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BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission  
**DOCKETED**  
AUG 12 2014  
DOCKETED BY *nr*

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. 74694  
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.

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1 Description of the LFCR

2 4. In Decision No. 74235 (December 31, 2013), the Commission approved the LFCR  
3 which provides for the recovery of lost fixed costs, as measured by a reduction in non-fuel revenue,  
4 associated with the amount of EE savings and DG that is authorized by the Commission and  
5 determined to have occurred. Costs to be recovered through the LFCR include the portion of  
6 transmission and distribution costs included in base rates exclusive of the Customer Charge and 50  
7 percent of the demand rates in effect. The LFCR does not apply to the lighting rate class.

8 5. The LFCR also includes an annual 1 percent year-over-year cap based on Applicable  
9 Company Revenues ("ACR"). If the annual incremental LFCR adjustment results in a surcharge in  
10 excess of 1 percent, in total, of ACR, any amount in excess of the 1 percent cap will be deferred for  
11 collection until the next year. Any deferred amounts will be collected in a subsequent year or rolled  
12 into the next rate case, whichever occurs first. Where the 1 percent cap limits the recovery of deferrals  
13 in any program year, and thus moves their recovery to the following year, a first-in, first-out ("FIFO")  
14 approach will be applied. In connection therewith, the new surcharges billed in the following year will  
15 first recover any such carried-over deferrals, and then recover new deferrals arising in the following  
16 year. The one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve  
17 Statistical Release H-15 or its successor publication will be applied annually to any deferred balance.  
18 The interest rate shall be adjusted annually and shall be that annual rate applicable to the first business  
19 day of the calendar year.

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

26 7. Residential customers can choose a Fixed Cost Option instead of the variable LFCR  
27 adjustment. The Fixed Cost Option is graduated by kWh monthly usage and is designed to replicate  
28 the effects of the LFCR. Customers who choose the optional fixed rate will incur an added

1 incremental charge to the monthly Customer Charge in the applicable residential rate schedule. The  
2 total dollars paid as an incremental amount added to the otherwise effective Customer Charge will be  
3 used to reduce the total Lost Fixed Cost Revenue recovered as part of the LFCR adjustment.  
4 Customers choosing this fixed option within the first 12 months subsequent to the initial effective  
5 date of the LFCR will be allowed to change back to the volumetric option one time without any  
6 penalties. After the initial 12-month period, customers will be required to stay on whichever option  
7 they choose for 12 full months before a change can be made.

8 **Staff Analysis**

9       8. Staff has reviewed the data UNS Electric used in the calculation of the LFCR rate.  
10 Staff has found that the LFCR percentages are calculated in accordance with the POA as approved by  
11 the Commission. This calculation is shown in Schedules 1 through 5 (Attachment A) of the  
12 application. According to the calculations, and in accordance with the POA, the LFCR charge would  
13 be 0.3058 percent for EE and 0.2746 percent for DG, resulting in an approximate recovery of  
14 \$929,681.57 for the 12-month collection period beginning September 1, 2014.

15       9. Staff has noted that UNS Electric's 12-month collection period should have begun July  
16 1, 2014. However, due to Open Meeting ("OM") schedules, the earliest possible date in which the  
17 application could be approved would allow the Company to begin its collection period September 1,  
18 2014. Staff believes the delay in implementation could cause an under-collection of the approved Lost  
19 Fixed Cost Revenue. Staff believes the Company should be allowed to true-up the difference between  
20 the approved Lost Fixed Cost Revenue and the collected Lost Fixed Cost Revenue in the 2015 LFCR  
21 adjustment. However, the current POA does not provide a balancing account or practical method for  
22 implementing a true-up. Staff has recommended that UNS Electric file an amendment to the POA to  
23 provide for a balancing account.

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

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1 Recommendations

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

4 12. Staff has recommended that any approved Lost Fixed Cost Revenues either under-  
5 collected or over-collected, in the immediate 12-month collection period, be tried-up in the following  
6 year's LFCR adjustment.

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

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

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

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

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

23 CONCLUSIONS OF LAW

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

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

28 ...



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

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

6 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

7 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

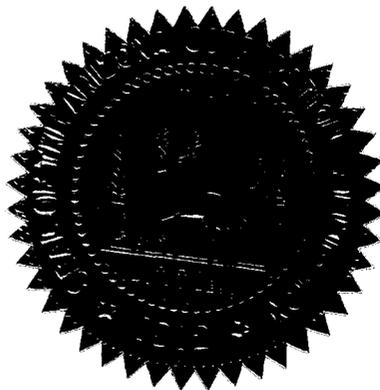
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CHAIRMAN

  
COMMISSIONER

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12 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 12<sup>th</sup> day of August, 2014.

  
JODI JERICH  
EXECUTIVE DIRECTOR

21 DISSENT: \_\_\_\_\_

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23 DISSENT: \_\_\_\_\_

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