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Tucson Electric Power

88 East Broadway Blvd., Post Office Box 711  
Tucson, Arizona 85702

ORIGINAL

Arizona Corporation Commission  
DOCKETED

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

Re: Notice of Compliance Filing - Tucson Electric Power Company's LFCR Plan of Administration and Schedules, Docket No. E-01933A-12-0291

Pursuant to Decision No. 74593 (July 30, 2014), Tucson Electric Power Company ("TEP") hereby files, for Staff approval, an updated Lost Fixed Cost Recovery Mechanism ("LFCR") Plan of Administration ("POA") and Schedules that include a new definition, additional language and formatting changes regarding a Balancing Account.

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

Best regards,

Jessica Bryne  
Regulatory Services

cc: Eric Van Epps, ACC Staff  
Compliance Section, ACC

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**TUCSON ELECTRIC POWER COMPANY  
LOST FIXED COST RECOVERY MECHANISM (“LFCR”)  
PLAN OF ADMINISTRATION**

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**1. General Description**

This document describes the plan of administration for the LFCR mechanism approved for Tucson Electric Power (“TEP” or “Company”) by the Arizona Corporation Commission (“ACC”) in Decision No. 73912 (June 27, 2013). The LFCR mechanism provides for the recovery of lost fixed costs, as measured by a reduction in non-fuel revenue, associated with the amount of energy efficiency (“EE”) savings and distributed generation (“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% of the demand rates in effect, plus any amount quantified in the Balancing Account.

**2. Definitions**

**Applicable Company Revenues** – The amount of revenue generated by sales to retail customers, for all applicable rate schedules, less the amount attributable to sales to those residential customers who chose the Fixed Cost Option.

**Balancing Account** – A mechanism 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.

**Current Period** – The most recent adjustment year.

**Demand Stability Factor** – Fifty percent of Demand-based revenue (excluding any purchased power and fuel costs) produced by base rates.

**Distribution and Transmission Revenue** – The amount of revenue determined at the conclusion of a rate case by multiplying each participating rate class’ adjusted test year billing determinants (kWh) by their approved distribution and transmission related charges. This will be determined by reducing each class’ total retail revenue by the customer charge revenue, generation related revenue, purchased power and fuel costs and the Demand Stability Factor.

**DG Savings** – The amount of kWh sales or kW of capacity reduced by DG. TEP will use meter data for determining the kWh or kW lost through the implementation of DG systems unless a rare circumstance occurs where the meter data is not available at which time the lost sales will be

quantified using statistical verification or output profile or other Commission authorized methods. Each year, TEP will use actual data through December to calculate the savings. The calculation of DG savings will consist of the following by class:

1. **Cumulative Verified:** The total kWh or kW reduction as metered each year less the total kWh or kW reduction metered in TEP's most recent general rate case test year (2011). The initial Cumulative Verified term of this LFCR will begin on January 1, 2013.
2. **Current Period:** The annual kWh or kW produced by the cumulative total of DG installations since the end of the test year used in TEP's most recent general rate case.
3. The only DG Savings that will be excluded from the calculated Lost Fixed Cost Revenue calculation are those kWh or kW that were lost as the result of actions by customers in excluded rate classes.
4. The annual kW capacity of the cumulative total of DG installations since the end of the test year used in TEP's most recent general rate case. For solar systems only, the actual kW capacity used to calculate lost revenues for applicable demand metered customers will be the actual solar generation measured by the Solar production meter coincident with the customer's maximum fifteen minute demand for the billing period.

Fixed Cost Option – The rate schedule choice for residential customers who prefer contributing to the recovery of Lost Fixed Cost Revenue in the form of an optional fixed rate added as an incremental charge to the Customer Charge in the applicable residential tariff rate. The total dollars paid as an incremental amount added to the otherwise effective Customer Charge will be accumulated over the Current Period and used to reduce the total Lost Fixed Cost Revenue recovered as part of the LFCR adjustment. The variable LFCR adjustment shall not be applied to residential customers who choose the Fixed Cost option. This rate will be reflected as an incremental addition to the customer charge on the otherwise effective tariff and made available to customers at the time of the first LFCR adjustment. Customers choosing this fixed option within the first twelve 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 twelve month period, customers will be required to stay on which ever option they choose for twelve full months before a change can be made.

