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MEMORANDUM

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Arizona Corporation Commission

DOCKETED

2013 MAY 29 P 4:10

MAY 29 2013

AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: May 29, 2013

DOCKETED BY

RE: UNS GAS - APPLICATION FOR APPROVAL OF RIDER R-6 LOST FIXED COST RECOVERY TARIFF (DOCKET NO. G-04204A-11-0158)

Introduction

On May 3, 2013, UNS Gas, Inc. ("UNS Gas" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery Mechanism ("LFCR") adjustment effective July 1, 2013. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per therm, associated with the amount of energy efficiency ("EE") savings determined to have occurred from programs authorized by the Commission. The total Lost Fixed Cost Revenues for 2012 is \$9,765, which is approximately 0.01% of UNS Gas's total retail revenues. The amount of Lost Fixed Cost Revenues is very low as the mechanism only became effective in May 2012 and many EE programs had not been implemented during the pendency for approval of the UNS Gas Energy Efficiency Implementation Plan. Based on the LFCR filing as submitted herein, UNS Gas estimates that the average monthly LFCR charge for an average residential customer would be \$0.01 or less. UNS Gas is requesting that the LFCR Revenues for 2012 be deferred and incorporated into the 2013 Compliance LFCR filing for recovery beginning July 1, 2014.

Description of the LFCR

In Decision No. 73142, the Commission approved the LFCR which provides for the recovery of lost fixed costs associated with EE savings. Costs to be recovered through the LFCR include the fixed cost portion of the delivery charges for all applicable rate classes. The LFCR includes an annual 1 percent 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 percent of Applicable Company Revenues, any amount in excess of the 1 percent cap will be deferred for collection until the first future adjustment period in which the inclusion of such costs would not cause the annual increase to exceed the 1 percent 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 will be adjusted annually and will be the annual rate applicable to the first business day of the calendar year.

By May 1 of each year, UNS Gas will file its calculation of the annual LFCR adjustment, based on the EE savings from the preceding calendar year. The LFCR mechanism does not

apply to lighting, irrigation, compressed natural gas and the larger customer classes taking service under C-22, I-30, I-32, PA-42, PA-44, IR-60, and T-2. These customers are not subject to the LFCR mechanism because other rate designs are in place to address lost fixed costs. Residential customers can opt out of the LFCR adjustment by choosing an optional monthly customer charge. 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 will not be applied to residential customers who choose the Opt-Out provision. The optional opt-out rate will be made available to customers at the time of the first LFCR adjustment.

Staff Analysis

Staff has reviewed UNS Gas' projections used in the calculation of the LFCR adjustment. Staff finds that the LFCR Annual Adjustment Percentage is calculated in accordance with the Plan of Administration ("POA") for the Lost Fixed Cost Recovery Mechanism as approved by the Commission. This calculation is shown in Schedules 1 through 5 of the application. According to the calculations, the LFCR adjustment would be 0.01% applied to monthly bills, resulting in recovery of approximately \$9,765 for the 12-month collection period beginning in July 2013. The amount of Lost Fixed Cost Revenues is very low and may not even appear on many customer bills since the charge for an average residential customer would be less than \$0.01 per month. Staff recommends that the LFCR revenues for 2012 be deferred and incorporated into the 2013 Compliance LFCR filing for recovery beginning July 1, 2014, upon Order of the Commission.

Staff has not conducted an audit and evaluation of the reported energy efficiency savings, as contemplated in the POA, because the numbers are small at this time. Staff intends to conduct the audit and evaluation next year. It should not be inferred that the fact that Staff did not conduct an audit means that Staff agrees with the numbers in the Company's filing.



Steven M. Olea
Director
Utilities Division

SMO:PML:sms\WVC

ORIGINATOR: Patrick Lowe

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BEFORE THE ARIZONA CORPORATION COMMISSION

- BOB STUMP**
Chairman
- GARY PIERCE**
Commissioner
- BRENDA BURNS**
Commissioner
- BOB BURNS**
Commissioner
- SUSAN BITTER SMITH**
Commissioner

IN THE MATTER OF THE APPLICATION)
 OF UNS GAS INC. FOR APPROVAL OF)
 ANNUAL LOST FIXED COST RECOVERY)
 MECHANISM ADJUSTMENT (DOCKET)
 NO. G-04204A-11-0158)

DOCKET NO. G-04204A-11-0158
 DECISION NO. _____
ORDER

Open Meeting
 June 11-12, 2013
 Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Gas, Inc. ("UNS Gas" or "Company") is certificated to provide electric service as public service corporations in the state of Arizona.

