OPEN MEETING

MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 27, 2014

RE: TUCSON ELECTRIC POWER COMPANY - APPLICATION FOR APPROVAL OF RIDER R-8 LOST FIXED COST RECOVERY TARIFF. (DOCKET NO. E-01933A-12-0291)

On May 15, 2014, Tucson Electric Power Company ("TEP" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery Mechanism ("LFCR") adjustment to be effective July 1, 2014. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per kWh, associated with the amount of energy efficiency ("EE") savings and distributed generation ("DG") that is authorized by the Commission and determined to have occurred.

TEP is requesting that the LFCR rate be set at 0.4149 percent for energy efficiency and 0.3126 percent for distributed generation, for a total of 0.7275 percent.

Description of the LFCR

In Decision No. 73912 (June 27, 2013), the Commission approved the LFCR which provides for the recovery of lost fixed costs, as measured by a reduction in non-fuel revenue, associated with the amount of EE savings and DG that is authorized by the Commission and determined to have occurred. Costs to be recovered through the LFCR include the portion of transmission and distribution costs included in base rates exclusive of the Customer Charge and 50 percent of the demand rates in effect.

The LFCR also includes an annual one percent year-over-year cap based on Applicable Company Revenues ("ACR"). If the annual incremental LFCR adjustment results in a surcharge in excess of 1 percent, in total, of ACR, any amount in excess of the one percent cap will be deferred for collection until the next year. Any deferred amounts will be collected in a subsequent year or rolled into the next rate case, whichever occurs first. Where the one percent cap limits the recovery of deferrals in any program year and thus moves their recovery to the following year, a first-in, first-out ("FIFO") approach will be applied. In connection therewith, the new surcharges billed in the following year will first recover any such carried-over deferrals, and then recover new deferrals arising in that following year. 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.

The Plan of Administration ("POA") describes how the LFCR operates. By May 15th of each year, TEP will file the calculated Annual LFCR adjustments, including all Compliance Reports, with the Commission for the previous year. Staff will use its best efforts to process the matter based on the results of the Company's annual EE/DSM and Renewable Energy Standard and Tariff ("REST") filing such that the new LFCR Adjustments may go into effect by July 1st of each year. However, the new LFCR Adjustments will not go into effect until approved by the Commission.

Customers taking service under rate schedules Lighting Service (PS-50), Water Pumping Service (GS-43), Traffic Signal and Street Lighting Service (PS-41), and Large Light and Power Services (LLP-14, LLP-90) are excluded from the LFCR. Residential customers can choose a Fixed Cost Option instead of the variable LFCR adjustment. The Fixed Charge Option is graduated by kWh monthly usage and is designed to replicate the effects of the LFCR. Customers who choose the optional fixed rate will incur an added incremental charge to the monthly Customer Charge in the applicable residential rate schedule. The total dollars paid as an incremental amount added to the otherwise effective Customer Charge will be used to reduce the total Lost Fixed Cost Revenue recovered as part of the LFCR adjustment. Customers choosing this fixed option within the first 12 months subsequent to the initial effective date of the LFCR will be allowed to change back to the volumetric option one time without any penalties. After the initial 12-month period, customers will be required to stay on whichever option they choose for 12 full months before a change can be made.

Staff Analysis

Staff has reviewed the data TEP used in the calculation of the LFCR rate. Staff has found that the LFCR percentages are calculated in accordance with the POA as approved by the Commission. This calculation is shown in Schedules 1 through 5 (Attachment A) of the application. According to the calculations, and in accordance with the POA, the LFCR charge would be 0.4149 percent for EE and 0.3126 percent for DG, thus resulting in an approximate recovery of $5.43 million for the 12-month collection period beginning August 1, 2014.

Staff has noted that TEP's 12-month collection period should begin July 1, 2014. However, due to Open Meeting ("OM") schedules the earliest possible date in which the application could be approved, would allow the Company to begin its collection period August 1, 2014. Staff believes the delay in implementation could cause an under-collection of the approved Lost Fixed Cost Revenue. Staff believes the Company should be allowed to true up the difference between the approved Lost Fixed Cost Revenue and the collected Lost Fixed Cost Revenue in the 2015 LFCR adjustment. However, the current POA does not provide a balancing account or practical method for implementing a True-Up. Staff recommends that TEP file an amendment to the POA to provide for a balancing account.

