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BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission

DOCKETED

DEC 23 2014

DOCKETED BY *nr*

IN THE MATTER OF THE APPLICATION
OF UNS ELECTRIC, INC. FOR APPROVAL
OF ITS 2015 RENEWABLE ENERGY
STANDARD IMPLEMENTATION PLAN.

DOCKET NO. E-04204A-14-0249

DECISION NO. 74877

ORDER

Open Meeting
December 18, 2014
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Electric, Inc. ("UNS" or "Company") is engaged in providing electric service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("ACC" or "Commission").
2. On July 1, 2014, UNS filed for Commission approval of its 2015 Renewable Energy Standard and Tariff ("REST") Implementation Plan.
3. There have been no filings to intervene or provide comments in this docket.
4. UNS's initial filing requests approval of various REST plan components, including a budget, incentive levels, customer class caps, various program details, continuation of the Bright Arizona Solar Buildout Plan, and compliance matters.

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1 **UNS's Five Year Projection of Energy, Capacity, and Costs**

2 5. The table below shows UNS's forecast for energy, capacity, and costs for its annual REST
3 plans from 2015 through 2019.

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5 **UNS Energy, Capacity, and Cost Forecast**

	2015	2016	2017	2018	2019
6 Forecast Retail Sales MWh	1,681,523	1,698,275	1,729,255	1,765,520	1,805,486
7 % Renewable Energy Required	5.0%	6.0%	7.0%	8.0%	9.0%
8 Overall Renewable					
9 Requirement MWh	84,076	101,896	121,048	141,241	162,494
10 Utility Scale MWh	58,853	71,328	84,733	98,896	113,746
11 DG Requirement MWh	25,223	30,569	36,314	42,372	48,748
12 Res DG Requirement MWh	12,611	15,284	18,157	21,186	24,374
13 Non-Res DG Requirement MWh	12,611	15,284	18,157	21,186	24,374
14 Total Program Cost	\$5,882,506	\$9,224,988	\$9,377,836	\$8,186,018	\$7,199,244

15

16 **UNS REST Experience Under 2014 REST Plan**

17 6. The Commission-approved implementation plan for 2014 contemplated total spending
18 and recoveries of \$8.4 million.

19 7. Regarding installations and reservations, the table below summarizes installations and
20 reservations for installations through August 21, 2014, by UNS.

21

22 Residential	23 Photovoltaics		24 Solar Hot Water	
	25 Number of Systems	26 kW (kWh)	27 Number of Systems	28 kWh
2014 Installations	176	1,272 (2,226,000)	0	0
Reservations	200	1,651 (2,889,250)	0	0

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Commercial	Photovoltaics		Solar Hot Water	
	Number of Systems	kW (kWh)	Number of Systems	kW
2014 Installations	3	296 (518,000)	0	0
Reservations	2	79 (138,250)	0	0

8. UNS has indicated to Staff that subsequent to providing the numbers above, UNS's residential DG market activity has ramped up significantly. In the month of October 2014 (through October 27th), UNS received an additional 46 applications for residential DG, representing 416 kW of capacity.

Systems that Do Not Take a Utility Incentive

9. The following table shows the number, kW, and kWh of systems that have been installed in UNS's service territory that have not taken an incentive from UNS and thus UNS has not used the associated RECs to achieve compliance under the REST rules.

Residential	Number of Projects	kW	kWh
2012	8	53	92,750
2013	11	69	120,750
2014	16	106	185,500
Non-Residential			
2012	1	58	101,500
2013	0	0	0
2014	0	0	0

Leased Versus Non-Leased Systems

10. UNS indicates that a majority of residential DG systems installed in 2013 (63 of 108) were non-leased systems. In 2014, non-leased systems make up a much higher percentage of residential DG systems (146 of 176). UNS indicates that all non-residential DG systems installed in 2013 and 2014 are non-leased systems.

