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MEMORANDUM

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AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 23, 2015

RE: IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA, DOCKET NO. E-01933A-12-0291

SUBJECT: TUCSON ELECTRIC POWER COMPANY'S REQUEST FOR APPROVAL OF RIDER R-8 LOST FIXED COST RECOVERY TARIFF.

On May 1, 2015, Tucson Electric Power ("TEP") 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.

TEP is requesting that the LFCR rate be set at 0.8565 percent for EE and 0.2770 percent for DG.

Description of the LFCR

In Decision No. 73912 (June 27, 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 one percent year over year cap based on Applicable Company Revenues ("ACR"). If the annual incremental LFCR adjustment results in a surcharge in excess of one percent, in total, of ACR, any amount in excess of the one 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 one percent cap limits the recovery of deferrals in any program year, and thus moves the 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, TEP 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.

Customers taking service under rate schedules Lighting Service (PS-50), Water Pumping Service (GS-43), Traffic Signal and Street Lighting Service (PS-41), and Large Light and Power Services (LLP-14, LLP-90) are excluded from the LFCR. Residential customers can choose a Fixed Cost Option instead of the variable LFCR adjustment. The Fixed Charge Option is graduated by kWh monthly usage and is designed to replicate the effects of the LFCR. Customers who choose the optional fixed rate will incur an added incremental charge to the monthly Customer Charge in the applicable residential rate schedule. The total dollars paid as an incremental amount added to the otherwise effective Customer Charge will be used to reduce the total Lost Fixed Cost Revenue recovered as part of the LFCR adjustment. Customers choosing this fixed option within the first 12 months subsequent to the initial effective date of the LFCR will be allowed to change back to the volumetric option one time without any penalties. After the initial 12-month period, customers will be required to stay on which ever option they choose for 12 full months before a change can be made.

In Decision No. 74593 (July 30, 2014), the Commission approved the Company's first LFCR rate of 0.4149 percent for EE and 0.3126 percent for DG, beginning August 1, 2014. In this same Decision, the Commission also ordered the modification of the Company's POA to include a balancing account, for the purpose of providing for the Company to true-up any approved Lost Fixed Cost Revenues either under- or over-collected in the preceding 12-month collection period.

Staff Analysis

Staff has reviewed the data TEP 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. According to the calculations, and in accordance with the POA, the LFCR charge would be 0.8565 percent for EE and 0.2770 percent for DG, thus resulting in an approximate recovery of $8.67 million for the 12-month collection period beginning August 1, 2014.

The 2014 LFCR calculations did not remove test year production for DG when calculating the Lost Fixed Cost Revenue. The impact of this error was calculated to be $856,893, and subtracted from 2015 Lost Fixed Cost Revenue (Schedule 2, Line 15) through the balancing account (Line 11 & 11a).

In Attachment C of the application, TEP provided bill impact calculations for residential customers subject to the LFCR. TEP has calculated that for an average residential customer, using an average of 762 kWh per month, the customer's monthly bill would increase by $0.35.

In Decision No. 73912, the Commission ordered that TEP file, along with its LFCR Annual Adjustment, a Full Revenue Decoupling Report ("FRDR") showing what rates and average utility bills would have been for residential, small commercial and large industrial customers, if a full revenue decoupling mechanism had been approved. The Company provided the FRDR confidentially to Staff. TEP's FRDR concluded that under a fully decoupled mechanism the Company would have a total revenue adjustment of $71.9 million with an average customer bill impact of 7.864 percent, resulting in an average residential customer bill increase of $6.78 per month. Staff has noted that under such a fully decoupled mechanism, all customers are considered as a single group for purposes of determining the adjustment rate.

Recommendations

Staff recommends that an LFCR rate of 0.8565 percent for EE and 0.2770 percent for DG be approved and become effective August 1, 2015.

Staff recommends that TEP 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

SMO:EMV:nr\RRM

ORIGINATOR: Eric Van Epps

BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
DOUG LITTLE
Commissioner
TOM FORESE
Commissioner

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. E-01933A-12-0291 DECISION NO. __________ ORDER

Open Meeting
July 7, 2015 and July 8, 2015
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP" or "Company") is certificated to provide electric service as a public service corporation in the State of Arizona

2. On May 1, 2015, TEP 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.

3. TEP is requesting that the LFCR rate be set at 0.8565 percent for EE and 0.2770 percent for DG.

. . .