EE Programs - Any program approved in TEP's Energy Efficiency/Demand Side Management ("EE/DSM") implementation plan.

EE Savings - The amount of sales, expressed in kWh or kW, reduced by Energy Efficiency activities as demonstrated by the Measurement, Evaluation, and Research ("MER") conducted for TEP's EE Programs. The Company's EE activities are being reviewed as part of the MER evaluation and will determine the total kWh or kW lost as a result of those activities. As part of this filing the Commission Staff will have the option of reviewing any portion of the filing they deem necessary to verify the filings accuracy. EE Savings shall be quantified based on the cumulative lost kWh or kW occurring starting January 1, 2013 and shall reset as of the end of the test year in each subsequent rate case. The calculation of EE Savings will consist of the following by class:

1. **Cumulative Verified:** The cumulative total kWh or kW reduction as determined by the MER recognizing that the cumulative total is reset (to zero) at the end of each of TEP's most recent general rate case. The first such reset will be January 1, 2012, (the

end of the Test Year in Decision No. 73912.) The initial Cumulative Verified term of the LFCR will begin on January 1, 2013.

2. **Current Period:** The annual EE related sales reductions (kWh or kW). Each year, TEP will use actual MER data through December to calculate savings.
3. **Excluded kWh reduction:** The reduction of recoverable EE Savings calculated by subtracting the amount of EE savings actually achieved by customers on Excluded Rate Schedules if included in the total reported in the annual EE/DSM filing.

**Effective Period** – The twelve month period beginning with July 1 of each year, when the LFCR will be charged.

**Excluded Rate Schedules** – The LFCR mechanism shall not apply to Traffic Signal and Street Lighting Service (PS-41), Lighting Service (GS-50), Water Pumping Service (GS-43), or the Large Light and Power Services (LLP-14 and LLP-90) rate schedules.

**LFCR Adjustment** – An amount calculated by dividing Lost Fixed Cost Revenue (As reduced by the total incremental fixed cost option dollars paid by the residential customers who have chosen the Fixed Cost Option and will be based on the incremental increase in the customer charge they have paid over the twelve-months during the Current Period.) by the Current period's retail revenue (less the estimated sales to the residential customers who chose the Fixed Cost Option) during the Effective Period for the participating rate classes. This percentage based LFCR Adjustment will be presented on the customer's bills as two separate charges. These two charges will be developed by applying the weighted average proportion of the Energy Efficiency related lost revenues and the Distributed Generation related lost revenues as a proportion of total lost revenues falling under the 1% cap referenced herein. The weighted average proportions will be shown on Schedule 3 of this Plan of Administration. These two separate percentage adjustment rates will be applied to all customer bills, excluding those of Excluded Rate Schedules.

**Lost Fixed Cost Rate** – A rate determined at the conclusion of a rate case by taking the sum of allowed Distribution and Transmission Revenue (which excludes the customer charge, the generation component and purchased power and fuel) for each rate class and dividing each by their respective class adjusted test year kWh and/or kW billing determinants.

**Lost Fixed Cost Revenue** – The amount of fixed costs not recovered by the utility because of EE and DG Savings during the measurement period. This amount is calculated by multiplying the Lost Fixed Cost Rate by Recoverable kWh Savings, by rate class.

**Recoverable kWh Savings** – The sum of EE and DG Savings by applicable rate class.

### **3. LFCR Annual Incremental Cap**

The total LFCR Adjustment will be subject to an annual 1% year over year cap based on Applicable Company Revenues. If the annual incremental LFCR Adjustment results in a surcharge in excess of 1%, in total, of Applicable Company Revenues, any amount in excess of the 1% cap will be deferred for collection until the next year. Any deferred amounts, plus any amount quantified in the Balancing Account, will be collected in a subsequent year or rolled into the next rate case, whichever occurs first. Where the 1% 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, as well as any Balancing

Account balance, 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 initial LFCR filing will reconcile unrecovered lost revenues from January 1, 2013 through December 31, 2013.

#### **4. Filing and Procedural Deadlines**

TEP will file the calculated Annual LFCR Adjustments, including all Compliance Reports, with the Commission for the previous year by May 15<sup>th</sup> of each 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 Tariff ("REST") filings such that a new LFCR adjustments may go into effect by July 1<sup>st</sup> of each year. However, the new LFCR Adjustment will not go into effect until approved by the Commission.

