

ORIGINAL

NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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OCT 31 2012

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ARIZONA CORPORATION COMMISSION DOCKET CONTROL

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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-04204A-12-0448
 UNS ELECTRIC, INC. FOR THE)
 ESTABLISHMENT OF JUST AND)
 REASONABLE RATES AND CHARGES) **NOTICE OF INTENT TO FILE A**
 DESIGNED TO REALIZE A REASONABLE) **RATE CASE APPLICATION**
 RATE OF RETURN ON THE FAIR VALUE OF)
 THE PROPERTIES OF UNS ELECTRIC, INC.)
 DEVOTED TO ITS OPERATIONS)
 THROUGHOUT THE STATE OF ARIZONA,)
 AND FOR RELATED APPROVALS.)

UNS Electric, Inc. ("UNS Electric" or "Company"), through undersigned counsel, hereby provides its 60-day Notice of Intent to File a Rate Case Application for the establishment of just and reasonable rates.

UNS Electric's current rates were established by the Arizona Corporation Commission ("Commission") in Decision No. 71914 (September 30, 2010), based on a test year ending December 31, 2008 with rates that went into effect on October 1, 2010. As part of Decision No. 71914, the Commission allowed for post-decision rate-base treatment of the Black Mountain Generating Station ("BMGS"), provided that certain steps were completed regarding the acquisition of BMGS. Further, the Decision ordered UNS Electric file a rate application no later than 12 months after the rate reclassification that uses a 12-month test year with data that reflects BMGS in rate base at least six months during the test year.

In Decision No. 72213 (March 3, 2011), the Commission determined that BMGS was fully operational, in good condition, and confirmed the inclusion of BMGS in rate base without further order of the Commission. UNS Electric obtained the necessary approval from the Federal Energy

1 Regulatory Commission (“FERC”) to acquire BMGS on June 8, 2011. The acquisition transaction
2 closed on July 1, 2011.

3 In Decision No. 72743 (January 20, 2012), the Commission granted UNS Electric’s motion
4 to extend the rate case filing deadline contained in Decision No. 71914 to December 31, 2012 in
5 order to allow UNS Electric to use a test year that includes a full year of data with BMGS in rate
6 base, and to provide some temporal separation from the rate case to be filed on July 2, 2012 by
7 UNS Electric’s sister company, Tucson Electric Power Company (“TEP”).

8 In accordance with Decision No. 72743, UNS Electric intends to file a rate case application
9 on December 31, 2012 using a Test Year for the twelve months ending June 30, 2012 (“Test
10 Year”).¹

11 **I. OVERVIEW OF KEY RATE CASE ISSUES.**

12 UNS Electric’s current rates are based on a test year ending December 31, 2008. Since
13 that time, the Company has experienced increases in costs to ensure the continued safety and
14 reliability of its system to benefit its customers. UNS Electric is therefore filing this rate case to:
15 (i) ensure its ability to provide safe and reliable service to its customers; (ii) recover its full cost of
16 service, including an appropriate return on invested capital; and (iii) maintain or improve its credit
17 rating, all of which will benefit UNS Electric customers. The Company anticipates it will request
18 a modest increase in revenues. The Company will also seek the approval of certain adjustor
19 mechanisms, which will allow it to meet recent regulatory mandates.

20 UNS Electric expects to raise the following key issues in its rate filing:

- 21 • **Lost Fixed Cost Recovery Mechanism.** In light of the Electric Energy Efficiency
22 Rules and the ever-increasing Renewable Energy Standard requirements, UNS
23 Electric will request a lost fixed cost-recovery mechanism (“LFCR”) that allows for
24 recovery of fixed costs based on the approved levels established in this rate filing.

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27 ¹ The Company’s rate case filing will consist of (i) a rate case application; (ii) supporting schedules pursuant to A.A.C. R14-2-103; and (iii) direct testimony. UNS Electric will also provide Staff with workpapers, and responses to uniform data requests.