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1 **Solar Hot Water Heating Funding**

2 11. UNS's approved 2014 REST plan included the availability of funding for solar hot
 3 water heating up to a cap of \$20,000 each for the residential and non-residential sectors, with an
 4 incentive of \$0.40 per kWh. UNS has indicated that there were no solar water heating installations in
 5 2014 that took an incentive from the Company. UNS has had installations under the solar water
 6 heating program in the past at the \$0.40 per kWh level. UNS proposes to fund solar water heating at
 7 \$40,000 with the funds available to either residential or non-residential projects at the \$0.40 per kWh
 8 incentive level. Staff believes this proposal is reasonable. However, in light of the fact that UNS had
 9 no solar water heating installations in 2014, the Commission believes it is appropriate to reduce UNS's
 10 solar water heating incentive and budget to zero at this time.

11 **Bright Arizona Solar Buildout Plan**

12 12. In recent years the Commission has approved continuation of UNS's buildout
 13 program at a rate of \$5 million annually. UNS proposes to continue this funding level in 2015 and
 14 requests approval of a further \$5 million for 2016. UNS requests approval of the buildout plan for a
 15 two year period, rather than the typical one year period, to provide the possibility of qualifying for
 16 state production tax credits and because the project being contemplated would be a two year project.
 17 The Commission has approved buildout funding for Tucson Electric Power ("TEP") over multiple
 18 years when TEP has indicated there are specific reasons to do so. Staff believes UNS's request for
 19 approval of \$5 million each for 2015 and 2016 is reasonable.

20 13. The tables below show the costs anticipated to be recovered through the REST budget
 21 in 2015-2018 as well as the projects anticipated to be funded in that timeframe.

22

Line Item	2015	2016	2017	2018
23 Carrying Costs	\$993,184	\$432,293	\$654,897	\$532,739
24 Book Depreciation	\$750,000	\$395,833	\$500,000	\$500,000
25 Property Tax 26 Expense	\$64,132	\$30,837	\$0	\$43,085
27 Operations and 28 Maintenance	\$111,240	\$57,289	\$2250,000	\$231,750

Lease Expense	\$30,000	\$15,000	\$0	\$0
Total	\$1,948,667	\$931,252	\$1,379,897	\$1,307,574

Projects	2015 Costs	2016 Costs	2017 Costs	2018 Costs
2014 – Rio Rico 7.2 MW	\$1,948,667	\$910,418	\$0	\$0
2016 Kingman 16.0 MW	\$0	\$20,833	\$1,379,897	\$1,307,574
Total	\$1,948,667	\$931,252	\$1,379,897	\$1,307,574

14. The costs shown above represent only the carrying costs of the various projects until such time as UNS has another general rate proceeding, during which UNS would seek inclusion of these generating assets in base rates.

2015 REST Budget Proposals and DG Incentive Levels

15. UNS and Staff REST plan budget proposals will be discussed in the remainder of this document.

2013 Funds Carried Forward to 2015 REST Budget

16. UNS's filing reflects the carry-forward of \$2,791,292 in unspent funds from UNS's 2013 REST budget. The table below accounts for what line items of UNS's 2013 REST budget those funds came from.

Lower Cost Purchased Renewable Energy	\$1,849,549
Customer Sited Distributed Renewable Energy	\$1,376,030
Labor and Administration	\$124,354
Other Line Items	-\$51,091
2013 Budgeted Revenue	\$361,025
Total Unspent 2012 REST funds	\$2,791,292

17. Both UNS's and Staff's REST budget proposals discussed herein reflect this carry-forward of unspent 2013 REST funds which reduce the amount of money required to be recovered through the 2015 REST surcharge.

UFI Levels

18. UNS has seen dramatic reductions in the incentive levels it has offered in many DG areas in recent years. In 2014, UNS offered a \$0.10 per watt residential and commercial DG incentives, as well as the \$0.40 per kWh solar hot water heating incentive discussed above.

