Inc. shall include testimony concerning its consideration of alternate rate designs, including but not limited to inclining tiered rates, that would encourage conservation, and a comprehensive cost/benefit analysis of its Negotiated Sales Program.

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

BY 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 the Commission to be affixed at the Capitol, in the City of Phoenix, this 1st day of MAY 2012.

ERNEST G. JOHNSON
EXCUTIVE DIRECTOR

DISSENT ____________________

DISSENT ____________________

DECISION NO. 73142

SERVICE LIST FOR: UNS GAS, INC.

DOCKET NO.: G-04204A-11-0158

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EXHIBIT A

UNS GAS PLAN OF ADMINISTRATION LOST FIXED COST RECOVERY

Table of Contents

1. *General Description* 1
2. *Definitions* 1
3. *LFCR Annual Incremental Cap* 3
4. *Filing and Procedural Deadlines* 3
5. *Compliance Reports* 3

1. General Description.

This document describes the plan of administration for the LFCR mechanism approved for UNS Gas, Inc. ("UNSG" or "Company") by the Arizona Corporation Commission ("ACC") on [insert date] in Decision No. XXXX. The LFCR mechanism provides for the recovery of lost fixed costs, as measured by revenue, associated with the amount of energy efficiency ("EE") savings that is authorized by the Commission and determined to have occurred. Costs to be recovered through the LFCR include the the fixed cost portion of the delivery charges for all applicable rate classes.

2. Definitions.

Applicable Company Revenues - The amount of revenue generated by sales to retail customers, for all applicable rate schedules, less the amount of revenue attributable to sales to Opt-Out residential customers.

Current Period - The most recent adjustment year.

Delivery Revenue - The amount determined at the conclusion of a rate case by multiplying residential, residential CARES, small commercial and small public authority adjusted test year billing determinants (therms) by their approved fixed cost-related delivery charges.

EE Programs - Any program approved in UNSG's implementation plan.

EE Savings - The amount of sales, expressed in therms, reduced by EE as demonstrated by the Measurement, Evaluation, and Reporting ("MER") conducted for EE programs. EE Savings shall be pro-rated for the number of days that new base rates are in effect during the initial implementation of the LFCR. The calculation of EE Savings will consist of the following by class:

1. Cumulative Verified: The cumulative total therm reduction as determined by the MER using the effective date of UNSG's most recent general rate case as a starting point.
2. Current Period: The annual EE related sales reductions (therms). Each year, UNSG will use actual MER data through December to calculate savings.
3. Excluded therm reduction: The reduction of recoverable EE Savings calculated as follows: (1) for residential opt-out customers by, dividing the number of Opt-Out residential customers by the total number of residential customers and multiplying that result by the Current Period Savings, and (2) for large commercial and industrial customers, by subtracting the amount of EE Savings actually achieved by customers on Excluded Rate Schedules.

Excluded Rate Schedules - The LFCR mechanism shall not apply to lighting, irrigation, compressed natural gas and the larger customer classes [C-22, I-30, I-32, PA-42, PA-44, IR-60, T-2].

LFCR Adjustment - An amount calculated by dividing Lost Fixed Cost Revenue by the Applicable Company Revenues. This adjustment percentage will be applied to all customer bills, excluding those on Excluded Rate Schedules.

Lost Fixed Cost Rate - A rate determined at the conclusion of a rate case by taking the sum of allowed Delivery Revenue for each rate class and dividing each by their respective class adjusted test year therm billing determinants.

Lost Fixed Cost Revenue - The amount of fixed costs not recovered by the utility because of EE during the measurement period. This amount is calculated by multiplying the Lost Fixed Cost Rate by Recoverable Therm Savings, by rate class.

Opt-Out – The rate schedule choice for residential customers to Opt-Out of the LFCR in the form of an optional residential tariff rate. The number of Opt-Out customers will be expressed as the annual average number of customers "Opting-Out" over the Current Period. The LFCR mechanism shall not be applied to residential customers who choose the Opt-Out provision. This rate will be made available to customers at the time of the first LFCR adjustment.

