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Tucson Electric Power

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Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

Re: Notice of Filing - Tucson Electric Power Company's Revised Purchased Power and Fuel Adjustment Clause Plan of Administration, Docket No. E-01933A-12-0291, Decision No. 74594

Tucson Electric Power Company hereby files its revised Purchased Power and Fuel Adjustment Clause ("PPFAC") Plan of Administration ("POA"), in compliance and consistent with Decision No. 74594 (July 30, 2014).

If you have any questions, please contact me at (520) 884-3680.

Best regards,

Jessica Bryne  
Regulatory Services

cc: Compliance Section, ACC

Arizona Corporation Commission

DOCKETED

AUG 14 2014

DOCKETED BY

**Tucson Electric Power Company  
Purchased Power and Fuel Adjustment Clause  
Plan of Administration**

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## **1. GENERAL DESCRIPTION**

This document describes the plan for administering the Purchased Power and Fuel Adjustment Clause ("PPFAC") the Arizona Corporation Commission ("Commission") approved for Tucson Electric Power Company ("TEP") in Decision No. 70628 (December 1, 2008) and amended by the Commission in Decision Nos. 73912 (June 27, 2013) and 74594 (July 30, 2014).

The PPFAC described in this Plan of Administration ("POA") uses a forward-looking estimate of fuel and purchased power costs to set a rate that is then reconciled to actual costs experienced. This POA describes the application of the PPFAC.

## **2. DEFINITIONS**

Applicable Interest – Based on one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15. The interest rate is adjusted annually on the first business day of the calendar year.

Base Cost of Fuel and Purchased Power – An amount generally expressed as a rate per kWh, which reflects the fuel and purchased power cost embedded in the base rates as approved by the Commission in TEP's most recent rate case. The Base Cost of Fuel and Purchased Power revenue is the approved rate per kWh times the applicable sales volumes. Decision No. 73912 set the base cost \$0.032335 per kWh are effective on July 1, 2013.

Brokerage Fees – The costs attributable to the use of brokers recorded in Federal Energy Regulatory Commission ("FERC") Account 557.

Forward Component – An amount expressed as a rate per kWh charge that is updated annually on April 1 of each year and effective with the first billing cycle in April. The Forward Component for the PPFAC Year will adjust for the difference between the forecasted fuel and purchased power costs expressed as a rate per kWh less the Base Cost of Fuel and Purchase Power generally expressed as a rate per kWh embedded in TEP's base rates. The result of this calculation will equal the Forward Component, expressed as a rate per kWh.

Forward Component Tracking Account – An account that records on a monthly basis TEP's over/under-recovery of its actual costs of fuel and purchased power as compared to the actual Base Cost of Fuel and Purchased Power revenue and Forward Component revenue; plus Applicable Interest. The balance of this account as of the end of each PPFAC Year is, subject to periodic audit, reflected in the next True-Up Component calculation. TEP files the balances and supporting details underlying this Account with the Commission on a monthly basis via a monthly reporting requirement.

Fuel and Purchased Power Costs – The costs recorded for the fuel and purchased power used by TEP to serve both Total Native Load Energy Sales and Short Term Sales. Wheeling costs are included.

Interruptible Credits (FERC Account 555) – The costs recorded for purchasing interruptible credits from customers taking service under Rider R-12.

Lime Costs (FERC Account 502) – The costs recorded for lime used to remove sulfur compounds formed during coal combustion.

Long Term Energy Sales – The portion of load from Total Native Load Energy Sales wholesale customers (currently Salt River Project, Tohono O’odham Utility Authority and Navajo Tribal Utility Authority) that is served by TEP, excluding the load served with Preference Power. Wholesale sales with a duration of one year or greater are also included.

PPFAC – The Purchased Power and Fuel Adjustment Clause approved by the Commission in Decision No. 70628 and amended by the Commission in Decision Nos. 73912 and 74594 (July 30, 2014), is a combination of two rate components that track changes in the cost of obtaining power supplies based upon forward-looking estimates of fuel and purchased power costs that are eventually reconciled to actual costs experienced. This PPFAC also provides for a reconciliation between actual and estimated costs of the last three months of estimated costs used in True-Up Component calculations.

PPFAC Year – A consecutive 12-month period beginning each April 1 and lasting through March 31 the following year.

Preference Power – Power allocated to TEP wholesale customers by federal power agencies such as the Western Area Power Administration.

Retail Native Load Energy Sales – The portion of load from Total Native Load Energy Sales that serves TEP’s retail customers located within the TEP control area.

Short Term Sales – Wholesale sales with durations of less than one year made to non-Native Load customers for the purpose of optimizing the TEP system, using TEP owned or contracted generation and purchased power.