	Residential DG UFI (per watt)	Commercial DG UFI (per watt)
2008	\$3.00	\$2.50
2009	\$3.00	\$2.50
2010	\$3.00	\$2.50
2011	\$1.60	\$1.30
2012	\$1.00	\$1.00
2013	\$0.10	\$0.10
2014	\$0.10	\$0.10

Note: Yearly incentive levels shown above are Commission-approved incentives at the beginning of the plan year.

19. UNS has indicated to Staff that UNS's estimated total future PBI commitment as of the end of 2014 will be \$18,222,713.

20. In UNS's marketplace, UNS indicated that the residential DG marketplace has been robust in 2014 while the non-residential marketplace has been weak. Thus UNS is proposing to eliminate the \$0.10 per watt incentive for residential DG in 2015 while increasing the non-commercial DG incentive to \$0.20 per watt in 2015. Given the levels of activity in the residential and non-residential markets, Staff believes UNS's proposed incentive levels for 2015 are reasonable. The Commission believes, however, that it is appropriate to reduce both the residential and commercial UFI to zero at this time.

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1 **Proposed UNS and Staff Budget**

2 21. The Commission does not believe additional funding for customer education and
3 outreach is warranted at this time.

4 22. The Commission does not believe additional funding for research and development is
5 warranted at this time.

6 23. The table below summarizes the budgets being proposed by UNS and Staff.

Budget Components	2014 Approved Budget	2015 UNS and Staff Proposal	2015 Commission Approved
<i>Utility Scale Energy</i>			
Above market cost of conventional generation	\$3,738,661	\$5,266,131	\$5,266,131
UNS Owned	\$1,687,757	\$1,948,667	\$1,948,667
Subtotal	\$5,426,418	\$7,214,798	\$7,214,798
<i>Customer Sited Distributed Renewable Energy</i>			
Residential UFI	\$100,000	\$0	\$0
Commercial UFI	\$100,000	\$200,000	\$0
Residential/Commercial Solar Hot Water Heating		\$40,000	\$0
Commercial PBI On-Going Commitments	\$1,348,541	\$892,297	\$892,297
Meter Reading	\$6,250	\$6,250	\$6,250
Education and Outreach	\$30,000	\$30,000	\$0
Subtotal	\$1,584,791	\$1,168,547	\$898,547
<i>Technical Training</i>			
Internal and Contractor Training			
Subtotal	\$37,500	\$37,500	\$37,500
<i>Information Systems</i>			
Subtotal	\$20,000	\$20,000	\$20,000
<i>Metering</i>			
Subtotal	\$47,430	\$91,365	\$91,365

<i>Labor and Administration</i>			
Labor, Materials, Supplies	\$193,423	\$108,088	\$108,088
AZ Solar Website	\$1,000	\$1,000	\$1,000
Subtotal	\$194,423	\$109,088	\$109,088
<i>Research and Development</i>			
Subtotal	\$31,200	\$31,200	\$0
Total Spending	\$7,341,762	\$8,673,798	\$8,372,598
Carryover of Previous Year's Funds	\$1,393,241	-\$2,791,292	-\$2,791,292
Total Amount for Recovery	\$5,948,521	\$5,882,506	\$5,581,306

Recovery of Funds Through 2015 REST Charge

24. UNS's proposed caps and per kWh charge are designed to recover UNS's proposed spending and recovery levels in 2015. Staff's proposed caps and per kWh charge are designed to recover Staff's proposed budget of \$8.7 million and recovery level of \$5.9 million. Given the relatively similar amount to recover in 2015 in comparison to 2014, UNS is proposing to not change the class caps or surcharge level. Staff believes that given UNS's tendency to have funds left over at the end of each calendar year and that the difference, while not enormous, is still a significant amount of money, the residential customer cap should be reduced to reflect the lower amount to be recovered through the REST surcharge in 2015 under the UNS/Staff budget proposal.

25. The table below shows the proposed surcharge per kWh for the UNS and Staff options as well as the proposed caps under each option, in comparison to what is currently in effect for 2014.

