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BEFORE THE ARIZONA CORPORATION COMMISSION

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2015 DEC 18 P 4:40

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
UNS ELECTRIC, INC. FOR AN ACCOUNTING)
ORDER IN CONNECTION WITH THE)
ACQUISITION OF 150 MW OF GILA RIVER)
POWER PLANT UNIT 3.)

DOCKET NO. E-04204A-13-0476

**MOTION TO AMEND PLAN OF
ADMINISTRATION APPROVED
IN DECISION NO. 74911**

UNS Electric, Inc. ("UNS Electric" or "Company"), through undersigned counsel, hereby moves to amend the Plan of Administration ("POA") approved in Decision No. 74911 (January 22, 2015) to:

- (i) extend the deferral period for certain non-fuel costs related to Gila River Power Plant Unit 3 ("Gila River Unit 3") from April 30, 2016 until the date that rates go into effect in the pending UNS Electric rate case (Docket No. E-04204A-15-0142) and
- (ii) modify the cap on deferred non-fuel costs to simply match the amount of deferred savings and remove the \$10.5 million hard cap.

The extension of time is necessary because the UNS Electric rate case will not be completed in time for new rates to be effective by May 1, 2016. Moreover, given the circumstances and anticipated timing of the UNS Electric rate case, the proposed POA modifications more equitably matches the deferred costs and deferred savings related to Gila River Unit 3. It also avoids creating undue adverse financial impacts on UNS Electric from April 30, 2016 until new rates are

Arizona Corporation Commission

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1 in effect in the pending rate case. A proposed amended POA is attached as **Exhibit 1** (both clean
2 and redline revisions are included.)¹

3 **A. Background**

4 UNS Electric's acquisition of its share of Gila River Unit 3 was a significant investment
5 for UNS Electric because the purchase price of approximately \$55 million represented about 28
6 percent of the Company's original cost rate base established in its last rate case. In addition, the
7 non-fuel operating costs of Gila River Unit 3 are approximately \$9 million annually, which if not
8 deferred and subject to potential future recovery, would reduce net income significantly, thus
9 potentially harming UNS Electric's financial condition and credit rating. As a result, UNS Electric
10 filed for an accounting order.

11 In Decision No. 74911, the Commission granted the Company's application for an
12 accounting order and authorized it to defer for possible later recovery through rates the non-fuel
13 costs (as defined by the POA) of owning, operating and maintaining its share of Gila River Unit 3.
14 The Commission also approved the related POA proposed by the parties with minor modifications.

15 The POA describes how the proposed Gila River Unit 3 accounting order would operate.
16 The POA allows UNS Electric to defer certain defined non-fuel costs for the period January 1,
17 2015 through the earlier of (i) April 30, 2016 or (ii) the date new rates goes into effect. It also
18 provides that the cumulative non-fuel costs will not exceed the lower of \$10.5 million or the
19 cumulative deferred savings as of April 30, 2016. Under the POA, the deferred savings continue
20 to accrue until new rates go into effect, but the deferred costs will not accrue beyond April 30,
21 2016.

22 When the POA was developed and agreed to by the parties in 2014, it was anticipated that
23 new rates for UNS Electric would be in place by approximately May of 2016. However, the
24 procedural schedule for the rate has set a hearing in early March 2016. The rate case also involves
25 several issues of intense interest regarding rate design and net metering (which were not
26

27 ¹ UNS Electric requests that, if deemed necessary and appropriate, the Commission treat this as a request to amend Decision No. 74911 pursuant to A.R.S. §40-252.

1 contemplated at the time of decision approving the accounting order) that may significantly
2 increase the duration of the rate case hearing. As a result, the Company is concerned that new
3 rates may not go into effect until late summer, resulting in the Company having to absorb prudent
4 non-fuel costs that would otherwise be deferred.

5 Moreover, the \$10.5 million cap on deferred costs was based on the best estimate of the
6 parties as to the amount of deferred costs that would be accrued by April 30, 2015. That estimate
7 was made at the time the POA was agreed to in late summer of 2014. In its rate case application
8 filed in early May 2015, UNS Electric estimated that the deferred savings accrued under the POA
9 would be \$9.3 million as of April 30, 2016 and included that amount in its expense adjustment for
10 deferred costs.² However, it now appears that UNS Electric will incur potentially unrecovered
11 non-fuel costs related to Gila River Unit 3 for at least an additional two months and likely more.
12 The Company now estimates that the accrued deferred savings would be approximately \$8.5
13 million as of April 30, 2016 and approximately \$11.3 million as of July 30, 2016.

