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NEW APPLICATION

BEFORE THE ARIZONA CORPORATION COMMISSION

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2015 MAR -2 P 4: 32

AZ CORP COMMISSION
DOCKET CONTROL

ORIGINAL

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-15-0067

**NOTICE OF INTENT TO FILE A
RATE CASE APPLICATION**

Arizona Corporation Commission

DOCKETED

MAR 02 2015

DOCKETED BY

UNS Electric, Inc. ("UNS Electric" or "Company"), through undersigned counsel, hereby provides its 60-day Notice of Intent to File a Rate Case Application for the establishment of just and reasonable rates. UNS Electric intends to file a rate case application on or about May 1, 2015 using a test year for the twelve months ending December 31, 2014 ("Test Year").¹

I. OVERVIEW OF KEY RATE CASE ISSUES.

UNS Electric's current rates were established by the Arizona Corporation Commission ("Commission") in Decision No. 74235 (December 31, 2013), based on a test year ending June 30, 2012 with rates that went into effect on January 1, 2014. In the Settlement Agreement approved by Decision No. 74235, UNS Electric agreed to file its next general rate case no later than July 1, 2017 using a 2016 test year. However, the Settlement Agreement also expressly provided that "[n]othing shall preclude the Company from filing a rate case earlier than July 1, 2017"²

¹ The Company's rate case filing will consist of (i) a rate case application; (ii) supporting schedules pursuant to A.A.C. R14-2-103; and (iii) direct testimony. UNS Electric will also provide Staff with workpapers, and responses to up front data requests in conjunction with its filing.

² Settlement Agreement, Section 15.3.

1 Since the previous test year, several factors have arisen that require UNS Electric to file a
2 rate case at this time.

3 1. In December 2014, UNS Electric acquired a 25% interest in Gila River Unit 3 (“Gila
4 River”) for approximately \$55 million. The purchase price represents approximately 28 percent of
5 the Company’s original cost rate base established in the last rate case. The acquisition
6 significantly reduces the Company’s reliance on the wholesale energy markets to serve its load.
7 However, the ownership of Gila River has increased UNS Electric’s non-fuel costs, and thus non-
8 fuel base rates by approximately \$11 million per year. This increase is expected to be
9 substantially offset by a decrease in purchased capacity and energy costs, and thus base fuel rates
10 (currently estimated to be approximately \$9 million in 2015.)

11 2. UNS Electric has experienced other increases in costs necessary to ensure the continued
12 safety and reliability of its system to benefit its customers.

13 3. UNS Electric also has experienced a reduction in retail sales volumes due to the loss of
14 two significant customers, the increasing deployment of net metered solar photovoltaic rooftop
15 distributed generation (“rooftop PV”) and the adoption of energy efficiency measures.

16 4. The deployment of net metered residential rooftop PV systems in UNS Electric’s
17 service area is shifting a significant amount of fixed cost recovery from net metered customers to
18 non-net metered customers through UNS Electric’s Lost Fixed Cost Recovery (“LFCR”)
19 mechanism.

20 5. In addition to the cost recoveries being shifted to the non-net metered customers, the
21 Company is also suffering lost revenues because the LFCR is not designed to capture all of the
22 lost fixed cost revenues associated with meeting the Commission’s Renewable Energy Standard
23 and Energy Efficiency Rules.

24 UNS Electric is therefore filing this rate case to: (i) ensure its ability to provide safe and
25 reliable service to its customers; (ii) recover its full cost of service, including an appropriate return
26 on invested capital; (iii) adopt updated rate designs that equitably allocate the recovery of the
27 Company’s fixed costs; (iv) maintain or improve its credit rating, all of which will benefit UNS

1 Electric customers; and (v) update its Rules and Regulations and to request other related
2 approvals. The Company anticipates it will request an increase in revenues that will have a
3 modest net bill impact.

4 Finally, in connection with the acquisition of Gila River, the Commission granted the
5 Company's request for an accounting order.³ Under the Plan of Administration ("POA")
6 approved by the Commission in Decision No. 74911, the Company is deferring certain non-fuel
7 costs and purchased capacity and energy savings associated with Gila River. The deferred costs
8 and savings will be evaluated in UNS Electric's next rate case; however, the POA sets a cap on the
9 potential deferred cost recovery that will be calculated as of April 30, 2016. Therefore, the
10 Company will request that new rates be in effect no later than May 1, 2016 to coincide with the
11 expiration of the deferral period.

12 UNS Electric expects to raise the following key issues in its rate filing:

- 13 • **Proposed Capital Structure.** UNS Electric will propose the use of its actual test
14 year capital structure.
- 15 • **Cost of Equity.** The Company will propose a cost of equity that is based on
16 current capital market conditions.
- 17 • **Cost of Debt.** The Company is in the process of refinancing \$80 million of long-
18 term debt that matures in August 2015, as well as \$40 million of short-term debt
19 that provided partial funding for the purchase of Gila River and for general
20 corporate purposes. The Company will propose a cost of debt that reflects the cost
21 of this refinancing.
- 22 • **Fair Value Rate of Return.** UNS Electric will propose fair value rate base and a
23 return on fair value rate base in accordance with the Arizona Constitution.
- 24 • **Post-Test Year Plant.** The Company is proposing to adjust UNS Electric's rate
25 base to include as post-test year plant used and useful plant additions that are
26 expected to be in service by April 30, 2016.