In Attachment C of the application, TEP provided bill impact calculations for residential customers subject to the LFCR. TEP has calculated that for the average residential customer, using an average of 762 kWh per month, the customer's bill would increase by $0.59 per month.

In Decision No. 73912, the Commission ordered that TEP file along with its LFCR Annual Adjustment, a Full Revenue Decoupling Report ("FRDR") showing what rates and average utility bills would have been for residential, small commercial and large industrial customers, if a full revenue decoupling mechanism had been approved. The Company provided the FRDR confidentially to Staff. However, the data used to formulate the 2014 FRDR encompassed only half of the year; consequently, at this time Staff does not believe the decoupling mechanism can effectively be compared to the LFCR. TEP's FRDR concluded that under a fully decoupled mechanism the Company would have a total revenue adjustment of $12.1 million with an average customer bill impact of 1.348 percent, resulting in an average residential customer bill increase of $1.10 per month. Staff has noted that under such a fully decoupled mechanism, all customers are considered as a single group for purposes of determining the adjustment rate.

Staff Recommendations

Staff recommends that an LFCR rate of 0.4149 percent for EE and 0.3126 percent for DG be approved and become effective August 1, 2014.

Staff recommends that any approved Lost Fixed Cost Revenues either under-collected or over-collected, in the immediate 12-month collection period, be Trued-Up in the proceeding LFCR adjustment.

Staff recommends that TEP shall file by September 30, 2014, as a compliance item in this docket, for Staff approval, an updated Plan of Administration for its LFCR mechanism to incorporate a Balancing Account.

Staff recommends that TEP, incorporate language into its existing POA which defines the aforementioned Balancing Account. Suggested language is as follows:

> "Balancing Account – An account to track the difference between allowed Lost Fixed Cost Revenue and actual amounts billed by the Company through the LFCR adjustment. The balancing account will be reflected in Schedule 2 of the LFCR Compliance Report and shall be calculated by taking the Total Lost Fixed Cost Revenue from Prior Period less the amount billed through the LFCR for the most recent collection period at the time of filing."

In addition to the suggested language, Staff has recommended that TEP shall incorporate changes to Schedule 2 as outlined in Exhibit 1 and make all other conforming changes to the corresponding schedules.

Steven M. Olea
Director
Utilities Division

SMO:EMV:sms\RRM

ORIGINATOR: Eric Van Epps

Exhibit 1

Tucson Electric Power Company

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	2013 Applicable Company's Revenues		$	
2	Allowed Cap %			1.00%
3	Maximum Allowed Incremental Recovery	(Line 1 * Line 2)	$	-
4	Total Lost Fixed Cost Revenue	Schedule 3, Line 57, 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	**Lost Fixed Cost Revenue - Billed[1]**		$	-
11	**LFCR Balancing Account**	**(Line 9 - Line 10)**	$	-
12	Total Incremental Lost Fixed Cost Revenue for Current Year	(Line 8 - Line 9 + Line 11)	$	-
13	Amount in Excess of Cap to Defer	(Line 12 - Line 3)	$	-
14	**Incremental Period Adjustment**	**[(Line 12 - Line 13)/ Line 1]**		**0.00%**
15	**Total Lost Fixed Cost Revenue for Current Period**	**(Line 8 + Line 11 - Line 13)**	$	-

[1] Amount billed to customers for the collection period of 20XX

Decision No.____________

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 TUCSON ELECTRIC POWER COMPANY'S REQUEST FOR APPROVAL OF RIDER R-8 LOST FIXED COST RECOVERY TARIFF ADJUSTMENT.	DOCKET NO. E-01933A-12-0291 DECISION NO. ___________ ORDER

Open Meeting
July 22, 2014 and July 23, 2014
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP" or "Company") is certified to provide electric service as a public service corporation in the State of Arizona

2. On May 15, 2014, TEP filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery Mechanism ("LFCR") adjustment to be effective July 1, 2014. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per kWh, associated with the amount of energy efficiency ("EE") savings and distributed generation ("DG") that is authorized by the Commission and determined to have occurred.

