

ORIGINAL

OPEN MEETING



0000160998

MEMORANDUM

Arizona Corporation Commission

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION DOCKETED
FROM: Utilities Division JUN 23 2015 2015 JUN 23 AM 8 45

DATE: June 23, 2015
DOCKETED BY [Signature]

RE: IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR APPROVAL OF A RATE INCREASE (DOCKET NO. G-04204A-11-0158)

SUBJECT: REQUEST FOR APPROVAL OF RIDER R-6 LOST FIXED COST RECOVERY TARIFF

Introduction

On May 1, 2015, UNS Gas, Inc. ("UNS Gas" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery ("LFCR") Mechanism adjustment effective July 1, 2015. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per therm, associated with the amount of energy efficiency ("EE") savings determined to have occurred from programs authorized by the Commission.

UNS Gas is requesting that the LFCR charge be set at 0.1032 percent of the customer's bill, which would result in an increase of \$0.03 per month for a residential customer with an average monthly usage of 70 therms.

Description of the LFCR

In Decision No. 73142, dated May 1, 2012, the Commission approved the LFCR mechanism which provides for the recovery of lost fixed costs associated with EE savings. Costs to be recovered through the LFCR include the fixed cost portion of the delivery charges for all applicable rate classes. The LFCR includes an annual one percent year-over-year cap based on Applicable Company Revenues. If the annual LFCR adjustment results in a surcharge and the annual incremental increase exceeds one percent of Applicable Company Revenues, any amount in excess of the one percent cap will be deferred for collection until the first future adjustment period in which the inclusion of such costs would not cause the annual increase to exceed the one percent cap. 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 will be adjusted annually and will be the annual rate applicable to the first business day of the calendar year.

By May 1st of each year, UNS Gas will file its calculation of the annual LFCR adjustment, based on the EE savings from the preceding calendar year. The LFCR mechanism does not apply to gas lighting, irrigation, compressed natural gas and the larger customer classes taking service under C-22, I-30, I-32, PA-42, PA-44, IR-60, and T-2. These customers are not subject to the

LFCR mechanism because other rate designs are in place to address lost fixed costs. Residential customers can choose to pay a higher monthly customer charge rather than pay the LFCR rate. The LFCR mechanism will not be applied to residential customers who choose the higher monthly customer charge. The higher customer charge is specified in the applicable standard offer tariff.

The Plan of Administration ("POA") describes how the LFCR operates. After UNS Gas files its calculation of the annual LFCR adjustment based on the EE savings from the preceding calendar year, Commission Utilities Division Staff ("Staff") will use best efforts to process the matter such that a new LFCR adjustment will go into effect by July 1st of each year. However, the LFCR Adjustment will not go into effect until approved by the Commission.

UNS Gas filed its initial LFCR adjustment filing on May 3, 2013. The total Lost Fixed Cost Revenues for 2012 were \$9,765. As this dollar amount was low and resulted in a monthly increase for the average residential customer of less than \$0.01, UNS Gas requested the LFCR Revenues for 2012 be deferred and incorporated into the 2013 Compliance LFCR filing for recovery beginning July 1, 2014.

In Decision No. 73936, dated June 27, 2013, the Commission agreed that UNS Gas' LFCR revenues for 2012 be deferred and incorporated into the 2013 Compliance LFCR filing.

UNS Gas filed its second LFCR adjustment filing on May 1, 2014. The total Lost Fixed Cost Revenues for 2013 were \$66,591. By including the deferred amount of \$9,765 from 2012, the approved LFCR rate for 2014 was 0.0695 percent. Using this rate, the estimated monthly bill impact for a customer with an average monthly usage of 70 therms was approximately \$0.05 per residential bill.

In Decision No. 74613, dated July 30, 2014, the Commission agreed that UNS Gas' LFCR mechanism adjustment be set a 0.0695 percent effective August 1, 2014. The Commission also ordered UNS Gas to revise its POA as directed by Staff to incorporate a balancing account to facilitate the true-up of any LFCR dollars under or over-collected in the following twelve-month period.

On August 8, 2014, UNS Gas filed its Rider R-6 LFCR to be in compliance with Decision No. 74613. On September 30, 2014, UNS Gas filed an updated LFCR POA to be in compliance with Decision No. 74613.