Short Term Sales Revenue – The revenue recorded from wholesale sales with durations of less than one year made to non-Native Load customers, for the purpose of optimizing the TEP system, using TEP-owned or contracted generation and purchased power.

SO<sub>2</sub> Allowance Sales – The revenues related to the sale of SO<sub>2</sub> emission allowances, including gain on SO<sub>2</sub> allowance sales and auction proceeds net of Brokerage Fees paid.

Sulfur Credits – Credits received by TEP related to coal sulfur content that offset the cost of chemicals used to remove sulfur compounds formed during coal combustion.

Total Native Load Energy Sales – Retail Native Load Energy Sales and Long Term Energy Sales for which TEP has a generation service obligation.

True-Up Component – An amount expressed as a rate per kWh charge that is updated annually on April 1 of each year and effective with the first billing cycle in April. The purpose of this charge is to provide for a true-up mechanism to reconcile any over or under-recovered amounts from the preceding PPFAC Year tracking account balances to be refunded/collected from customers in the coming year's PPFAC rate.

True-Up Component Tracking Account – An account that records on a monthly basis the account balance to be collected or refunded via the True-Up Component rate as compared to the actual True-Up Component revenues, plus Applicable Interest; the balance of which at the close of the preceding PPFAC Year is, subject to periodic audit, then reflected in the next True-Up Component calculation. TEP files the balances and supporting details underlying this Account with the Commission on a monthly basis.

Wheeling Costs (FERC Account 565, Transmission of Electricity by Others) – Amounts payable to others for the transmission of TEP's electricity over transmission facilities owned by others.

Wholesale Trading Activity – Revenue recorded from realized wholesale trading profits.

### **3. PPFAC COMPONENTS**

The PPFAC Rate will consist of two components designed to provide for the recovery of actual, prudently incurred fuel and purchased power costs. Those components are:

1. The Forward Component, which recovers or refunds differences between expected PPFAC Year (each April 1 through March 31 period shall constitute a PPFAC Year) fuel and purchased power costs and those embedded in base rates.
2. The True-Up Component, which tracks the differences between the PPFAC Year's actual fuel and purchased power costs and those costs recovered through the combination of base rates and the Forward Component, and which provides for their recovery during the next PPFAC Year.

The PPFAC Year begins on April 1 and ends the following March 31.

On or before October 31 of each year, TEP will submit a PPFAC Rate filing, which shall include an estimate of the components for the following April's PPFAC rate. This filing shall be accompanied by supporting information as Staff determines to be required. TEP will update this filing on or before February 1 in order to replace estimated balances with actual balances, as explained below.

### **A. Forward Component Description**

The Forward Component is intended to refund or recover the difference between: (1) the fuel and purchased power costs embedded in base rates and (2) the forecasted fuel and purchased power costs over a PPFAC Year that begins on April 1 and ends the following March 31. TEP will submit, on or before October 31 of each year, a forecast for the upcoming PPFAC year (April 1 through March 31) of its fuel and purchase power costs. It will also submit a forecast of kWh sales for the same PPFAC year, and divide the forecasted costs by the forecasted sales to produce the cents per kWh unit rate required to collect those costs over those sales. The result of subtracting the Base Cost of Fuel and Purchased Power from this unit rate shall be the Forward Component.

### **Credits to the PPFAC**

The following will be credited to the PPFAC:

1. All revenues from Short Term Sales;
2. Ten percent of the net positive margins realized by TEP during the PPFAC year on its Wholesale Trading Activities;
3. One hundred (100%) percent of the margins realized by TEP on SO<sub>2</sub> Allowance Sales (net of brokerage fees);
4. All Sulfur Credits received by TEP;
5. The sale of renewable energy credits that do not flow through the Renewable Energy Standard Tariff; and
6. Interruptible Credits recorded in FERC Account 555.

TEP shall maintain and report monthly the balances in a Forward Component Tracking Account, which will record TEP's over/under-recovery of its actual costs of fuel and purchased power as compared to the actual Base Cost of Fuel and Purchased Power revenue and Forward Component revenue. This Account will operate on a PPFAC Year basis (i.e. April 1 to the following March 31), and its balances will be used to administer this PPFAC's True-Up Component, which is described immediately below.

### **B. True-Up Component Description**

The True-Up Component in any current PPFAC Year is intended to refund or recover the balance accumulated in the Forward Component Tracking Account (described above) during the previous PPFAC year. Also, any remaining balance from the True-Up Component Tracking Account as of March 31 would roll over into the True-Up Component for the coming PPFAC year starting April 1. The sum of projected Forward Component Tracking Account and True-Up Component Tracking Account balances on March 31 is divided by the forecasted PPFAC year kWh sales to determine the True-Up Component for the coming PPFAC year.