3. TEP is requesting that the LFCR rate be set at 0.4149 percent for energy efficiency and 0.3126 percent for distributed generation, for a total of 0.7275 percent.

. . .

Description of the LFCR

4. In Decision No. 73912 (June 27, 2013), the Commission approved the LFCR which provides for the recovery of lost fixed costs, as measured by a reduction in non-fuel revenue, associated with the amount of EE savings and DG that is authorized by the Commission and determined to have occurred. Costs to be recovered through the LFCR include the portion of transmission and distribution costs included in base rates exclusive of the Customer Charge and 50 percent of the demand rates in effect.

5. The LFCR also includes an annual one percent year-over-year cap based on Applicable Company Revenues ("ACR"). If the annual incremental LFCR adjustment results in a surcharge in excess of one percent, in total, of ACR, any amount in excess of the one percent cap will be deferred for collection until the next year. Any deferred amounts will be collected in a subsequent year or rolled into the next rate case, whichever occurs first. Where the one percent cap limits the recovery of deferrals in any program year and thus moves their recovery to the following year, a first-in, first-out ("FIFO") approach will be applied. In connection therewith, the new surcharges billed in the following year will first recover any such carried-over deferrals, and then recover new deferrals arising in that following year. 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.

6. The Plan of Administration ("POA") describes how the LFCR operates. By May 15th of each year, TEP will file the calculated Annual LFCR adjustments, including all Compliance Reports, with the Commission for the previous year. Staff will use its best efforts to process the matter based on the results of the Company's annual EE/DSM and Renewable Energy Standard and Tariff ("REST") filing such that the new LFCR Adjustments may go into effect by July 1st of each year. However, the new LFCR Adjustments will not go into effect until approved by the Commission.

7. Customers taking service under rate schedules Lighting Service (PS-50), Water Pumping Service (GS-43), Traffic Signal and Street Lighting Service (PS-41), and Large Light and Power Services (LLP-14, LLP-90) are excluded from the LFCR. Residential customers can choose a

Fixed Cost Option instead of the variable LFCR adjustment. The Fixed Charge Option is graduated by kWh monthly usage and is designed to replicate the effects of the LFCR. Customers who choose the optional fixed rate will incur an added incremental charge to the monthly Customer Charge in the applicable residential rate schedule. The total dollars paid as an incremental amount added to the otherwise effective Customer Charge will be used to reduce the total Lost Fixed Cost Revenue recovered as part of the LFCR adjustment. Customers choosing this fixed option within the first 12 months subsequent to the initial effective date of the LFCR will be allowed to change back to the volumetric option one time without any penalties. After the initial 12-month period, customers will be required to stay on which ever option they choose for 12 full months before a change can be made.

Staff Analysis

8. Staff has reviewed the data TEP used in the calculation of the LFCR rate. Staff has found that the LFCR percentages are calculated in accordance with the POA as approved by the Commission. This calculation is shown in Schedules 1 through 5 (Attachment A) of the application. According to the calculations, and in accordance with the POA, the LFCR charge would be 0.4149 percent for EE and 0.3126 percent for DG, thus resulting in an approximate recovery of $5.43 million for the 12-month collection period beginning August 1, 2014.

9. Staff has noted that TEP's 12-month collection period should begin July 1, 2014. However, due to Open Meeting ("OM") schedules the earliest possible date in which the application could be approved, would allow the Company to begin its collection period August 1, 2014. Staff believes the delay in implementation could cause an under-collection of the approved Lost Fixed Cost Revenue. Staff believes the Company should be allowed to true up the difference between the approved Lost Fixed Cost Revenue and the collected Lost Fixed Cost Revenue in the 2015 LFCR adjustment. However, the current POA does not provide a balancing account or practical method for implementing a True-Up. Staff recommends that TEP file an amendment to the POA to provide for a balancing account.