14 **B. Proposed POA Amendment**

15 To address the anticipated timing of the UNS Electric rate case and the potential adverse
16 impact on UNS Electric's financial condition, UNS Electric proposes to amend the POA to: (i)
17 extend the April 30, 2016 cutoff date for accrual of deferred costs until the date that new rates are
18 in effect in UNS Electric's pending rate case and (ii) remove the \$10.5 million cap on deferred
19 costs and limit the amount of deferred costs that can be recovered to the actual amount of deferred
20 savings that will be passed on to customers through the Company's PPFAC. Exhibit 1 sets forth
21 the proposed modified POA.

22 As noted in Decision No. 74911 (at para. 33), the acquisition of the Gila River Unit 3 is
23 likely to benefit the Company and its ratepayers by providing an efficient and economical
24

25
26 ² It was anticipated that amount would be updated at the time of the hearing. It also was
27 anticipated that the deferred savings to be returned through the Purchased Power and Fuel
Adjustment Clause ("PPFAC") and the deferred costs reflected in rates would also be trued-up to
the actual amount of deferred savings at the time new rates went into effect.

1 source of baseload power, but that the financial cost of acquiring and operating UNS Electric's
2 share in Gila River Unit 3 is substantial and may detrimentally impact the Company's financial
3 condition. Further, the accounting order was intended as a bridge to maintain UNS Electric's
4 financial condition until the conclusion of its next rate case. The proposed modifications to the
5 POA will meet this intent.

6 First, the anticipated timing of the UNS Electric rate case has changed significantly
7 since the POA was agreed to by the parties. The proposed extension of the cost deferral period
8 is a reasonable reflection of the changed circumstances.

9 Second, matching the deferred non-fuel costs to the deferred savings still ensures that
10 the Company's customers will not suffer any adverse financial impact from the acquisition of
11 Gila River Unit 3. UNS Electric also minimizes the risk of adverse impact to its financial
12 condition from the acquisition of an efficient and economical source of baseload power.

13 **C. Conclusion**

14 UNS Electric requests that the Commission approve the amended Plan of Administration
15 attached as **Exhibit 1**.

16 RESPECTFULLY SUBMITTED this 18th day of December 2015.

17 UNS ELECTRIC, INC.

18 By 

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Original and 13 copies of the foregoing
filed this 18th day of December 2015 with:

Docket Control
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Copies of the foregoing hand-delivered/mailed
this 18th day of December 2015 to the following:

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By *Jaclyn Howard*

Exhibit 1

Clean Version

UNS Electric, Inc.
Gila River Power Plant Unit 3 Acquisition Accounting Order
Amended Plan of Administration

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1. GENERAL DESCRIPTION

This document describes the amended plan of administration for the Gila River Power Plant Unit 3 Acquisition Deferred Accounting Order (“Order”) as approved by the Arizona Corporation Commission (“ACC”) in Decision Nos. 74911 (January 22, 2015) and ##### (date) for UNS Electric, Inc. (“UNSE” or “Company”).

The Order authorizes the deferral of certain Non-fuel costs (collectively defined as “Deferred Costs” in Section 3), and short-term fuel and purchased power savings (collectively defined as “Deferred Savings” in Section 4) associated with the Company’s purchase of a 25% interest in Unit 3 at the Gila River Power Plant (“Gila 3”). These Deferred Costs and Deferred Savings will be evaluated during the Company’s pending rate case (Docket No. E-04204-15-0142). During this interim period between January 1, 2015 and the date new rates go into effect for UNSE (the “Deferral Period”), the cumulative Deferred Cost will not exceed the cumulative Deferred Savings accrued during the Deferral Period.

2. DEFINITIONS

Accounting Order – A rate-making mechanism used by a regulatory authority that allows the deferral of costs and/or savings by a regulated utility for possible future recovery or credit.

Carrying Costs – Costs accrued at a 5.0000% annual rate on the company’s Net Book Investment of Gila 3 including the Company’s pro rata share of any directly related associated Material and Supplies.

Fuel and Purchased Power Costs – The costs recorded for the fuel and purchased power used by UNSE to serve both Native Load Energy Sales and Wholesale Sales. Wheeling costs are included in Fuel and Purchased Power costs.