TEP shall maintain and report monthly the balances in a True-Up Component Tracking Account, which will reflect monthly collections or refunds under the True-Up Component and the amounts approved for use in calculating the True-Up Component.

Each annual TEP filing on October 31 will include an accumulation of Forward Component Tracking Account balances and True-Up Component Tracking Account balances for the preceding April through September and an estimate of the balances for October through March (the remaining six months of the current PPFAC Year). The TEP filing shall use these balances to calculate a preliminary True-Up Component for the coming PPFAC Year. On or before February 1, TEP will update the October filing. This update shall replace estimated monthly balances with those actual monthly balances that have become available since the October 31 filing.

The October 31 filing's use of estimated balances for October through March (with supporting workpapers) is required to allow the PPFAC review process to begin in a way that will support its completion and a Commission decision before April 1. The February 1 updating will allow for the use of the most current balance information available before the PPFAC rate would go into effect. In addition to the February 1 update filing, TEP monthly filings (for the months of September through December) of Forward Component Tracking Account balance information and True-Up Component Tracking Account balance information will include a recalculation (replacing estimated balances with actual balances as they become known) of the projected True-Up Component unit rate required for the next PPFAC Year.

The True-Up Component Tracking Account will measure the changes each month in the True-Up Component balance used to establish the current True-Up Component as a result of collections under the True-Up Component in effect. It will subtract each month's True-Up Component collections from the True-Up Component balance. The True-Up Component Account will also include Applicable Interest on any balances. TEP shall file the amounts and supporting calculations and workpapers for this account each month.

#### **4. CALCULATION OF THE PPFAC RATE**

The PPFAC rate is the sum of the two components: the Forward Component and the True-Up Component. The PPFAC rate shall be applied to customer bills. Upon Commission approval, the proposed PPFAC rate (as amended by the updated February 1 filing) shall go into effect on April 1. The PPFAC rate shall be applicable to TEP's retail electric rate schedules (except those specifically exempted) and is adjusted annually. The PPFAC Rate shall be applied to the customer's bill as a monthly kilowatt-hour ("kWh") charge that is the same for all customer classes.

The PPFAC rate shall be reset on April 1 of each year, and shall be effective with the first April billing cycle only after approved by the Commission. It is not prorated

## **5. FILING AND PROCEDURAL DEADLINES**

### **A. October 31 Filing**

TEP shall file the PPFAC rate with all Component calculations for the PPFAC year beginning on the next April 1, including all supporting data, with the Commission on or before October 31 of each year. That calculation shall use a forecast of kWh sales and of fuel and purchased power costs for the coming PPFAC year, with all inputs and assumptions being the most current available for the Forward Component. The filing will also include the True-Up Component calculation for the year beginning on the next April 1, with all supporting data. That calculation will use the same forecast of sales used for the Forward Component calculation.

### **B. February 1 Filing**

TEP will update the October 31 filing by February 1. This update will replace estimated Forward Component Tracking Account balances, and the True-Up Component Tracking Account balances, with actual balances and with more current estimates for those months (January, February and March) for which actual data are not available. The new PPFAC rate will go into effect on April 1 upon Commission approval.

### **C. Additional Filings**

TEP will also file with the Commission any additional information that the Staff determines it requires to verify the component calculations, account balances, and any other matter pertinent to the PPFAC.

### **D. Review Process**

The Commission Staff and interested parties will have an opportunity to review the October 31 and February 1 forecast, balances, and supporting data on which the calculations of the two PPFAC components have been based. Any objections to the October 31 calculations must be filed within 45 days of the TEP filing. Any objections to the February 1 calculations must be filed within 15 days of the TEP filing.

## **6. VERIFICATION AND AUDIT**

The amounts charged through the PPFAC will be subject to periodic audit to assure their completeness and accuracy and to assure that all fuel and purchased power costs were incurred reasonably and prudently. The Commission may, after notice and opportunity for hearing, make such adjustments to existing balances or to already recovered amounts as it finds necessary to correct any accounting or calculation errors or to address any costs found to be unreasonable or imprudent. Such adjustments, with appropriate interest, shall be recovered or refunded in the True-Up Component for the following year (i.e. starting the next April 1).

TEP agrees to pay the cost of biennial audits of its PPFAC by an outside auditor retained by the Commission.