Staff Analysis

Staff has reviewed UNS Gas' EE savings and annual revenue used in the calculation for the LFCR adjustment. While Staff is in agreement on the annual revenue data and the handling of the balancing account, Staff does not agree on the level of EE savings which is explained in more detail below. As a result, Staff has recalculated the LFCR adjustment percentage to an LFCR rate of 0.0961 percent.

The EE savings reported by UNS Gas in its application, included EE savings and building codes/appliance standards savings for Residential, Small Volume Commercial and Small Volume Public Authority. Staff completed an evaluation of the reported energy efficiency savings for

January 2014 through December 2014. UNS Gas provided support to Staff for all EE therm savings matching the therm savings verified by Navigant, an independent third party energy consultant responsible for verifying and evaluating energy efficiency programs and savings. However, Staff does not agree with the inclusion of codes savings within the LFCR calculation. Codes savings were not included in the previous year's EE savings for purposes of calculating the LFCR.

When reviewing the POA to verify what is included in the LFCR calculation, Staff noticed that the POA clearly indicates that EE Savings for the purposes of the LFCR calculation are the "...amount of sales, expressed in therms, reduced by EE as demonstrated by the Measurement, Evaluation, and Reporting ("MER") conducted for EE programs." The POA goes further to define an EE Program as "Any program approved in UNS Gas' implementation plan." UNS Gas does not currently have an approved Codes and Standards program as part of an approved implementation plan. The Commission did not approve the addition of a Codes and Standards program in Decision No. 73939, dated June 27, 2013.

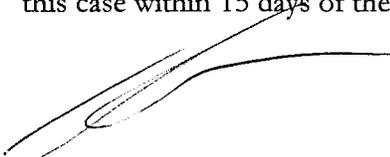
Staff has revised Schedules 1 through 5 originally included in UNS Gas' application to remove the therms resulting from codes savings. Staff's revised Schedules 1 through 5 are attached as Exhibit 1. Removing codes savings results in the LFCR rate of 0.0961 percent, which would allow for recovery of approximately \$96,000.

Using the Staff-revised LFCR rate of 0.0961 percent, Staff has calculated that for a residential customer with an average monthly usage of 70 therms, the estimated monthly bill impact would be an increase of approximately \$0.02 per residential bill.

Staff Recommendations

Based on the above, Staff recommends that an LFCR rate of 0.0961 percent be approved and become effective August 1, 2015.

Staff also recommends that UNS Gas file a revised Rider R-6 consistent with the Decision in this case within 15 days of the effective date of the Decision.



Steven M. Olea
Director
Utilities Division

SMO:RSP:nr\WVC

ORIGINATOR: Ranelle Paladino

Exhibit 1

UNS Gas, Inc.
 Lost Fixed Cost Recovery Mechanism
 Schedule 1: LFCR Annual Percentage Adjustment Rate

Line No.	(A) Annual Percentage Adjustment	(B) Reference	(C) Totals
1	Total Lost Fixed Cost Revenue for Current Period	Schedule 2, Line 15, Column C	\$ 96,067
2	2014 Applicable Company Revenues	Schedule 2, Line 1, Column C	\$ 100,017,724
3	Percentage Adjustment Applied to Customer's Bills	(Line 1 / Line 2)	0.0961%

UNS Gas, Inc.
 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	2014 Applicable Company Revenues		\$ 100,017,724
2	Allowed Cap %		1.00%
3	Maximum Allowed Incremental Recovery	(Line 1 * Line 2)	\$ 1,000,177
4	Total Lost Fixed Cost Revenue	Schedule 3, Line 18, Column C	\$ 86,883
5	Total Deferred Balance from Previous Period	Previous Filing, Schedule 2, Line 13, Column C	\$ -
6	Annual Interest Rate		
7	Interest Accrued on Deferred Balance	(Line 5 * Line 6)	\$ -
8	Total Lost Fixed Cost Revenue Current Period	(Line 4 + Line 5 + Line 7)	\$ 86,883
9	Lost Fixed Cost Revenue from Prior Period	Previous Filing, Schedule 2, Line 15, Column C	\$ 76,356
10	Lost Fixed Cost Revenue - Billed ¹		\$ 67,172
11	LFCR Balancing Account	(Line 9 - Line 10)	\$ 9,184
12	Total Incremental Lost Fixed Cost Revenue for Current Year	(Line 8 - Line 9 + Line 11)	\$ 19,711
13	Amount in Excess of Cap to Defer	(Line 12 - Line 3)	\$ -
14	Incremental Period Adjustment as %	[(Line 12 - Line 13) / Line 1]	0.0197%
15	Total Lost Fixed Cost Revenue for Current Period	(Line 8 + Line 11 - Line 13)	\$ 96,067

¹ Amount billed to customers for the collection period of August 2014 through June 2015. Collections for March 2015 through June 2015 are estimated based on 2014 revenues during those same months.

