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OPEN MEETING



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JUN 22 2015

MEMORANDUM

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AZ CORP COMMISSION
DOCKET CONTROL

2015 JUN 22 AM 8 29

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 23, 2015

RE: IN THE MATTER OF THE APPLICATION OF UNS ELECTRIC, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS ELECTRIC, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA AND FOR RELATED APPROVALS (DOCKET NO. E-04204A-12-0504).

SUBJECT: REQUEST FOR APPROVAL OF RIDER R-8 LOST FIXED COST RECOVERY TARIFF ADJUSTMENT

INTRODUCTION

On May 1, 2015, UNS Electric, Inc. ("UNS Electric" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery Mechanism ("LFCR") adjustment, effective July 1, 2015. 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.

UNS Electric is requesting that the LFCR rate be set at 0.6985 percent for energy efficiency and 0.1693 percent for distributed generation (for a total LFCR rate of 0.8678 percent).

DESCRIPTION OF THE LFCR

In Decision No. 74235 (December 31, 2013), the Commission approved the LFCR which provides for the recovery of lost fixed costs, as measured by a reduction in non-fuel revenue, associated with the amount of EE savings and 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 percent of the demand rates in effect.

The LFCR also includes an annual 1 percent year-over-year cap based on Applicable Company Revenues ("ACR"). If the annual incremental LFCR adjustment results in a surcharge in excess of 1 percent in total, of ACR, any amount in excess of the 1 percent cap will be deferred for collection until the next year. Any deferred amounts will be collected in a subsequent year or rolled into the next rate case, whichever occurs first. Where the 1 percent 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, 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 Plan of Administration ("POA") describes how the LFCR operates. By May 15th of each year, UNS Electric will file the calculated Annual LFCR adjustments, including all Compliance Reports, with the Commission for the previous 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 and Tariff ("REST") filing such that the new LFCR Adjustments may go into effect by July 1st of each year. However, the new LFCR Adjustments will not go into effect until approved by the Commission.

In Decision No. 74694 (August 12, 2014), the Commission amended the POA to include a Balancing Account. The Balancing Account permits the Company to true-up any under-collected or over-collected approved Lost Fixed Cost Revenues in the immediate 12-month collection period during the subsequent LFCR adjustment. UNS Electric's current filing includes an additional adjustment to the Balancing Account to correct for the inclusion of test year DG production in its 2014 LFCR filing.

Residential customers can choose a Fixed Cost Option instead of the variable LFCR adjustment. The optional fixed rate consists of an incremental charge added to the monthly Customer Charge in the applicable residential rate schedule. Any dollars paid toward the incremental charge will be used to reduce the total Lost Fixed Cost Revenue recovered as part of the LFCR adjustment.

STAFF ANALYSIS

Staff has reviewed the data UNS Electric used in the calculation of the LFCR rate. Staff has found that the LFCR percentages are calculated in accordance with the POA as approved by the Commission. This calculation is shown in Schedules 1 through 5 (Attachment A) of the application. Staff has also reviewed the additional test year DG adjustment to the Balancing Account and found the calculation to be appropriate. According to the calculations, and in accordance with the POA, the LFCR charge would be 0.6985 percent for EE and 0.1693 percent for DG (for a total of 0.8678 percent), resulting in an approximate recovery of \$1,398,692 for the 12-month collection period beginning August 1, 2015.

In Attachment C of the application, UNS Electric provided bill impact calculations for residential customers subject to the LFCR. UNS Electric has calculated that for the average residential customer, using an average of 850 kWh per month, the customer's bill would increase by \$0.24 per month.

STAFF RECOMMENDATIONS

Staff recommends that an LFCR rate of 0.6985 percent for EE and 0.1693 percent for DG (for a total of 0.8678 percent) be approved and become effective August 1, 2015.

Staff further recommends that UNS Electric file a revised Statement of Charges consistent with the Decision in this matter within 15 days of the effective date of the Decision.