#### **5. Compliance Reports**

TEP will provide comprehensive compliance reports to Staff and the Residential Utility Consumer Office by May 15<sup>th</sup> of each year. The information contained in the Compliance Reports will consist of the following schedules:

- Schedule 1 : LFCR Annual Percentage Adjustment Rates
- Schedule 2: LFCR Annual Incremental Cap Calculation
- Schedule 3: LFCR Calculation
- Schedule 4: LFCR Test Year Rate Calculation
- Schedule 5: Distribution and Transmission Revenue Calculation

# **SCHEDULES**

Tucson Electric Power  
 Lost Fixed Cost Recovery Mechanism  
 Schedule 1: LFCR Annual Percentage Adjustment Rates

Line No.	(A) Annual Percentage Adjustment	(B) Reference	(C) Totals
<u>Energy Efficiency Related Adjustment</u>			
1	Total Lost Fixed Cost Revenue for Current Period	(Sch 2, Line 15, Col C * Sch 3, Line 55, Col E)	\$ -
2	20__ Applicable Company Revenues	Schedule 2, Line 1, Column C	\$ -
3	Percentage Adjustment Applied to Customer's Bills for EE	(Line 1 / Line 2)	0.0000%
<u>Distributed Generation Related Adjustment</u>			
4	Total Lost Fixed Cost Revenue for Current Period	(Sch 2, Line 15, Col C * Sch 3, Line 56, Col E)	\$ -
5	20__ Applicable Company Revenues	Schedule 2, Line 1, Column C	\$ -
6	Percentage Adjustment Applied to Customer's Bills for DG	(Line 4 / Line 5)	0.0000%

Tucson Electric Power  
Lost Fixed Cost Recovery Mechanism  
Schedule 2: LFCR Annual Incremental Cap Calculation

Line No.	(A) LFCR Annual Incremental Cap Calculation	(B) Reference	(C) Totals
1	20__ 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 57, Column C	\$ -
5	Total Deferred Balance from Previous Period	Previous Filing, Schedule 2, Line 13, 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 15, Column C	\$ -
10	Lost Fixed Cost Revenue - Billed <sup>1</sup>		\$ -
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 as %	[(Line 12 - Line 13) / Line 1]	0.0000%
15	Total Lost Fixed Cost Revenue for Current Period	(Line 8 + Line 11 - Line 13)	\$ -

<sup>1</sup> Amount billed to customers for the collection period of 20\_\_

Tucson Electric Power  
Lost Fixed Cost Recovery Mechanism  
Schedule 3: LFCR Calculation

