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# OPEN MEETING

**MEMORANDUM**

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Arizona Corporation Commission
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JUL 29 2014
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2014 JUL 29 P 3:18

AZ CORP COMMISSION
DOCKET CONTROL

ORIGINAL

TO: THE COMMISSION

FROM: Utilities Division

DATE: July 29, 2014

RE: UNS ELECTRIC, INC. - REQUEST FOR APPROVAL OF RIDER R-8 LOST FIXED COST RECOVERY TARIFF ADJUSTMENT (DOCKET NO. E-04204A-12-0504)

On May 15, 2014, UNS Electric, Inc. ("UNS Electric" 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, 2014. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per kilowatt hour ("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.

UNS Electric is requesting that the LFCR rate be set at 0.3058 percent for energy efficiency and 0.2746 percent for distributed generation.

## Description of the LFCR

In Decision No. 74235 (December 31, 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 does not apply to the Lighting rate class.

The LFCR also includes an annual 1 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 1 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 1 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 the 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, UNS Electric 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.

Residential customers can choose a Fixed Cost Option instead of the variable LFCR adjustment. The Fixed Cost 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 UNS Electric 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 0.3058 percent for EE and 0.2746 percent for DG, resulting in an approximate recovery of $929,681.57 for the 12-month collection period beginning September 1, 2014.

Staff has noted that UNS Electric's 12-month collection period should have begun 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 September 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 UNS Electric file an amendment to the POA to provide for a balancing account.

In Attachment C of the application, UNS Electric provided bill impact calculations for residential customers subject to the LFCR. UNS Electric has calculated that for the average residential customer, using an average of 850 kWh per month, the customer's bill would increase by $0.51 per month.

**Staff Recommendations**

Staff recommends that an LFCR rate of 0.3058 percent for EE and 0.2746 percent for DG be approved and become effective September 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 following year's LFCR adjustment.

Staff recommends that UNS Electric file by October 30, 2014, as a compliance item in this docket, for Staff approval, an updated POA for its LFCR mechanism to incorporate a Balancing Account.

Staff recommends that UNS Electric incorporate language into its existing POA which defines the aforementioned Balancing Account. Staff suggests the following language:

> "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 recommends that UNS Electric incorporate changes to Schedule 2 as outlined in Exhibit 1 of the Staff Memorandum and make all other conforming changes to the corresponding schedules.

Staff further recommends that UNS Electric file a revised Statement of Charges consistent with the Decision in this case within 15 days of the effective date of the Decision.

Steven M. Olea
Director
Utilities Division

SMO:EAH:sms\MAS

ORIGINATOR: Eric Hill

# Exhibit 1

UNS Electric, Inc.
Lost Fixed Cost Recovery Mechanism
Schedule 2: LFCR Annual Incremental Cap Calculation

E-04204A-12-0504

| Line No. | (A) LFCR Annual Incremental Cap Calculation | (B) Reference | | (C) Totals |
|---|---|---|---|---|
| 1 | 2013 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 105, 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]** | | **$** | **-** |
| **11** | **LFCR Balance Account** | **(Line 9 - Line 10)** | | **-** |
| **12** | **Total Incremental Lost Fixed Cost Revenue for Current Year** | **(Line 8 - Line 9 + Line 11)** | **$** | **-** |
| **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**

# 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 ELECTRIC, INC.'S REQUEST FOR APPROVAL OF RIDER R-8 LOST FIXED COST RECOVERY TARIFF ADJUSTMENT.

DOCKET NO. E-04204A-12-0504

DECISION NO. ___________

ORDER

Open Meeting
August 12, 2014 and August 13, 2014
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Electric, Inc. ("UNS Electric" or "Company") is certificated to provide electric service as a public service corporation in the State of Arizona.

2. On May 15, 2014, UNS Electric filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery Mechanism ("LFCR") adjustment 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. UNS Electric is requesting that the LFCR rate be set at 0.3058 percent for energy efficiency and 0.2746 percent for distributed generation.

. . .

**Description of the LFCR**

4. In Decision No. 74235 (December 31, 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 does not apply to the lighting rate class.

5. The LFCR also includes an annual 1 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 1 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 1 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 the 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, UNS Electric 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. Residential customers can choose a Fixed Cost Option instead of the variable LFCR adjustment. The Fixed Cost 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**

8. Staff has reviewed the data UNS Electric 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 0.3058 percent for EE and 0.2746 percent for DG, resulting in an approximate recovery of $929,681.57 for the 12-month collection period beginning September 1, 2014.

9. Staff has noted that UNS Electric's 12-month collection period should have begun 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 September 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 has recommended that UNS Electric file an amendment to the POA to provide for a balancing account.

10. In Attachment C of the application, UNS Electric provided bill impact calculations for residential customers subject to the LFCR. UNS Electric has calculated that for the average residential customer using an average of 850 kWh per month the customer's bill would increase by $0.51 per month.

. . .

**Recommendations**

11. Staff has recommended that an LFCR rate of 0.3058 percent for EE and 0.2746 percent for DG be approved and become effective September 1, 2014.

12. 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 following year's LFCR adjustment.

13. Staff has recommended that UNS Electric file by October 30, 2014, as a compliance item in this docket, for Staff approval, an updated POA for its LFCR mechanism to incorporate a Balancing Account.

14. Staff has recommended that UNS Electric incorporate language into its existing POA which defines the aforementioned Balancing Account. Staff suggested the following language:

> "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 UNS Electric incorporate changes to Schedule 2 as outlined in Exhibit 1 of the Staff Memorandum and make all other conforming changes to the corresponding schedules.

15. Staff has further recommended that UNS Electric file a revised Statement of Charges consistent with this Decision within 15 days of the effective date of the Decision.

CONCLUSIONS OF LAW

1. UNS Electric, Inc. is a public service corporation within the meaning of Article XV, section 2 of the Arizona Constitution and A.R.S. Title 40.

2. The Commission has jurisdiction over UNS Electric, Inc. and the subject matter discussed herein.

. . .

3. The Commission, having reviewed the filing and Staff's Memorandum dated July 28, 2014, concludes that it is in the public interest to grant approval as proposed and discussed herein.

ORDER

IT IS THEREFORE ORDERED that Lost Fixed Cost Revenue rates of 0.3058 percent for Energy Efficiency and 0.2746 percent for Distributed Generation are hereby approved for UNS Electric, Inc. and shall become effective September 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 following year's LFCR adjustment.

IT IS FURTHER ORDERED that UNS Electric, Inc. shall file by October 30, 2014, as a compliance item in this docket, an updated Plan of Administration for its LFCR mechanism to define and incorporate a Balancing Account.

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IT IS FURTHER ORDERED that UNS Electric Inc. 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 UNS Electric, Inc. shall file a revised Statement of Charges consistent with this Decision within 15 days of the effective date of the Decision.

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:EAH:sms/MAS

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DOCKET NO. E-04204A-12-0504

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