	2014 Approved	2015 UNS Proposal	2015 Staff Proposal
REST Charge (per kWh)	\$0.01	\$0.01	\$0.010
<i>Class Caps</i>			
Residential	\$3.50	\$3.50	\$3.40
Commercial	\$90.00	\$90.00	\$90.00

Industrial and Mining	\$10,000.00	\$10,000.00	\$10,000.00
Lighting	\$90.00	\$90.00	\$90.00

26. The cost recovery by customer class for the approved 2014 REST plan and estimates for the UNS and Staff options for the 2015 REST plan are shown in the table below. For comparison purposes, the table below also shows the actual MWH sales by customer class for 2013.

	2013 Actual Sales (MWH)	2014 Approved	2015 UNS Proposal	2015 Staff Proposal
Residential	838,678 (49.8%)	\$2,961,907 (49.9%)	\$3,002,419 (50.9%)	\$2,926,700 (50.2%)
Commercial	599,361 (37.6%)	\$2,498,356 (42.1%)	\$2,512,026 (42.6%)	\$2,512,026 (43.2%)
Industrial and Mining	246,119 (14.6%)	\$466,970 (7.9%)	\$370,994 (6.4%)	\$370,994 (6.4%)
Lighting	816 (0.1%)	\$6,097 (0.1%)	\$7,310 (0.1%)	\$7,310 (0.1%)
Total	1,684,974	\$5,933,330	\$5,892,749	\$5,817,030

27. The table below shows the contribution, per kWh consumed, for each customer class (projected class cost recovery divided by projected class kWh sales). The table thus provides a comparison of the relative contribution to REST funding by each customer class on a per kWh basis.

Contribution by Customer Class (per kWh)	2014 Approved	2015 UNS Proposal	2015 Staff Proposal
Residential	\$0.0035	\$0.0036	\$0.0035
Commercial	\$0.0041	\$0.0042	\$0.0042
Industrial/ Mining	\$0.0015	\$0.0015	\$0.0015

Lighting	\$0.0099	\$0.0090	\$0.0090
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28. The table below shows the average REST charge by customer class as well as the percentage of customers at the cap for each customer class.

	2015 UNS Proposal	2015 Staff Proposal
Residential - Average Bill	\$3.10	\$3.00
Commercial - Average Bill	\$19.50	\$19.50
Industrial and Mining - Average Bill	\$9,763	\$9,763
Lighting - Average Bill	\$1.30	\$1.30
Residential – Percent at Cap	88.6%	88.6%
Commercial – Percent at Cap	21.7%	21.7%
Industrial and Mining – Percent at Cap	97.6%	97.6%
Lighting – Percent at Cap	1.4%	1.4%

29. Estimated customer bill impacts for various monthly consumptions are shown in the table below.

Example Customer Types	kWh / mo.	2015 UNS Proposal	2015 Staff Proposal
Residence Consuming	400	\$3.50	\$3.40
Residence Consuming	858	\$3.50	\$3.40
Residence Consuming	2,000	\$3.50	\$3.40
Dentist Office	2,000	\$20.00	\$20.00
Hairstylist	3,900	\$39.00	\$39.00
Department Store	170,000	\$90.00	\$90.00
Mall	1,627,100	\$90.00	\$90.00
Retail Video Store	14,400	\$90.00	\$90.00
Large Hotel	1,067,100	\$90.00	\$90.00
Large Building Supply	346,500	\$90.00	\$90.00
Hotel/Motel	27,960	\$90.00	\$90.00
Fast Food	60,160	\$90.00	\$90.00

1	Large High Rise Office Bldg	1,476,100	\$90.00	\$90.00
2	Hospital (< 3 MW)	1,509,600	\$10,000.00	\$10,000.00
3	Supermarket	233,600	\$90.00	\$90.00
4	Convenience Store	20,160	\$90.00	\$90.00
5	Hospital (> 3 MW)	2,700,000	\$10,000.00	\$10,000.00
6	Copper Mine	72,000,000	\$10,000.00	\$10,000.00

Staff Recommendations

30. Staff recommends that the Commission approve the Staff budget option for the 2015 REST plan, reflecting a REST surcharge of \$0.01 per kWh, and related caps of \$3.09 for the residential class, \$90.00 for the commercial class, \$10,000.00 for the industrial and mining class, and \$90.00 for the lighting class. This includes total spending of \$8,372,598 and a total amount to be recovered through the REST surcharge of \$5,882,506.