Line No.	(A) LFCR Fixed Cost Revenue Calculation	(B) Reference	(C) Totals	(D) Units	(E) Weighting
<b>Residential</b>					
<u>Energy Efficiency Savings</u>					
1	Current Period		-	kWh	
2	% of Residential Customers choosing fixed-option		0.0%		
3	Excluded kWh reduction	(Line 1 * Line 2)	-	kWh	
4	Net - Current Period	(Line 1 - Line 3)	-	kWh	
5	Prior Period kWh EE losses	Previous Filing, Schedule 3, Line 6, Column C	-	kWh	
6	Cumulative Recoverable kWh savings	(Previous Filing, Schedule 3, Line 6, Column C + Line 4)	-	kWh	
7	Total Recoverable EE Savings	Line 6	-	kWh	
8	Residential - Lost Fixed Cost Rate	Schedule 4, Line 3, Column C	\$ 0.0308	\$/kWh	
9	Residential - Lost Fixed Cost Revenue Relating to EE	(Line 7 * Line 8)	\$ -		
<u>Distributed Generation</u>					
10	Current Period		-	kWh	
11	% of Residential Customers choosing fixed-option		0.0%		
12	Excluded kWh reduction	(Line 10 * Line 11)	-	kWh	
13	Net - Current Period	(Line 10 - Line 12)	-	kWh	
14	Prior Period kWh DG losses	Previous Filing, Schedule 3, Line 15, Column C	-	kWh	
15	Cumulative Recoverable kWh savings	(Previous Filing, Schedule 3, Line 15, Column C + Line 13)	-	kWh	
16	Total Recoverable DG Savings	Line 15	-	kWh	
17	Residential - Lost Fixed Cost Rate	Schedule 4, Line 3, Column C	\$ 0.0308	\$/kWh	
18	Residential - Lost Fixed Cost Revenue Relating to DG	(Line 16 * Line 17)	\$ -		
<u>Small General Service</u>					
<u>Energy Efficiency Savings</u>					
19	Current Period		-	kWh	
20	Prior Period kWh EE losses	Previous Filing, Schedule 3, Line 21, Column C	-	kWh	
21	Cumulative Recoverable kWh savings	(Previous Filing, Schedule 3, Line 21, Column C + Line 19)	-	kWh	
22	Total Recoverable EE Savings	Line 21	-	kWh	
23	Small General Service - Lost Fixed Cost Rate	Schedule 4, Line 6, Column C	\$ 0.0314	\$/kWh	
24	Small General Service - Lost Fixed Cost Revenue Relating to EE	(Line 22 * Line 23)	\$ -		
<u>Distributed Generation</u>					
25	Current Period		-	kWh	
26	Prior Period kWh DG losses	Previous Filing, Schedule 3, Line 27, Column C	-	kWh	
27	Cumulative Recoverable kWh savings	(Previous Filing, Schedule 3, Line 27, Column C + Line 25)	-	kWh	
28	Total Recoverable DG Savings	Line 27	-	kWh	
29	Small General Service - Lost Fixed Cost Rate	Schedule 4, Line 6, Column C	\$ 0.0314	\$/kWh	
30	Small General Service - Lost Fixed Cost Revenue Relating to DG	(Line 28 * Line 29)	\$ -		

Tucson Electric Power  
Lost Fixed Cost Recovery Mechanism  
Schedule 3: LFCR Calculation

Line No.	(A) LFCR Fixed Cost Revenue Calculation	(B) Reference	(C) Totals	(D) Units	(E) Weighting
<b>Large General Service - Delivery Revenue - Demand</b>					
<b>Energy Efficiency Savings</b>					
31	Current Period		-	kW	
Previous Filing, Schedule 3, Line 33, Column					
32	Prior Period kW EE losses	C	-	kW	
(Previous Filing, Schedule 3, Line 33, Column C + Line 31)					
33	Cumulative Recoverable kW savings		-	kW	
Line 33					
34	Total Recoverable EE Savings		-	kW	
Schedule 4, Line 9, Column C					
35	Large General Service - Lost Fixed Cost Rate		\$ 2.3901	\$/kW	
36	Large General Service - Lost Fixed Cost Revenue Relating to EE	(Line 34 * Line 35)	\$ -		
<b>Distributed Generation</b>					
37	Current Period		-	kW	
Previous Filing, Schedule 3, Line 39, Column					
38	Prior Period kW DG losses	C	-	kW	
(Previous Filing, Schedule 3, Line 39, Column C + Line 37)					
39	Cumulative Recoverable kW savings		-	kW	
Line 39					
40	Total Recoverable DG Savings		-	kW	
Schedule 4, Line 9, Column C					
41	Large General Service - Lost Fixed Cost Rate		\$ 2.3901	\$/kW	
42	Large General Service - Lost Fixed Cost Revenue Relating to DG	(Line 40 * Line 41)	\$ -		
<b>Large General Service - Delivery Revenue</b>					
<b>Energy Efficiency Savings</b>					
43	Current Period		-	kWh	
Previous Filing, Schedule 3, Line 45, Column					
44	Prior Period kWh EE losses	C	-	kWh	
(Previous Filing, Schedule 3, Line 45, Column C + Line 43)					
45	Cumulative Recoverable kWh savings		-	kWh	
Line 45					
46	Total Recoverable EE Savings		-	kWh	
Schedule 4, Line 12, Column C					
47	Large General Service - Lost Fixed Cost Rate		\$ 0.0042	\$/kWh	
48	Large General Service - Lost Fixed Cost Revenue Relating to EE	(Line 46 * Line 47)	\$ -		
<b>Distributed Generation</b>					
49	Current Period		-	kWh	
Previous Filing, Schedule 3, Line 51, Column					
50	Prior Period kWh DG losses	C	-	kWh	
(Previous Filing, Schedule 3, Line 51, Column C + Line 49)					
51	Cumulative Recoverable kWh savings		-	kWh	
Line 51					
52	Total Recoverable DG Savings		-	kWh	
Schedule 4, Line 12, Column C					
53	Large General Service - Lost Fixed Cost Rate		\$ 0.0042	\$/kWh	
54	Large General Service - Lost Fixed Cost Revenue Relating to DG	(Line 52 * Line 53)	\$ -		
55	Total Lost Fixed Cost Revenue Related to Energy Efficiency	Sum Line 9 + 24 + 36 + 48	\$ -		Percent of Total 0.00% (Line 55 / Line 57)
56	Total Lost Fixed Cost Revenue Related to Distributed Generation	Sum Line 18 + 30 + 42 + 54	\$ -		0.00% (Line 56 / Line 57)
57	Total Lost Fixed Cost Revenue	(Line 55 + Line 56)	\$ -		