Prior Period - The 12 months preceding the Current Period.

Recoverable Therm Savings - The sum of EE Savings by applicable rate class.

3. *LFCR Annual Incremental Cap.*

The LFCR Adjustment will be subject to an annual 1% year over year cap based on Applicable Company Revenues. If the annual LFCR Adjustment results in a surcharge and the annual incremental increase exceeds 1% of Applicable Company Revenues, any amount in excess of the 1% cap will be deferred for collection until the first future adjustment period in which including such costs would not cause the annual increase to exceed the 1% cap. The one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15 or its successor publication will be applied annually to any deferred balance. The interest rate shall be adjusted annually and shall be that annual rate applicable to the first business day of the calendar year.

4. *Filing and Procedural Deadlines.*

UNSG will file the calculated Annual LFCR Adjustment, including all Compliance Reports, with the Commission for the previous year by May 1st. Staff will use its best efforts to process the matter such that a new LFCR adjustment may go into effect by July 1st of each year. However, the new LFCR Adjustment will not go into effect until approved by the Commission.

5. *Compliance Reports.*

UNSG will provide comprehensive compliance reports to Staff and the Residential Utility Consumer Office. The information contained in the Compliance Reports will consist of the following schedules:

- Schedule 1 : LFCR Annual Adjustment Percentage
- Schedule 2: LFCR Annual Incremental Cap Calculation
- Schedule 3: LFCR Calculation
- Schedule 4: LFCR Test Year Rate Calculation
- Schedule 5: Delivery Revenue Calculation

Schedules 1 through 5, attached hereto, will be submitted with UNSG's annual compliance filing.

Lost Fixed Cost Recovery Mechanism
Schedule 1: LFCR Annual Adjustment Percentage
($000)

Line No.	(A) Annual Percentage Adjustment	(B) Reference	(C) Total
1.	Total Lost Fixed Cost Revenue for Current Period	Schedule 2, Line 13	$
2.	Applicable Company Revenues	Schedule 2, Line 1	-
3.	% Applied to Customer's Bills	(Line 1 / Line 2)	

Lost Fixed Cost Recovery Mechanism
Schedule 2: LFCR Annual Incremental Cap Calculation
($000)

Line No.	(A) LFCR Annual Incremental Cap Calculation	(B) Reference		(C) Totals
1.	Applicable Company Revenues		$	
2.	Allowed Cap %			1.00%
3.	Maximum Allowed Incremental Recovery	(Line 1 * Line 2)	$	-
4.	Total Lost Fixed Cost Revenue	Schedule 3, Line 19, Column C	$	
5.	Total Deferred Balance from Previous Period	Previous Filing, Schedule 2, Line 11, Column C		-
6.	Annual Interest Rate			0.00%
7.	Interest Accrued on Deferred Balance	(Line 5 * Line 6)		-
8.	Total Lost Fixed Cost Revenue Current Period	(Line 4 + Line 5 + Line 7)	$	
9	Lost Fixed Cost Revenue from Prior Period	Previous Filing, Schedule 2, Line 13, Column C	$	-
10.	Total Incremental Lost Fixed Cost Revenue for Current Year	(Line 8 - Line 9)	$	
11.	Amount in Excess of Cap to Defer	(Line 10 - Line 3)	$	
12.	Incremental Period Adjustment as %	[(Line 10 - Line 11) / Line 1]		
13.	Total Lost Fixed Cost Revenue for Current Period	(Line 8 - Line 11)	$	

Lost Fixed Cost Recovery Mechanism
Schedule 3: LFCR Calculation
($000)