Introduction

2. On May 3, 2013, UNS Gas filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery Mechanism ("LFCR") adjustment effective July 1, 2013. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per therm, associated with the amount of energy efficiency ("EE") savings determined to have occurred from programs authorized by the Commission. The total Lost Fixed Cost Revenues for 2012 is \$9,765, which is approximately 0.01% of UNS Gas's total retail revenues. The amount of Lost Fixed Cost Revenues is very low as the mechanism only became effective in May 2012 and many EE programs had not been

1 implemented during the pendency for approval of the UNS Gas Energy Efficiency Implementation
2 Plan. Based on the LFCR filing as submitted herein, UNS Gas estimates that the average monthly
3 LFCR charge for an average residential customer would be \$0.01 or less. UNS Gas is requesting
4 that the LFCR Revenues for 2012 be deferred and incorporated into the 2013 Compliance LFCR
5 filing for recovery beginning July 1, 2014.

6 **Description of the LFCR**

7 3. In Decision No. 73142, the Commission approved the LFCR which provides for the
8 recovery of lost fixed costs associated with EE savings. Costs to be recovered through the LFCR
9 include the fixed cost portion of the delivery charges for all applicable rate classes. The LFCR
10 includes an annual 1 percent year over year cap based on Applicable Company Revenues. If the
11 annual LFCR Adjustment results in a surcharge and the annual incremental increase exceeds 1
12 percent of Applicable Company Revenues, any amount in excess of the 1 percent cap will be
13 deferred for collection until the first future adjustment period in which the inclusion of such costs
14 would not cause the annual increase to exceed the 1 percent cap. The one-year Nominal Treasury
15 Constant Maturities rate contained in the Federal Reserve Statistical Release H-15 or its successor
16 publication will be applied annually to any deferred balance. The interest rate will be adjusted
17 annually and will be the annual rate applicable to the first business day of the calendar year.

18 4. By May 1 of each year, UNS Gas will file its calculation of the annual LFCR
19 adjustment, based on the EE savings from the preceding calendar year. The LFCR mechanism
20 does not apply to lighting, irrigation, compressed natural gas and the larger customer classes taking
21 service under C-22, I-30, I-32, PA-42, PA-44, IR-60, and T-2. These customers are not subject to
22 the LFCR mechanism because other rate designs are in place to address lost fixed costs.
23 Residential customers can opt out of the LFCR adjustment by choosing an optional monthly
24 customer charge. The number of Opt-Out customers will be expressed as the annual average
25 number of customers "Opting-Out" over the Current Period. The LFCR mechanism will not be
26 applied to residential customers who choose the Opt-Out provision. The optional opt-out rate will
27 be made available to customers at the time of the first LFCR adjustment.

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1 Staff Analysis

2 5. Staff has reviewed UNS Gas' projections used in the calculation of the LFCR
 3 adjustment. Staff finds that the LFCR Annual Adjustment Percentage is calculated in accordance
 4 with the Plan of Administration ("POA") for the Lost Fixed Cost Recovery Mechanism as
 5 approved by the Commission. This calculation is shown in Schedules 1 through 5 of the
 6 application. According to the calculations, the LFCR adjustment would be 0.01% applied to
 7 monthly bills, resulting in recovery of approximately \$9,765 for the 12-month collection period
 8 beginning in July 2013. The amount of Lost Fixed Cost Revenues is very low and may not even
 9 appear on many customer bills since the charge for an average residential customer would be less
 10 than \$0.01 per month. Staff has recommended that the LFCR revenues for 2012 be deferred and
 11 incorporated into the 2013 Compliance LFCR filing for recovery beginning July 1, 2014, upon
 12 Order of the Commission.

13 6. Staff has not conducted an audit and evaluation of the reported energy efficiency
 14 savings, as contemplated in the POA, because the numbers are small at this time. However, Staff
 15 intends to conduct the audit and evaluation next year.

16 7. It should not be inferred that the fact that Staff did not conduct an audit means that
 17 Staff agrees with the numbers in the Company's filing.

18 CONCLUSIONS OF LAW

19 1. UNS Gas is an Arizona public service corporation within the meaning of Article
 20 XV, Section 2, of the Arizona Constitution.

21 2. The Commission has jurisdiction over UNS Gas and over the subject matter of the
 22 application.

23 3. The Commission, having reviewed the application and Staff's memorandum dated
 24 May 29, 2013, concludes that it is in the public interest to approve the deferral of LFCR revenues
 25 into the 2013 Compliance LFCR filing.

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ORDER

IT IS THEREFORE ORDERED that UNS Gas, Inc.'s LFCR revenues for 2012 be deferred and incorporated into the 2013 Compliance LFCR filing for recovery beginning July 1, 2014, upon Order of the Commission.

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, JODI JERICH, 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 _____, 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:PML:sms\WVC

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