## **7. SCHEDULES**

Samples of the following schedules are attached to this Plan of Administration:

- Schedule 1 PPFAC Rate Calculation
- Schedule 2 PPFAC Forward Component Rate Calculation
- Schedule 3 PPFAC Forward Component Tracking Account
- Schedule 4 PPFAC True-Up Component Rate Calculation
- Schedule 5 PPFAC True-Up Component Tracking Account

## **8. COMPLIANCE REPORTS**

TEP shall provide monthly reports to Staff's Compliance Section and to the Residential Utility Consumer Office detailing all calculations related to the PPFAC. A TEP Officer shall certify under oath that all information provided in the reports itemized below is true and accurate to the best of his or her information and belief and that there have been no changes to the Allowable Costs recovered through the PPFAC without Commission approval. These monthly reports shall be due within 45 days of the end of the reporting period.

The publicly available reports will include at a minimum:

1. The PPFAC Rate Calculation (Schedule 1); Forward Component and True-Up Component Calculations (Schedules 2 and 4); Annual Forward Component and True-Up Component Tracking Account Balances (Schedules 3 and 5). Additional information will provide other relative inputs and outputs such as:
  - a. Total power and fuel costs.
  - b. Customer sales in both MWh and thousands of dollars by customer class.
  - c. Number of customers by customer class.
  - d. A detailed listing of all items excluded from the PPFAC calculations.
  - e. A detailed listing of any adjustments to the adjustor reports.
  - f. Total short term sales revenues.
  - g. System losses in MWh.
  - h. Monthly maximum retail demand in MW.
  - i. SO<sub>2</sub> allowance sales.
2. Identification of a contact person and phone number from TEP for questions.

TEP shall also provide to Commission Staff monthly reports containing the information listed below. These reports shall be due within 45 days of the end of the reporting period. All of these additional reports must be provided confidentially.

- A. Information for each generating unit will include the following items:
  1. Net generation, in MWh per month, and 12 months cumulatively.
  2. Average heat rate, both monthly and 12-month average.
  3. Equivalent forced-outage rate, both monthly and 12-month average.

4. Outage information for each month including, but not limited to, event type, start date and time, end date and time, and a description.
  5. Total fuel costs per month.
  6. The fuel cost per kWh per month.
- B. Information on power purchases will include the following items per seller (information on economy interchange purchases may be aggregated):
1. The quantity purchased in MWh.
  2. The demand purchased in MW to the extent specified in the contract.
  3. The total cost for demand to the extent specified in the contract.
  4. The total cost of energy.
- C. Fuel purchase information shall include the following items:
1. Natural gas interstate pipeline costs, itemized by pipeline and by individual cost components, such as reservation charge, usage, surcharges and fuel.
  2. Natural gas commodity costs, categorized by short-term purchases (one month or less) and longer term purchases, including price per therm, total cost, supply basin, and volume by contract.
- D. TEP will also provide:
1. Monthly projections for the next 12-month period showing estimated (Over)/undercollected amounts.
  2. A summary of unplanned outage costs by resource type.
  3. The data necessary to arrive at the Native Load Energy Sales MWh reflected in the non-confidential filing.
  4. The data necessary to arrive at the Total Fuel and Purchase Power cost reflected in the non-confidential filing (Section 8.1.a).

In addition, TEP will prepare certain schedules and documents that will provide the necessary transparency of TEP's fuel and purchased power procurement activities such that the prudence of these activities can be determined and compliance with company procurement protocols can be confirmed.

Workpapers and other documents that contain proprietary or confidential information will be provided to the Commission Staff under an appropriate protective agreement. TEP will keep fuel and purchased power invoices and contracts available for Commission review. The Commission has the right to review the prudence of fuel and power purchases and any calculations associated with the PPFAC at any time. Any costs flowed through the PPFAC are subject to refund, if those costs are found to be imprudently incurred.

## **9. ALLOWABLE COSTS**

### **A. Accounts**

The allowable PPFAC costs include fuel and purchased power costs incurred to provide service to retail customers. Additionally, the prudent direct costs of contracts used for hedging system fuel and purchased power will be recovered under the PPFAC. The allowable cost components include the following Federal Energy Regulatory Commission ("FERC") accounts:

- 501 Fuel (Steam)
- 547 Fuel (Other Production)
- 555 Purchased Power
- 565 Wheeling (Transmission of Electricity by Others)

These accounts are subject to change if the Federal Energy Regulatory Commission alters its accounting requirements or definitions.

### **B. Other Allowable Costs/Credits**

- Brokerage Fees recorded in FERC Account 557
- Lime costs recorded in FERC Account 502
- Sulfur credits recorded in FERC Account 502
- Interruptible Credits recorded in FERC Account 555

These accounts are subject to change if the Federal Energy Regulatory Commission alters its accounting requirements or definitions.

No other costs or credits are allowed without approval from the Commission in an Order.