1 The LFCR will be similar to the LFCR proposed by TEP in its pending rate case in
2 Docket No. E-1933A-12-0291.

- 3 • **Energy Efficiency Resource Plan (“EERP”).** UNS Electric is considering an
4 EERP to address funding the cost of meeting the energy efficiency rules
5 requirements. If an EERP is filed, it will be similar to the EERP proposed by TEP
6 in its pending rate case in Docket No. E-1933A-12-0291.
- 7 • **Transmission Cost Adjustment Mechanism.** UNS Electric will request that the
8 Commission approve a Transmission Cost Adjustment Mechanism (“TCA”). The
9 proposed TCA will be similar to the TCA approved by the Commission for Arizona
10 Public Service Company originally approved in Decision No. 67744 (April 7,
11 2005) and modified in Decision No. 73183 (May 24, 2012).
- 12 • **Proposed Capital Structure.** UNS Electric will propose the use of its actual test
13 year capital structure.
- 14 • **Cost of Equity.** The Company will propose a cost of equity that is based on
15 current capital market conditions.
- 16 • **Fair Value Rate of Return.** UNS Electric will propose fair value rate base and a
17 return on fair value rate base in accordance with the Arizona Constitution.
- 18 • **Post-Test Year Plant.** The Company is proposing to adjust UNS Electric’s rate
19 base to include certain used and useful solar projects and other plant additions as
20 post-test year plant that is expected to be in service by June 30, 2013.
- 21 • **Modifications to the Purchased Power and Fuel Adjustment Clause**
22 **(“PPFAC”).** UNS Electric will request modifications to the PPFAC, including the
23 costs to be recovered through the PPFAC.
- 24 • **Rate Design.** The Company will propose rate design changes that may include
25 increased customer charges, uniform billing demand measurement, revised power
26 factor calculations for large power service (“LPS”) customers, modifications to
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1 time-of-use time periods, minimum requirements for large general service, and LPS
2 customers and other changes.

- 3 • **Revisions to Rules and Regulations.** UNS Electric will propose revisions to its
4 Rules and Regulations.

5 In addition to the issues described above, UNS Electric will propose a number of standard
6 pro forma adjustments to the historic test-year rate base, income and expenses.

7 **II. TENTATIVE WITNESS LIST.**

8 To support the Company's request and the issues identified, the following is a preliminary
9 witness list for UNS Electric and the topic each will address in their direct testimony:²

10 Michael DeConcini: The overall condition of the Company; overview of UNS Electric's
11 rate application and primary proposals, including the need for the
12 LFCR and TCA; overview of UNS Electric's operations, capital
13 spending, generation decommissioning cost estimates, customer
14 service, and environmental compliance requirements; and overview
15 of the modifications to the PPFAC.

16 Kentton C. Grant: Overview of UNS Electric's financial condition, including
17 anticipated capital needs, credit ratings and ratings agency concerns;
18 capital structure; cost of debt; and cost of credit support for fuel and
19 purchased power procurement.

20 Ann Bulkley (CEA): Cost of equity; fair value rate base; and fair value rate of return.

21 Dallas Dukes: Revenue Requirement; rate base and income statement pro forma
22 adjustments; post-test year plant adjustments; Reconstructed Cost
23 New Less Depreciation (RCND); and depreciation expense based on
24 presently approved depreciation rates modified to reflect estimated
25 decommissioning cost for the Company's generation assets.

26 Denise Smith: UNS Electric's EERP, if proposed.

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² This preliminary list of witnesses is subject to change between now and the date of the rate filing.

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Craig Jones: Cost of service study; LFCR mechanism; proposed rate design; revisions to the base cost of fuel and purchase power and to the Company's PPFAC; proposed TCA; and revisions to tariffs.

Jason Rademacher: Income tax and property tax.

Lindy Sheehey: Revisions to UNS Electric's Rules and Regulations.

III. LOCATION OF HEARING

UNS Electric's service territory is in both Santa Cruz County and Mohave County. Because the Company's last rate case was conducted in Phoenix, UNS Electric believes it would be more equitable to its Santa Cruz County customers to have its next rate case hearing conducted in Tucson. Accordingly, UNS Electric will be making such request in its filing.

IV. CONCLUSION.

UNS Electric intends to file its rate case on December 31, 2012 with the proposed effective date of new rates no later than January 1, 2014.

RESPECTFULLY SUBMITTED this 31st day of October, 2012.

UNS Electric, Inc.

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Original and thirteen copies of the foregoing
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Copy of the foregoing hand-delivered
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