Line No.	(A) LFCR Fixed Cost Revenue Calculation	(B) Reference	(C) Totals	(D) Units
	Residential			
	Energy Efficiency Savings			
1.	Current Period			therms
2.				
3.	Excluded therms reduction	(Line 1 * Line 2)	-	therms
4.	Net - Current Period	(Line 1 - Line 3)	-	therms
5.	Cumulative Verified	(Previous Filing, Schedule 3, Line 5, Column C)	-	therms
6.	Total Recoverable EE Savings	(Line 4 + Line 5)	-	therms
7.	Residential - Lost Fixed Cost Rate	Schedule 4, Line 3, Column C	$	$/therm
8.	Residential - Lost Fixed Cost Revenue	(Line 6 * Line 7)	$	
	Small Volume (Commercial & Public Authority)			
	Energy Efficiency Savings			
9.	Current Period			therms
10.	Excluded therms Reduction			therms
11.	Net - Current Period	(Line 9 - Line 10)	-	therms
12.	Prior Period	Previous Filing, Schedule 3, Line 11, Column C	-	therms
13.				
14.	Prior Period	(Line 12)	-	therms
15.	Cumulative Verified	(Previous Filing, Schedule 3, Line 15 Column C)	-	therms
16.	Total Recoverable EE Savings	(Line 11 + Line 14 + Line 15)	-	therms
17.	Small Volume - Lost Fixed Cost Rate	Schedule 4, Line 6, Column C	$	$/therm
18.	Small Volume - Lost Fixed Cost Revenue	(Line 16 * Line 17)	$	
19.	Total Lost Fixed Cost Revenue	(Line 8 + Line 18)	$	

Lost Fixed Cost Recovery Mechanism
Schedule 4: LFCR Test Year Rate Calculation
($000)

Line No.	(A) LFCR Fixed Cost Calculation	(B) Reference		(C) Total
	Residential Customers			
1.	Delivery Revenue	Schedule 5, Line 3, Column E	$	-
2.	therms Billed	Schedule 5, Line 3, Column B		-
3.	Lost Fixed Cost Rate	(Line 1 / Line 2)	$	
	Small Volume (C20 and PA40)			
4.	Delivery Revenue	Schedule 5, Line 6, Column H	$	-
5.	therms Billed	Schedule 5, Line 6, Column B		-
6.	Lost Fixed Cost Rate	(Line 4 / Line 5)	$	

Lost Fixed Cost Recovery Mechanism
Schedule 5: Delivery Revenue Calculation
($000)

Line No.	(A) Rate Schedule	(B) Adjusted Test Year Billing Determinants	(C) Units	(D) Delivery Charge	(E) B x D Total Revenue
1.	Residential Service (R10)		therms	$	$ -
2.	Residential Service (R12)		therms	$	$ -
3.	Totals	-	therms		$ -
4.	Small Volume Commercial (C20)		therms	$	$ -
5.	Small Volume Public Authority (PA40)		therms	$	$ -
6.	Totals	-	therms		$ -

EXHIBIT B

UniSourceEnergy SERVICES

~~UNS Gas, Inc.~~
~~Pricing Plan R-10~~
~~Residential Gas Service~~

UNS Gas, Inc.
~~**UNS Gas, Inc.**~~

Original Sheet No.: 101
~~Original Sheet No.: 101~~
Superseding:
~~Superseding:~~

Residential Gas Service~~Residential Gas Service~~

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
Subject to availability, at point of delivery, to residential gas service in individual residences and individually metered apartments when all service is metered through one meter.

RATE
A monthly net bill at the following rate plus any adjustments incorporated ~~in this pricing plan~~~~herein~~herein:

	With LFCR	w/o LFCR
Minimum Customer Charge per month @	$ 10.00	$ 11.50
Delivery Charge per therm @	$0.~~3270~~.3434	$0.3434

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider ~~R~~R-1.