10. In Attachment C of the application, TEP provided bill impact calculations for residential customers subject to the LFCR. TEP has calculated that for the average residential

. . .

customer, using an average of 762 kWh per month, the customer's bill would increase by $0.59 per month.

11. In Decision No. 73912, the Commission ordered that TEP file along with its LFCR Annual Adjustment, a Full Revenue Decoupling Report ("FRDR") showing what rates and average utility bills would have been for residential, small commercial and large industrial customers, if a full revenue decoupling mechanism had been approved. The Company provided the FRDR confidentially to Staff. However, the data used to formulate the 2014 FRDR encompassed only half of the year; consequently, at this time Staff does not believe the decoupling mechanism can effectively be compared to the LFCR. TEP's FRDR concluded that under a fully decoupled mechanism the Company would have a total revenue adjustment of $12.1 million with an average customer bill impact of 1.348 percent, resulting in an average residential customer bill increase of $1.10 per month. Staff has noted that under such a fully decoupled mechanism, all customers are considered as a single group for purposes of determining the adjustment rate.

Staff Recommendations

12. Staff has recommended that an LFCR rate of 0.4149 percent for EE and 0.3126 percent for DG be approved and become effective August 1, 2014.

13. Staff has recommended that any approved Lost Fixed Cost Revenues either under-collected or over-collected, in the immediate 12-month collection period, be Trued-Up in the proceeding LFCR adjustment.

14. Staff has recommended that TEP file by September 30, 2014, as a compliance item in this docket, for Staff approval, an updated Plan of Administration for its LFCR mechanism to incorporate a Balancing Account.

15. Staff has recommended that TEP, incorporate language into its existing POA which defines the aforementioned Balancing Account. Suggested language is as follows:

> "Balancing Account – An account to track the difference between allowed Lost Fixed Cost Revenue and actual amounts billed by the Company through the LFCR adjustment. The balancing account will be reflected in Schedule 2 of the LFCR Compliance Report and shall be

calculated by taking the Total Lost Fixed Cost Revenue from Prior Period less the amount billed through the LFCR for the most recent collection period at the time of filing."

In addition to the suggested language, Staff has recommended that TEP incorporate changes to Schedule 2 as outlined in Exhibit 1 of the Staff Memorandum and make all other conforming changes to the corresponding schedules.

CONCLUSIONS OF LAW

1. Tucson Electric Power Company is a public service corporation within the meaning of Article XV, section 2 of the Arizona Constitution and A.R.S. §§ 40-250,40-251,40-367,40-202,40-321, and 40-361.

2. The Commission has jurisdiction over Tucson Electric Power Company and the subject matter discussed herein.

3. The Commission, having reviewed the filing and Staff's Memorandum dated June 27, 2014, concludes that it is in the public interest to grant approval as proposed and discussed herein.

ORDER

IT IS THEREFORE ORDERED that LFCR rates of 0.4149 percent for EE and 0.3126 percent for DG are hereby approved for Tucson Electric Power Company and shall become effective August 1, 2014.

IT IS FURTHER ORDERED that any approved Lost Fixed Cost Revenues either under-collected or over-collected, in the immediate 12-month collection period, be Trued-Up in the proceeding LFCR adjustment.

IT IS FURTHER ORDERED that Tucson Electric Power Company shall file by September 30, 2014, as a compliance item in this docket, for Staff approval, an updated Plan of Administration for its LFCR mechanism to incorporate a Balancing Account.

...

...

...

...

...

IT IS FURTHER ORDERED that Tucson Electric Power Company incorporate language into its existing POA which defines the aforementioned Balancing Account.

IT IS FURTHER ORDERED that Tucson Electric Power Company shall incorporate changes to Schedule 2 as outlined in Exhibit 1 of the Staff Memorandum and make all other conforming changes to the corresponding schedules.

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 ___________________ , 2014.

