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Tucson Electric Power



88 E. Broadway Blvd., 85701
Mail Stop HQE910
PO Box 711, Tucson, Arizona 85702-0711

October 20, 2014

ORIGINAL

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

Re: *Tucson Electric Power Company, UNS Electric, Inc. and UNS Gas, Inc.'s Joint Comments in the Matter of the Commission's Inquiry into Consideration of Developing Procedures for Rate Cases or Other Utility Specific Application Processes in Order to Study and Consider Rate Design Options for Electric and Gas Public Service Corporations – Docket Number AU-00000C-14-0329*

To Whom it May Concern:

Pursuant to Staff's September 29, 2014 Notice of Filing in the above-referenced docket, Tucson Electric Power Company, UNS Electric, Inc. and UNS Gas, Inc. hereby submit their joint comments on Staff's Sample Process for Rate Design Issues Relating to Electric and Gas Utilities General Rate Case Applications. Additionally, please include the undersigned counsel on the Service List. Thank you.

By

Bradley S. Carroll
Tucson Electric Power Company,
88 E. Broadway Blvd., MS HQE910
P.O. Box 711
Tucson, Arizona 85702-0711
bcarroll@tep.com

and

Michael W. Patten
Roshka DeWulf & Patten, PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004
mpatten@rdp-law.com

Attorneys for Tucson Electric Power Company,
UNS Gas, Inc. and UNS Electric, Inc.

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Attachment

cc: Maureen A. Scott – Legal Division
Janet F. Wagner – Legal Division
Steve Olea – Utilities Division

TUCSON ELECTRIC POWER COMPANY'S, UNS ELECTRIC, INC.'S AND UNS
GAS, INC.'S COMMENTS TO STAFF'S NOTICE OF FILING
DOCKET NO. AU-00000C-14-0329

Tucson Electric Power Company ("TEP"), UNS Electric, Inc. ("UNS Electric") and UNS Gas, Inc. ("UNS Gas") (collectively the Companies") hereby submit comments regarding the Staff Sample Process for Rate Design Issues Related to Electric and Gas Utilities General Rate Case Applications ("Sample Proposal") filed by the Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission") on September 29, 2014.

The Companies recognize the importance of modernizing rate design in order to align rate structures with our customers' evolving use of power and the electric grid. We are supportive of flexible rate case procedures, so long as the changes result in process improvements or greater resource efficiencies.

The Companies would not oppose an optional process that would raise rate design issues at the beginning of a rate case proceeding. However, any such process should address the Companies' following concerns regarding the Sample Proposal:

- **Pre-filing projected revenue requirement.** The Sample Proposal includes 20 steps/conditions. One condition requires that a company electing to use this process pre-file a projected revenue requirement to be used during the rate design proceeding. Following the rate design proceeding, the company would then be required to file "actual" revenue requirement information. The Companies believe rate design modifications can be considered and implemented without the use of a projected revenue requirement. Moreover, filing two sets of revenue requirement data would create several issues, many of which are described below.
- **Customer confusion.** If utilities are required to notify customers of potential rate design changes based on a projected revenue requirement, customers may perceive that a rate increase already has been approved.
- **Capital markets.** Pre-filing a projected revenue requirement could create unintended consequences in the capital markets.
- **Cap on the increase in revenue requirement.** The Sample Proposal includes a condition mandating that the subsequent rate case filing, "...shall not have a revenue increase that is more than one (1) percent higher than that contained in its pre-filing." Facts and circumstances can change over the course of eight to nine months. The Companies believe that a utility electing to file a rate case using this process should not be restricted from requesting a revenue increase that is just and reasonable.

- **Resource constraints.** The pre-filed revenue requirement, including all supporting schedules and a full cost-of-service study, would need to be updated when a company formally files the revenue requirement portion of the rate application. This process would require additional resources by the utilities, Staff and other intervenors to prepare and analyze two sets of revenue requirement data.
- **Legal considerations.** The Companies are concerned that the Sample Proposal could result in various legal challenges. For example, pre-filing a projected revenue requirement during the rate design proceeding could give the appearance that the Commission has pre-judged the revenue requirement portion of the rate case.
- **Recovery of rate case expenses.** The Sample Proposal states that companies electing to use the two-step process “shall agree to forego recovery of any rate case expense that is associated with the new process.” The Companies believe that prudently incurred rate case expenses should be recoverable from ratepayers.
- **Ability for stakeholders to intervene in both proceedings.** It is not clear from the Sample Proposal whether parties who do not intervene in the rate design proceeding can intervene in the revenue requirement portion of the rate application and to what extent such parties are bound by the determinations made in the rate design proceeding. This dynamic could create several unintended consequences, including legal challenges and protracted proceedings.

If the Commission moves forward with developing an optional process in which rate design issues are considered at the beginning of a rate case, the Companies recommend the Commission consider the following:

- **Rate design comparisons based on current revenues.** Instead of pre-filing a projected revenue requirement (and related schedules), the Companies recommend that proposed rate design changes be analyzed using *current* revenues. This change would address many of the concerns listed above. Moreover, current revenues would provide a more meaningful comparison of how rate design changes would impact customer bills.

Finally, the Companies believe that any process should allow utilities to propose alternative rate designs to address changing usage patterns, potential new products and services, emerging technologies, new regulations and other issues that arise in the evolving energy industry.