31. Staff further recommends that the residential up-front incentive be eliminated and that the non-residential up-front incentive be set at \$0.20 per watt for 2015.

32. Staff further recommends that solar water heating program for the residential and non-residential sectors be funded at a \$40,000 level for 2015 and that the incentive level be set at \$0.40 per kWh in 2015.

33. Staff further recommends that UNS's 2014 buildout plan for \$5 million in 2015 and \$5 million in 2016 be approved.

34. Staff further recommends that reasonableness and prudence of buildout plan costs be examined in UNS's next rate case and that any costs determined not to be reasonable and prudent be refunded by the Company.

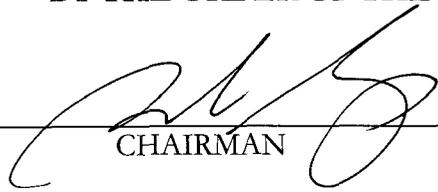
35. Staff further recommends that UNS file the REST-TS1, consistent with the Decision in this case, within 15 days of the effective date of the Decision.

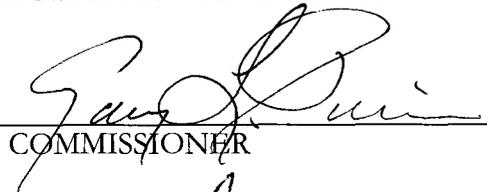
CONCLUSIONS OF LAW

1. UNS Electric, Inc. is an Arizona public service corporation within the meaning of Article XV, Section 2 of the Arizona Constitution.

1 IT IS FURTHER ORDERED that a waiver to the REST requirements contained in R14-2-
 2 1804 and R14-2-1805 will be granted to UNS Electric, Inc. if its forecasted Planning Reserve Margin¹
 3 is greater than or equal to eighteen percent (18%) each year for the next two years. To obtain this
 4 waiver, UNS Electric, Inc. must file with the Commission documentation demonstrating that its
 5 forecasted Planning Reserve Margin exceeds eighteen percent (18%) for at least the next two years and
 6 if obtained, the waiver shall apply for each year that the forecasted Planning Reserve Margin exceeds
 7 eighteen percent (18%).

8 BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

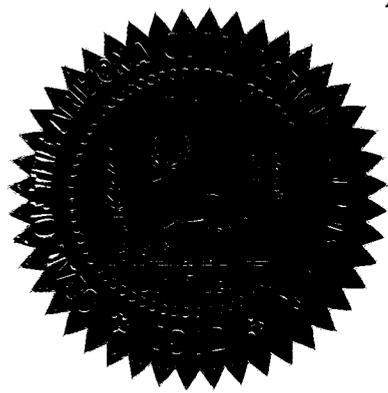
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 CHAIRMAN

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 COMMISSIONER

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 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 23rd day of December, 2014.

19 
 JODI JERICH
 EXECUTIVE DIRECTOR

21 DISSENT: _____

22 DISSENT: _____

23 SMO:RGG:sms\CHH

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26 ¹ As defined by North American Electric Reliability Corporation ("NERC"), Planning Reserve Margin equals the
 27 difference in Deliverable or Prospective Resources and Net Internal Demand, divided by Net Internal Demand.
 28 Deliverable Resources are calculated by the sum of Existing, Certain and Future, Planned Capacity Resources plus Net Firm Transactions. Prospective Resources include Deliverable Resources and Existing, Other Resources. Net Internal Demand equals Total Internal Demand less Dispatchable, Controllable Capacity Demand Response used to reduce load.

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