UNS Gas, Inc.
 Lost Fixed Cost Recovery Mechanism
 Schedule 3: LFCR Calculation

Line No.	(A) LFCR Fixed Cost Revenue Calculation	(B) Reference	(C) Totals	(D) Units
Residential				
<u>Energy Efficiency Savings</u>				
1	Current Period		35,484	therms
2	% of Residential Customers on Opt-Out		0.0%	
3	Excluded therms reduction	(Line 1 * Line 2)	-	therms
4	Net - Current Period	(Line 1 - Line 3)	35,484	therms
5	Prior Period	Previous Filing, Schedule 3, Line 6, Column C	169,340	therms
6	Cumulative Verified	(Previous Filing, Schedule 3, Line 6, Column C + Line 4)	204,824	therms
7	Total Recoverable EE Savings	Line 6	204,824	therms
8	Residential - Lost Fixed Cost Rate	Schedule 4, Line 3, Column C	\$ 0.3361	\$/therm
9	Residential - Lost Fixed Cost Revenue	(Line 7 * Line 8)	\$ 68,841.50	
Small Volume (Commercial & Public Authority)				
<u>Energy Efficiency Savings</u>				
10	Current Period		29,476	therms
11	Excluded therms reduction		-	therms
12	Net - Current Period	(Line 10 - Line 11)	29,476	therms
13	Prior Period	Previous Filing, Schedule 3, Line 14, Column C	34,095	therms
14	Cumulative Verified	(Previous Filing, Schedule 3, Line 14, Column C + Line 12)	63,572	therms
15	Total Recoverable EE Savings	Line 14	63,572	therms
16	Small Volume - Lost Fixed Cost Rate	Schedule 4, Line 6, Column C	\$ 0.2838	\$/therm
17	Small Volume - Lost Fixed Cost Revenue	(Line 15 * Line 16)	\$ 18,041.60	
18	Total Lost Fixed Cost Revenue	(Line 9 + Line 17)	\$ 86,883.10	

UNSGas, Inc.
 Lost Fixed Cost Recovery Mechanism
 Schedule 4: LFCR Test Year Rate Calculation

Line No.	(A) LFCR Fixed Cost Calculation	(B) Reference	(C) Totals
Residential Customers			
1	Delivery Revenue	Schedule 5, Line 3, Column E	\$ 24,047,053
2	therms Billed	Schedule 5, Line 3, Column B	71,539,376
3	Lost Fixed Cost Rate	(Line 1 / Line 2)	\$ 0.3361
Small Volume			
4	Delivery Revenue	Schedule 5, Line 6, Column E	\$ 9,429,053
5	therms Billed	Schedule 5, Line 6, Column B	33,228,682
6	Lost Fixed Cost Rate	(Line 4 / Line 5)	\$ 0.2838

UNS Gas, Inc.
 Lost Fixed Cost Recovery Mechanism
 Schedule 5: Delivery Revenue Calculation

(A)	(B)	(C)	(D)	(E)	
Line No.	Rate Schedule	Adjusted Test Year Billing Determinants	Units	Delivery Charge	Total Delivery Revenue B x D
1	Residential Service (R-10)	66,743,461	therms	\$ 0.3434	\$ 22,919,705
2	Residential Service (R-12)	4,795,915	therms	\$ 0.2351	\$ 1,127,348
3	Subtotal	71,539,376	therms		\$ 24,047,053
4	Small Volume Commercial (C-20)	28,038,968	therms	\$ 0.2837	\$ 7,954,655
5	Small Volume Public Authority (PA-40)	5,189,714	therms	\$ 0.2841	\$ 1,474,398
6	Subtotal	33,228,682	therms		\$ 9,429,053

Note: Delivery charge for rate R-12 is the weighted average of 1,332,117 therms at \$0.3434 and 3,463,797 therms at \$0.1934

BEFORE THE ARIZONA CORPORATION COMMISSION

1 SUSAN BITTER SMITH
2 Chairman
3 BOB STUMP
4 Commissioner
5 BOB BURNS
6 Commissioner
7 DOUG LITTLE
8 Commissioner
9 TOM FORESE
10 Commissioner

11 IN THE MATTER OF THE
12 APPLICATION OF UNS GAS, INC.'S
13 REQUEST FOR APPROVAL OF RIDER
14 R-6 LOST FIXED COST RECOVERY
15 TARIFF ADJUSTMENT

DOCKET NO. G-04204A-11-0158
DECISION NO. _____
ORDER

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

19 BY THE COMMISSION:

20 FINDINGS OF FACT

21 1. UNS Gas, Inc. ("UNS Gas" or "Company") is certificated to provide natural gas
22 service as a public service corporation in the state of Arizona.