Steven M. Olea
Director
Utilities Division

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ORIGINATOR: Eric Hill

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 SUSAN BITTER SMITH
Chairman

3 BOB STUMP
Commissioner

4 BOB BURNS
Commissioner

5 DOUG LITTLE
Commissioner

6 TOM FORESE
Commissioner

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8 IN THE MATTER OF THE APPLICATION)
9 OF UNS ELECTRIC, INC. FOR THE)
10 ESTABLISHMENT OF JUST AND)
11 REASONABLE RATES AND CHARGES)
12 DESIGNED TO REALIZE A)
13 REASONABLE RATE OF RETURN ON)
14 THE FAIR VALUE OF THE PROPERTIES)
15 OF UNS ELECTRIC, INC. DEVOTED TO)
16 ITS OPERATIONS THROUGHOUT THE)
17 STATE OF ARIZONA AND FOR)
18 RELATED APPROVALS)

DOCKET NO. E-04204A-12-0504

DECISION NO. _____

ORDER

15 Open Meeting
16 July 7, 2015 and July 8, 2015
17 Phoenix, Arizona

18 BY THE COMMISSION:

19 FINDINGS OF FACT

20 1. UNS Electric, Inc. ("UNS Electric" or "Company") is certificated to provide
21 electric service as a public service corporation in the State of Arizona.

22 2. On May 1, 2015, UNS Electric, Inc. filed an application with the Arizona Corporation
23 Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery Mechanism
24 ("LFCR") adjustment, effective July 1, 2015. The LFCR allows for the recovery of lost fixed costs, as
25 measured by revenue per kWh, associated with the amount of energy efficiency ("EE") savings and
26 distributed generation ("DG") that is authorized by the Commission and determined to have
27 occurred.

28 ...

1 3. UNS Electric is requesting that the LFCR rate be set at 0.6985 percent for energy
2 efficiency and 0.1693 percent for distributed generation (for a total LFCR rate of 0.8678 percent).

3 **Description of the LFCR**

4 4. In Decision No. 74235 (December 31, 2013), the Commission approved the LFCR
5 which provides for the recovery of lost fixed costs, as measured by a reduction in non-fuel revenue,
6 associated with the amount of EE savings and DG that is authorized by the Commission and
7 determined to have occurred. Costs to be recovered through the LFCR include the portion of
8 transmission and distribution costs included in base rates exclusive of the Customer Charge and 50
9 percent of the demand rates in effect.

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

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

28 ...

1 7. In Decision No. 74694 (August 12, 2014), the Commission amended the POA to
2 include a Balancing Account. The Balancing Account permits the Company to true-up any under-
3 collected or over-collected approved Lost Fixed Cost Revenues in the immediate 12-month collection
4 period during the subsequent LFCR adjustment. UNS Electric's current filing includes an additional
5 adjustment to the Balancing Account to correct for the inclusion of test year DG production in its
6 2014 LFCR filing.

7 8. Residential customers can choose a Fixed Cost Option instead of the variable LFCR
8 adjustment. The optional fixed rate consists of an incremental charge added to the monthly Customer
9 Charge in the applicable residential rate schedule. Any dollars paid toward the incremental charge will
10 be used to reduce the total Lost Fixed Cost Revenue recovered as part of the LFCR adjustment.

11 **Staff Analysis**

12 9. Staff has reviewed the data UNS Electric used in the calculation of the LFCR rate.
13 Staff has found that the LFCR percentages are calculated in accordance with the POA as approved by
14 the Commission. This calculation is shown in Schedules 1 through 5 (Attachment A) of the
15 application. Staff has also reviewed the additional test year DG adjustment to the Balancing Account
16 and found the calculation to be appropriate. According to the calculations, and in accordance with the
17 POA, the LFCR charge would be 0.6985 percent for EE and 0.1693 percent for DG (for a total of
18 0.8678 percent), resulting in an approximate recovery of \$1,398,692 for the 12-month collection
19 period beginning August 1, 2015.

20 10. In Attachment C of the application, UNS Electric provided bill impact calculations for
21 residential customers subject to the LFCR. UNS Electric has calculated that for the average
22 residential customer, using an average of 850 kWh per month, the customer's bill would increase by
23 \$0.24 per month.

24 **Recommendations**

25 11. Staff has recommended that an LFCR rate of 0.6985 percent for EE and 0.1693
26 percent for DG (for a total of 0.8678 percent) be approved and become effective August 1, 2015.

27 12. Staff has further recommended that UNS Electric file a revised Statement of Charges
28 consistent with the Decision in this matter within 15 days of the effective date of the Decision.

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CONCLUSIONS OF LAW

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

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

3. The Commission, having reviewed the filing and Staff's Memorandum dated June 23, 2015, concludes that it is in the public interest to grant approval as proposed and discussed herein.

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ORDER

IT IS THEREFORE ORDERED that Lost Fixed Cost Revenue rates of 0.6985 percent for Energy Efficiency and 0.1693 percent for Distributed Generation (for a total 0.8678 percent) are hereby approved for UNS Electric, Inc. and shall become effective August 1, 2015.

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

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

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 _____ day of _____, 2015.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:EAH:red\MAS

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