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³ See Decision No. 74911 (January 22, 2015).

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- **Changes to Depreciation Rates.** UNS Electric will present the results of an updated depreciation study and propose changes to the depreciation rates applicable to the Company's plant in service.

- **Modifications to the Purchased Power and Fuel Adjustment Clause ("PPFAC").** UNS Electric will request modifications to its PPFAC, including modifying the PPFAC rate to a percentage of base fuel charges, rather than a per kWh energy rate.

- **Rate Design.** The Company will propose numerous rate design changes including:
 - **Increased Customer Charge.** UNS Electric will propose an increase to its customer charges in a continuing effort to better match the fixed charge to the Company's fixed costs.

 - **Partial Requirements Service Rates.** The Company will propose new rate design for customers supplying all or a portion of their energy needs with on-site generation. UNS Electric intends that these new rates for partial requirement customers will apply to all customers that apply for interconnection after May 1, 2015.

 - **Revisions to commercial customer rates.** UNS Electric will propose changes to the largest General Service classes that result in new, more homogenous classes with like-sized customers.

 - **New Economic Development Rate.** The Company will propose an economic development rate in order to facilitate economic growth in the UNS Electric service area.

 - **Revised Time-of-Use Rates.** UNS Electric will propose modifications to the on-peak and off-peak rates and offer a discount to the residential off-peak rate if a Residential customer installs a charging station for an electric vehicle.

 - **Additional Interruptible Rates.** The Company will propose an additional interruptible rate as contemplated in the previous rate case settlement.

- 1 o **Buy Through Tariff.** Per the recent Fortis settlement agreement, UNS Electric
- 2 will present a Buy Through tariff with provisions designed to protect non-
- 3 participating customers from unintended fixed-cost shifts.
- 4 • **Revisions to Rules and Regulations.** UNS Electric will propose revisions to its
- 5 Rules and Regulations.

6 In addition to the issues described above, UNS Electric will propose a number of standard

7 pro forma adjustments to the historic test-year rate base, income and expenses.

8 **II. TENTATIVE WITNESS LIST.**

9 To support the Company's request and the issues identified therein, the following is a

10 preliminary witness list for UNS Electric and the topic each will address in their pre-filed direct

11 testimony:⁴

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|----|--------------------|--|
| 12 | David Hutchens: | The overall condition of the Company; overview of UNS Electric's |
| 13 | | rate application and primary proposals, including the need for the |
| 14 | | modified rate design. |
| 15 | Terry Nay: | Overview of UNS Electric operations. |
| 16 | Kentton Grant: | Overview of UNS Electric's financial condition, including |
| 17 | | anticipated capital needs, credit ratings and ratings agency concerns; |
| 18 | | capital structure; cost of debt; and cost of credit support for fuel and |
| 19 | | purchased power procurement. |
| 20 | Michael Sheehan | Acquisition of Gila River Power Plant and related benefits and cost |
| 21 | | savings; and cost of facilities and operations, including cost of fuel |
| 22 | | and purchased power savings. |
| 23 | Carmine Tilghman | Scope and impact of the deployment of distributed generation in the |
| 24 | | UNS Electric service area. |
| 25 | Ann Bulkley (CEA): | Cost of equity; fair value rate base; and fair value rate of return. |

27 ⁴ This preliminary list of witnesses is subject to change between now and the date of the rate filing.

1 Dallas Dukes: Revenue requirement; rate base and income statement pro forma
2 adjustments; post-test year plant adjustments; Reconstructed Cost
3 New Less Depreciation (RCND); depreciation expense based on
4 presently approved depreciation rates modified to reflect estimated
5 decommissioning cost for the Company's generation assets; rate
6 design.
7 Jason Rademacher: Income tax and property tax.
8 David Lewis: Revenue requirement, including income and expense adjustments.
9 Craig Jones: Cost of service study; proposed rate design; revisions to the base
10 cost of fuel and purchase power and to the Company's PPFAC; and
11 revisions to tariffs.
12 Denise Smith: Revisions to UNS Electric's Rules and Regulations; and Customer
13 Satisfaction Initiatives and Customer Assistance Programs.
14 Dr. Ron White Depreciation Methodology and Rates
15

16 **III. LOCATION OF HEARING**

17 UNS Electric's service territory is in both Santa Cruz County and Mohave County.
18 Because the Company's last two rate cases have been conducted in Phoenix, UNS Electric
19 believes it would be more equitable to its Santa Cruz County customers to have its next rate case
20 hearing conducted in Tucson. Accordingly, UNS Electric will be making such request in its filing.
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1 **IV. CONCLUSION.**

2 UNS Electric intends to file its rate case on or about May 1, 2015 with the proposed
3 effective date of new rates no later than May 1, 2016.

4 RESPECTFULLY SUBMITTED this 2nd day of March, 2015.

5 UNS Electric, Inc.

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7 By 

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21 Original and thirteen copies of the foregoing
22 filed this 2nd day of March, 2015, with:

23 Docket Control
24 Arizona Corporation Commission
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26 Phoenix, Arizona 85007
27

1 Copy of the foregoing hand-delivered/mailed
2 this 2nd day of March, 2015, to:

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By *Jaclyn Howard*