23 **Introduction**

24 2. On May 1, 2015, UNS Gas filed an application with the Arizona Corporation
25 Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery ("LFCR")
26 Mechanism adjustment effective July 1, 2015. The LFCR allows for the recovery of lost fixed costs, as
27 measured by revenue per therm, associated with the amount of energy efficiency ("EE") savings
28 determined to have occurred from programs authorized by the Commission.

3. UNS Gas is requesting that the LFCR charge be set at 0.1032 percent of the
customer's bill, which would result in an increase of \$0.03 per month for a residential customer with
an average monthly usage of 70 therms.

...
...

1 **Description of the LFCR**

2 4. In Decision No. 73142, dated May 1, 2012, the Commission approved the LFCR
3 mechanism which provides for the recovery of lost fixed costs associated with EE savings. Costs to
4 be recovered through the LFCR include the fixed cost portion of the delivery charges for all applicable
5 rate classes. The LFCR includes an annual one percent year-over-year cap based on Applicable
6 Company Revenues. If the annual LFCR adjustment results in a surcharge and the annual incremental
7 increase exceeds one percent of Applicable Company Revenues, any amount in excess of the one
8 percent cap will be deferred for collection until the first future adjustment period in which the
9 inclusion of such costs would not cause the annual increase to exceed the one percent cap. The one-
10 year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-
11 15 or its successor publication will be applied annually to any deferred balance. The interest rate will
12 be adjusted annually and will be the annual rate applicable to the first business day of the calendar
13 year.

14 5. By May 1st of each year, UNS Gas will file its calculation of the annual LFCR
15 adjustment, based on the EE savings from the preceding calendar year. The LFCR mechanism does
16 not apply to gas lighting, irrigation, compressed natural gas and the larger customer classes taking
17 service under C-22, I-30, I-32, PA-42, PA-44, IR-60, and T-2. These customers are not subject to the
18 LFCR mechanism because other rate designs are in place to address lost fixed costs. Residential
19 customers can choose to pay a higher monthly customer charge rather than pay the LFCR rate. The
20 LFCR mechanism will not be applied to residential customers who choose the higher monthly
21 customer charge. The higher customer charge is specified in the applicable standard offer tariff.

22 6. The Plan of Administration ("POA") describes how the LFCR operates. After UNS
23 Gas files its calculation of the annual LFCR adjustment based on the EE savings from the preceding
24 calendar year, Commission Utilities Division Staff ("Staff") will use best efforts to process the matter
25 such that a new LFCR adjustment will go into effect by July 1st of each year. However, the LFCR
26 Adjustment will not go into effect until approved by the Commission.

27 7. UNS Gas filed its initial LFCR adjustment filing on May 3, 2013. The total Lost Fixed
28 Cost Revenues for 2012 were \$9,765. As this dollar amount was low and resulted in a monthly

1 increase for the average residential customer of less than \$0.01, UNS Gas requested the LFCR
2 Revenues for 2012 be deferred and incorporated into the 2013 Compliance LFCR filing for recovery
3 beginning July 1, 2014.

4 8. In Decision No. 73936, dated June 27, 2013, the Commission agreed that UNS Gas'
5 LFCR revenues for 2012 be deferred and incorporated into the 2013 Compliance LFCR filing.

6 9. UNS Gas filed its second LFCR adjustment filing on May 1, 2014. The total Lost
7 Fixed Cost Revenues for 2013 were \$66,591. By including the deferred amount of \$9,765 from 2012,
8 the approved LFCR rate for 2014 was 0.0695 percent. Using this rate, the estimated monthly bill
9 impact for a customer with an average monthly usage of 70 therms was approximately \$0.05 per
10 residential bill.