____

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: ___________________________

DISSENT: ___________________________

SMO:EMV:sms\RRM

SERVICE LIST FOR: Tucson Electric Power Company
DOCKET NO. E-01933A-12-0291

Jessica Bryne
Tucson Electric Power Company
88 E. Broadway Blvd., P.O. Box 711
Tucson, Arizona 85702

Bradley Carroll
Tucson Electric Power Company
88 E. Broadway Blvd. MS HQE910
P.O. Box 711
Tucson, Arizona 85702

Warren Woodward
55 Ross Circle
Sedona, Arizona 86336

Karen White
U. S. Air Force Utility Law Field
Support Center
139 Barnes Dr.
Tyndall AFB, Florida 32403

Kyle Smith
U.S. Army Legal Services
9275 Gunston Rd
Fort Belvoir, Virginia 22060

C. Webb Crockett
Fennemore Craig, P.C
2394 E. Camelback Rd, Ste 600
Phoenix, Arizona 85016

Rachel Gold
642 Harrison ST, FL 2
San Francisco, California 94110

Robert Metli
2398 E. Camelback Rd., Ste. 240
Phoenix, Arizona 85016

Michael Neary
111 W. Renee Dr.
Phoenix, Arizona 85027

Court Rich
Rose Law Group
6613 N. Scottsdale Rd., Ste. 200
Scottsdale, Arizona 85250

Annie Lappe
Rick Gilliam
The Vote Solar Initiative
1120 Pearl St. - 200
Boulder, Colorado 80302

Cynthia Zwick
1940 E. Luke Avenue
Phoenix, Arizona 85016

Gary Yaquinto
Arizona Utility Investors Association
2100 North Central Avenue, Suite 210
Phoenix, Arizona 85004

Michael Grant
Gallagher & Kennedy
2575 E. Camelback Rd.
Phoenix, Arizona 85016-9225

Terrance Spann
U. S. Army Legal Services
9275 Gunston Rd.
Fort Belvoir, Virginia 22060

Travis Ritchie
85 Second St., 2nd Floor
San Francisco, California 94105

Nicholas Enoch
349 N. Fourth Ave.
Phoenix, Arizona 85003

Jeff Schlegel
SWEEP
1167 W. Samalayuca Dr.
Tucson, Arizona 85704-3224

Timothy Hogan
202 E. McDowell Rd. - 153
Phoenix, Arizona 85004

Leland Snook
Arizona Public Service
P.O. Box 53999, Mail Station 9708
Phoenix, Arizona 85072

Thomas Mumaw
Pinnacle West
P.O. Box 53999, Station 8695
Phoenix, Arizona 85072-3999

Stephen Baron
570 Colonial Park Dr. Ste 305
Roswell, Georgia 30075

John Moore, Jr.
7321 N. 16th Street
Phoenix, Arizona 85020

Kurt Boehm
Boehm, Hurtz & Lowry
36 E. Seventh St. Suite 1510
Cincinnati, Ohio 45202

Kevin Higgins
215 South State Street, Ste. 200
Salt Lake City, Utah 84111

Daniel Pozefsky
RUCO
1110 West Washington, Suite 220
Phoenix, Arizona 85007

Lawrence Robertson, Jr.
PO Box 1448
Tubac, Arizona 85646

Michael Patten
Roshka DeWulf & Patten, PLC
One Arizona Center
400 E. Van Buren St. - 800
Phoenix, Arizona 85004

Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Exhibit A

Tucson Electric Power Company

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	2013 Applicable Company's Revenues		$	
2	Allowed Cap %			1.00%
3	Maximum Allowed Incremental Recovery	(Line 1 * Line 2)	$	-
4	Total Lost Fixed Cost Revenue	Schedule 3, Line 57, 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	**Lost Fixed Cost Revenue - Billed[1]**		$	-
11	**LFCR Balancing Account**	**(Line 9 - Line 10)**	$	-
12	Total Incremental Lost Fixed Cost Revenue for Current Year	(Line 8 - Line 9 + Line 11)	$	-
13	Amount in Excess of Cap to Defer	(Line 12 - Line 3)	$	-
14	**Incremental Period Adjustment**	**[(Line 12 - Line 13)/ Line 1]**		**0.00%**
15	**Total Lost Fixed Cost Revenue for Current Period**	**(Line 8 + Line 11 - Line 13)**	$	-

[1] Amount billed to customers for the collection period of 20XX