Tucson Electric Power  
Lost Fixed Cost Recovery Mechanism  
Schedule 4: LFCR Test Year Rate Calculation

Line No.	(A) LFCR Fixed Cost Calculation	(B) Reference	(C) Totals
<b>Residential Customers</b>			
1	Delivery Revenue	Schedule 5, Line 5, Column F	\$ 111,739,643
2	kWh Billed	Schedule 5, Line 5, Column B	3,627,093,708
3	Lost Fixed Cost Rate	(Line 1 / Line 2)	\$ 0.0308
<b>Small General Service</b>			
4	Delivery Revenue	Schedule 5, Line 8, Column F	\$ 63,186,286
5	kWh Billed	Schedule 5, Line 8, Column B	2,012,114,954
6	Lost Fixed Cost Rate	(Line 4 / Line 5)	\$ 0.0314
<b>Large General Service</b>			
7	Delivery Revenue - Demand	Schedule 5, Line 11, Column F	\$ 8,172,790
8	kW Billed	Schedule 5, Line 11, Column B	3,419,489
9	Lost Fixed Cost Rate	(Line 7 / Line 8)	\$ 2.3901
<b>Large General Service</b>			
10	Delivery Revenue	Schedule 5, Line 14, Column F	\$ 5,319,772
11	kWh Billed	Schedule 5, Line 14, Column B	1,261,678,481
12	Lost Fixed Cost Rate	(Line 10 / Line 11)	\$ 0.0042

Tucson Electric Power  
Lost Fixed Cost Recovery Mechanism  
Schedule 5: Delivery Revenue Calculation

(A)	(B)	(C)	(D)	(E)	(F)	
Line No.	Rate Schedule	Adjusted Test Year Billing Determinants	Units	Delivery Charge	Demand Stability Factor	Total Delivery Revenue B x D x E
1	Residential Service (R-01)	3,368,532,306	kWh	\$ 0.0314	100%	\$ 105,811,858
2	Residential Service (R-80)	116,359,255	kWh	\$ 0.0229	100%	\$ 2,664,627
3	Residential Service (R-201AN)	131,427,481	kWh	\$ 0.0230	100%	\$ 3,016,454
4	Residential Service (R-201BN)	10,774,668	kWh	\$ 0.0229	100%	\$ 246,705
5	Subtotal - kWh	3,627,093,708	kWh		\$	111,739,643
6	Small General Service (GS-10)	1,888,524,435	kWh	\$ 0.0314	100%	\$ 59,326,481
7	Small General Service (SGS-76)	123,590,518	kWh	\$ 0.0312	100%	\$ 3,859,805
8	Subtotal - kWh	2,012,114,954	kWh		\$	63,186,286
9	Large General Service (LGS-13) - kW	2,719,841	kW	\$ 5.1300	50%	\$ 6,976,392
10	Large General Service (LGS-85) - kW	699,648	kW	\$ 3.4200	50%	\$ 1,196,398
11	Subtotal - kW - Demand	3,419,489	kW		\$	8,172,790
12	Large General Service (LGS-13)	1,045,063,814	kWh	\$ 0.0049	100%	\$ 5,071,019
13	Large General Service (LGS-85)	216,614,667	kWh	\$ 0.0011	100%	\$ 248,753
14	Subtotal - kWh - Delivery	1,261,678,481	kWh		\$	5,319,772