Description of the LFCR

4. In Decision No. 73912 (June 27, 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.

5. The LFCR also includes an annual one percent year over year cap based on Applicable Company Revenues ("ACR"). If the annual incremental LFCR adjustment results in a surcharge in excess of one percent, in total, of ACR, any amount in excess of the one 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 one percent cap limits the recovery of deferrals in any program year, and thus moves the 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.

6. The Plan of Administration ("POA") describes how the LFCR operates. By May 15th of each year, TEP 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.

7. Customers taking service under rate schedules Lighting Service (PS-50), Water Pumping Service (GS-43), Traffic Signal and Street Lighting Service (PS-41), and Large Light and Power Services (LLP-14, LLP-90) are excluded from the LFCR. Residential customers can choose a

Fixed Cost Option instead of the variable LFCR adjustment. The Fixed Charge Option is graduated by kWh monthly usage and is designed to replicate the effects of the LFCR. Customers who choose the optional fixed rate will incur an added incremental charge to the monthly Customer Charge in the applicable residential rate schedule. The total dollars paid as an incremental amount added to the otherwise effective Customer Charge will be used to reduce the total Lost Fixed Cost Revenue recovered as part of the LFCR adjustment. Customers choosing this fixed option within the first 12 months subsequent to the initial effective date of the LFCR will be allowed to change back to the volumetric option one time without any penalties. After the initial 12-month period, customers will be required to stay on which ever option they choose for 12 full months before a change can be made.

8. In Decision No. 74593 (July 30, 2014), the Commission approved the Company's first LFCR rate of 0.4149 percent for EE and 0.3126 percent for DG, beginning August 1, 2014. In this same Decision, the Commission also ordered the modification of the Company's POA to include a balancing account, for the purpose of providing for the Company to true-up any approved Lost Fixed Cost Revenues either under - or over-collected in the preceding 12-month collection period.

Staff Analysis

9. Staff has reviewed the data TEP 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. According to the calculations, and in accordance with the POA, the LFCR charge would be 0.8565 percent for EE and 0.2770 percent for DG, thus resulting in an approximate recovery of $8.67 million for the 12-month collection period beginning August 1, 2014.

10. The 2014 LFCR calculations did not remove test year production for DG when calculating the Lost Fixed Cost Revenue. The impact of this error was calculated to be $856,893, and subtracted from 2015 Lost Fixed Cost Revenue (Schedule 2, Line 15) through the balancing account (Line 11 & 11a).

11. In Attachment C of the application, TEP provided bill impact calculations for residential customers subject to the LFCR. TEP has calculated that for an average residential

customer, using an average of 762 kWh per month, the customer's monthly bill would increase by $0.35.

12. In Decision No. 73912, the Commission ordered that TEP file, along with its LFCR Annual Adjustment, a Full Revenue Decoupling Report ("FRDR") showing what rates and average utility bills would have been for residential, small commercial and large industrial customers, if a full revenue decoupling mechanism had been approved. The Company provided the FRDR confidentially to Staff. TEP's FRDR concluded that under a fully decoupled mechanism the Company would have a total revenue adjustment of $71.9 million with an average customer bill impact of 7.864 percent, resulting in an average residential customer bill increase of $6.78 per month. Staff has noted that under such a fully decoupled mechanism, all customers are considered as a single group for purposes of determining the adjustment rate.

Recommendations

13. Staff has recommended that an LFCR rate of 0.8565 percent for EE and 0.2770 percent for DG be approved and become effective August 1, 2015.

14. Staff has recommended that TEP file a revised Statement of Charges consistent with the Decision in this matter within 15 days of the effective date of the Decision.

CONCLUSIONS OF LAW

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

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2. The Commission has jurisdiction over Tucson Electric Power Company 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 of the LFCR rates as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that LFCR rates of 0.8565 percent for EE and 0.2770 percent for DG are hereby approved for Tucson Electric Power Company and shall become effective August 1, 2015.

IT IS FURTHER ORDERED that Tucson Electric Power Company 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:EMV:nr/RRM

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DOCKET NO. E-01933A-12-0291

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