OPT-OUT OF LOST FIXED COST RECOVERY ("LFCR") MECHANISM – RIDER-3
For those customers who choose not to participate in the recovery of lost revenues associated with the promotion of energy efficiency a special Customer Charge will apply and the volumetric LFCR will not be included on their bill. All other customers will pay the lower monthly Customer Charge and the volumetric LFCR. Customers can choose to opt out only once in a calendar year. Once they choose to opt-out they must pay the higher Customer Charge for a full 12-months. (This 12-month requirement will be waived for the first twelve months following the effective date of the first LFCR adjustment. During the first twelve months the LFCR is in effect, the customer may request to switch between opting-out and not opting-out of the LFCR mechanism once every three months at a time. At the end of this twelve month waiver period, the customer will not be able to switch again until an additional twelve months have transpired. This waiver will expire twelve months after the effective date of the first LFCR adjustment which is anticipated to occur on or around July 1, 2013.)

Filed By:	Kentton C. Grant~~Raymond S. Heyman~~~~Kentton C. Grant~~	Rate:~~Tariff No~~	R-10~~R-10~~~~R-10~~
Title:	~~Senior~~ Vice President~~, General Counsel~~ of Finance and Rates ~~Rates~~	Effective:	Pending~~April 1, 2010~~~~Pending~~
District:	Entire UNS ~~UNS~~ Gas Service Area	Decision No.:I ~~No.:Decision I~~	~~1 of 1~~

UniSourceEnergy SERVICES

~~UNS Gas, Inc.~~
~~Pricing Plan R-10~~
~~Residential Gas Service~~

UNS Gas, Inc.
~~UNS Gas, Inc.~~

Original Sheet No.: 101
~~Original Sheet No.: 101~~

Superseding:
~~Superseding:~~

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this ~~pricing plan~~rate~~rate~~.

Filed By:	Kentton C. Grant~~Raymond S. Heyman~~~~Kentton C. Grant~~	Rate:~~Tariff No~~	R-10~~R-10~~~~R-10~~
Title:	~~Senior~~ Vice President~~, General Counsel~~ of Finance and Rates ~~Rates~~	Effective:	Pending~~April 1, 2010~~~~Pending~~
District:	Entire UNS ~~UNS~~ Gas Service Area	Decision No.:[illegible] ~~No.:Decision~~ [illegible]	~~1 of 1~~

UniSourceEnergy SERVICES

~~UNS Gas, Inc.~~
~~Pricing Plan R-12~~
~~Customer Assistance Residential Energy Support (C.A.R.E.S.)~~

UNS Gas, Inc.

Original Sheet No.: 102
Superseding:

Customer Assistance Residential Energy Support (CARES)~~Customer Assistance Residential Energy Support (CARES)~~

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
Subject to availability, at point of delivery, to residential gas service in individual residences and individually metered apartments when all service is metered through one meter.

RATE
A monthly net bill at the following rate plus any adjustments incorporated ~~in this pricing planherein~~herein:

	With LFCR	w/o LFCR
Minimum Customer Charge per month @	$ 7~~10~~7.00	$ 8.50
Delivery Charge per therm @ 0.$3434	$0.~~3270~~3434	

~~Delivery Charge: first 100 therms or less per month will be discounted by $0.1500 per therm for the billing months of November through April.~~
Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider R-1.

DISCOUNT
All CARES customers will receive a discount of $0.15 per therm for the first 100 therms used in each winter month of November through April. The full Delivery Charge per therm will be charged for the remaining six months of the year and for all amounts over 100 therms consumed in the winter months.

OPT-OUT OF LOST FIXED COST RECOVERY ("LFCR") MECHANISM – RIDER-3
For those customers who choose not to participate in the recovery of lost revenues associated with the promotion of energy efficiency a special Customer Charge will apply and the volumetric LFCR will not be included on their bill. All other customers will pay the lower monthly Customer Charge and the volumetric LFCR. Customers can choose to opt out only once in a calendar year. Once they choose to opt-out they must pay the higher Customer Charge for a full 12-months. (This