11 10. In Decision No. 74613, dated July 30, 2014, the Commission agreed that UNS Gas'
12 LFCR mechanism adjustment be set a 0.0695 percent effective August 1, 2014. The Commission also
13 ordered UNS Gas to revise its POA as directed by Staff to incorporate a balancing account to
14 facilitate the true-up of any LFCR dollars under or over-collected in the following twelve-month
15 period.

16 11. On August 8, 2014, UNS Gas filed its Rider R-6 LFCR to be in compliance with
17 Decision No. 74613. On September 30, 2014, UNS Gas filed an updated LFCR POA to be in
18 compliance with Decision No. 74613.

19 **Staff Analysis**

20 12. Staff has reviewed UNS Gas' EE savings and annual revenue used in the calculation
21 for the LFCR adjustment. While Staff is in agreement on the annual revenue data and the handling of
22 the balancing account, Staff does not agree on the level of EE savings which is explained in more
23 detail below. As a result, Staff has recalculated the LFCR adjustment percentage to an LFCR rate of
24 0.0961 percent.

25 13. The EE savings reported by UNS Gas in its application, included EE savings and
26 building codes/appliance standards savings for Residential, Small Volume Commercial and Small
27 Volume Public Authority. Staff completed an evaluation of the reported energy efficiency savings for
28 January 2014 through December 2014. UNS Gas provided support to Staff for all EE therm savings

1 matching the therm savings verified by Navigant, an independent third party energy consultant
2 responsible for verifying and evaluating energy efficiency programs and savings. However, Staff does
3 not agree with the inclusion of codes savings within the LFCR calculation. Codes savings were not
4 included in the previous year's EE savings for purposes of calculating the LFCR.

5 14. When reviewing the POA to verify what is included in the LFCR calculation, Staff
6 noticed that the POA clearly indicates that EE Savings for the purposes of the LFCR calculation are
7 the "...amount of sales, expressed in therms, reduced by EE as demonstrated by the Measurement,
8 Evaluation, and Reporting ("MER") conducted for EE programs." The POA goes further to define
9 an EE Program as "Any program approved in UNS Gas' implementation plan." UNS Gas does not
10 currently have an approved Codes and Standards program as part of an approved implementation
11 plan. The Commission did not approve the addition of a Codes and Standards program in Decision
12 No. 73939, dated June 27, 2013.

13 15. Staff has revised Schedules 1 through 5 originally included in UNS Gas' application to
14 remove the therms resulting from codes savings. Staff's revised Schedules 1 through 5 are attached to
15 Staff's Memorandum associated with this order. Removing codes savings results in the LFCR rate of
16 0.0961 percent, which would allow for recovery of approximately \$96,000.

17 16. Using the Staff-revised LFCR rate of 0.0961 percent, Staff has calculated that for a
18 residential customer with an average monthly usage of 70 therms, the estimated monthly bill impact
19 would be an increase of approximately \$0.02 per residential bill.

20 **Recommendations**

21 17. Based on the above, Staff has recommended that an LFCR rate of 0.0961 percent be
22 approved and become effective August 1, 2015.

23 18. Staff has also recommended that UNS Gas file a revised Rider R-6 consistent with the
24 Decision in this case within 15 days of the effective date of the Decision.

25 CONCLUSIONS OF LAW

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

28 ...

1 SERVICE LIST FOR: UNS Gas, Inc.
DOCKET NO. G-04204A-11-0158

2

3 Mr. Philip Dion
4 UNS Gas, Inc.
88 E Broadway Blvd.
5 P.O. Box 711
MS HQE910
6 Tucson, Arizona 85702

7 Mr. Bradley Carroll
8 UNS Gas, Inc.
Legal Department, MS HQE910
9 P.O. Box 711
Tucson, Arizona 85702

10 Mr. Nicholas Enoch
11 349 N. Fourth Ave.
Phoenix, Arizona 85003

12 Mr. Daniel W. Pozefsky
13 RUCO
1110 W. Washington St.
14 Suite 220
15 Phoenix, Arizona 85007-2958

16 Mr. Mike Patten
17 Snell & Wilmer
One Arizona Center
18 400 E. Van Buren St.
Suite 1900
19 Phoenix, Arizona 85004

20 Mr. Steven M. Olea
21 Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
22 Phoenix, Arizona 85007

23 Ms. Janice M. Alward
24 Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
25 Phoenix, Arizona 85007

26

27

28

1 Mr. Dwight Nodes
Acting Chief Administrative Law Judge, Hearing Division
2 Arizona Corporation Commission
1200 West Washington Street
3 Phoenix, Arizona 85007

- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28