Native Load Energy Sales – Retail Native Load Energy Sales and Wholesale Native Load Energy Sales in the UNSE control area for which UNSE has a generation service obligation.

Net Book Investment – The cost of the Company’s investment in its share of the plant, reduced by total depreciation and amortization recorded, plus the Company’s pro-rata share of any directly related Materials and Supplies.

Off-Peak Power – Power for delivery Monday through Saturday from hour ending 2300 through hour ending 0600 Pacific Prevailing Time, and hour ending 0100 through hour ending 2400 Pacific Prevailing Time on Sunday and North American Electric Reliability Corporation (“NERC”) holidays.

On-Peak Power – Power for delivery Monday through Saturday, excluding NERC Holidays, from hour ending 0700 through hour ending 2200, Pacific Prevailing Time.

Off System Sales - Energy sales other than those to directly meet the Company’s native load obligations.

Palo Verde Hub – Palo Verde , also known as “PV” is a major cumulative western market trading hub that includes the Palo Verde substation and the Hassayampa substation.

PPFAC – The Purchased Power and Fuel Adjustment Clause (“PPFAC”) initially approved by the Commission in Decision No. 70360, and amended in Decision No. 74235. The PPFAC rate tracks the changes in the cost of obtaining power supplies based upon a historical 12-month rolling average of fuel, purchased power and purchased transmission costs as defined in the PPFAC Plan of Administration and is adjusted monthly.

Short-term Sales – Wholesale sales with a duration of less than one year made to non-Native Load customers for the purpose of optimizing the UNSE system, using UNSE-owned or contracted generation and purchased power.

Wholesale Sales – Sales to non-retail customers.

3. ALLOWABLE DEFERRED COSTS

The Deferred Costs as defined below, associated with owning, operating and maintaining UNSE’s 25% interest in Gila 3 will be deferred as a regulatory asset during the Deferral Period, the amount of which is limited to the cumulative Deferred Savings as of the effective date of new rates in the pending UNSE rate case. The costs eligible for deferral are limited to:

1. Depreciation and Amortization costs.
2. Property taxes.
3. O&M expenses.
4. Carrying Costs on Net Book Investment, both as defined above.

Eligible deferred costs shall not include decommissioning costs.

4. ALLOWABLE DEFERRED SAVINGS

The Deferred Savings associated with owning and operating UNSE’s 25% interest in Gila 3 will be deferred as a regulatory liability, and will accrue during the period beginning January 1, 2015 and ending upon the date new rates go into effect following UNSE’s pending rate case. The Deferred Savings are limited to:

1. Energy costs based on published PV (the major wholesale power hub for UNSE’s service territory) day-ahead-market prices from the Intercontinental Exchange (“ICE”) for On-Peak and Off-Peak power, less actual fuel costs, plus
2. Avoided long term capacity procurement costs at \$1.52 per kW/month as approved in Accounting Order Decision No. 74911, and offset by
3. Short term wholesale sales revenues associated with Gila 3.

Deferred Savings are considered “allowable costs” for purposes of calculating UNSE’s PPFAC but will not be included as part of the PPFAC bank for purposes of calculating accrued interest.

5. COMPLIANCE REPORTS

UNSE shall provide monthly reports to the Commission's Docket Control and to the Residential Utility Consumer Office detailing all calculations related to allowable cost included in the PPFAC. Monthly reports will be due within 45 days of the end of a reporting period. The final compliance report required under this section will be provided 45 days after the effective date of new rates in UNSE's pending rate case. The information contained in the Compliance Reports will consist of the following schedules:

- Schedule A: Allowable Deferred Costs
- Schedule B: Allowable Deferred Savings
- Schedule C: Any Wholesale Sales which are 1 year or greater in duration. This schedule shall describe the dates, the number of MW's sold, type of service (firm, non-firm, etc.) and ancillary services (if any), type of sale (on peak, around the clock, etc.),

Redline Version

UNS Electric, Inc.
Gila River Power Plant Unit 3 Acquisition Accounting Order
Amended Plan of Administration

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Carrying Costs – Costs accrued at a 5.0000% annual rate on the company’s Net Book Investment of Gila 3 including the Company’s pro rata share of any directly related associated Material and Supplies.

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2. Property taxes.
3. O&M expenses.
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