UniSourceEnergy SERVICES

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12-month requirement will be waived for the first twelve months following the effective date of the first LFCR adjustment. During the first twelve months the LFCR is in effect, the customer may request to switch between opting-out and not opting-out of the LFCR mechanism once every three months at a time. At the end of this twelve month waiver period, the customer will not be able to switch again until an additional twelve months have transpired. This waiver will expire twelve months after the effective date of the first LFCR adjustment which is anticipated to occur on or around July 1, 2013.) ~~up to the amount of thirty cents applied to the Cost of Natural Gas in accordance with the provisions of Rider-1.~~

SPECIAL CONDITIONS

1. Eligibility requirements for CARES~~C.A.R.E.S~~. are set forth on the Company's Application and Declaration of Eligibility for Low Income Ratepayer Assistance form. Customers who desire to qualify for this ~~pricing plan~~raterate must initially make application to the Company for qualification and must provide verification to the Company that the customer's household gross income does not exceed one hundred fifty percent (150%) of the federal poverty level. Qualified customers must have an approved application form on file with the Company. Subsequent to the initial certification, the residential customer seeking to retain eligibility for the CARES~~C.A.R.E.S~~. must provide a personal certification that the household gross income of the residential dwelling unit involved does not exceed one hundred fifty percent (150%) of the federal poverty level.

2. Samples of the existing CARES~~C.A.R.E.S~~. participants will be re-certified every two years prior to October 1 and when a customer changes residence.

Filed By:	~~Raymond S. Heyman~~Kentton C. Grant	~~Tariff No.~~Rate	R-12
Title:	~~Senior~~ Vice President~~, General Counsel~~ of Finance and Rates	Effective:	~~April 1, 2010~~Pending
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UniSourceEnergy SERVICES

~~UNS Gas, Inc.~~
~~Pricing Plan R-12~~
~~Customer Assistance Residential Energy Support (C.A.R.E.S.)~~

UNS Gas, Inc.~~UNS Gas, Inc.~~

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~~Superseding:~~

3. Eligible customers shall be billed under this ~~pricing plan~~rate~~rate~~ during the winter season, commencing with the next regularly scheduled billing period after the Company has received the customer's properly completed application form or re-certification.

4. Eligibility information provided by the customer on the application form may be subject to verification by the Company. Refusal or failure of a customer to provide documentation of eligibility acceptable to the Company, upon request of the Company, shall result in removal from or ineligibility for this ~~pricing plan~~rate~~rate~~.

5. Customers who wrongfully declare eligibility or fail to notify the Company when they no longer meet the eligibility requirements may be rebilled for the period of ineligibility under their otherwise applicable residential ~~pricing plan~~rate~~rate~~.

6. It is the responsibility of the customer to notify the Company within thirty (30) days of any changes in the customer's eligibility status.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this ~~pricing plan~~rate~~rate~~.

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EXHIBIT C

Description	Rate
Residential Service (R10)	
Customer Charge	$10.00
Distribution Margin Therms	0.3434
Residential Service CARES (R12)	
Customer Charge	7.00
Distribution Margin Therms Summer	0.3434
Distribution Margin Therms Winter (1^{st} 100 therms)	0.1934
Distribution Margin Therms Winter all additional therms	0.3434
Small Commercial Service (C20)	
Customer Charge	20.00
Distribution Margin Therms	0.2837
Large Commercial Service (C22)	
Customer Charge	225.00
Distribution Margin Therms	0.2104
Small Volume Industrial (I-30)	
Customer Charge	20.00
Distribution Margin Therms	0.3061
Large Volume Industrial (I-32)	
Customer Charge	225.00
Distribution Margin Therms	0.1248
Small Volume PA (PA-40)	
Customer Charge	20.00
Distribution Margin Therms	0.2841
Large Volume PA (PA-42)	
Customer Charge	225.00
Distribution Margin Therms	0.1527
Special Gas Light Service (PA-44)	
Single Office	20.00
Double Office	40.00
Triple Office	60.00
Quadruple Office	80.00
Irrigation Service (IR-60)	
Customer Charge	20.00
Distribution Margin Therms	0.3532