

ORIGINAL

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

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AZ CORP COMMISSION
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DOCKETED

TO: THE COMMISSION

MAY 18 2016

2016 MAY 18 PM 2 30

FROM: Utilities Division

DATE: May 18, 2016

DOCKETED BY

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 April 15, 2016, 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, 2016. 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 0.0855 percent of the customer's bill, which would result in a decrease of \$0.01 per month for a residential customer per bill with an average monthly usage of 70 therms in the winter (or an average annual usage of 42 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, the Utilities Division ("Staff") of the Commission 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 in the winter 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 at 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.

UNS Gas filed its third LFCR adjustment filing on May 1, 2015. The total Lost Fixed Cost Revenues for 2014 were \$96,067. The approved LFCR rate for 2015 was 0.0961 percent effective August 1, 2015. Using this rate, the estimated monthly bill impact for a customer with an average monthly usage of 70 therms in the winter was approximately \$0.07 per residential bill (an increase of \$0.02 per residential bill).

In Decision No. 75173, dated July 15, 2015, the Commission agreed that UNS Gas' LFCR mechanism be set at 0.0961 percent effective August 1, 2015. On July 21, 2015, UNS Gas filed its Rider R-6 LFCR to be in compliance with Decision No. 75173.

STAFF ANALYSIS

Staff has reviewed UNS Gas' EE savings and annual revenue used in the calculation for the LFCR adjustment in this application. Staff is in agreement with the annual revenue data, the handling of the balancing account, and the level of EE savings used in the calculation of the LFCR adjustment percentage at 0.0855 percent.

As demonstrated in the table below, applying the proposed LFCR adjustment percentage of 0.0855 percent to the bill for a residential customer with an average monthly usage of 70 therms in the winter, the estimated monthly bill impact would be a decrease of approximately \$0.01 per residential bill (the calculated surcharge would go from \$0.06 to \$0.05 per residential bill).

UNS GAS, INC. LOST FIXED COST RECOVERY - LFCR EFFECTIVE JULY 2016 WINTER RESIDENTIAL BILL IMPACT						
Average Winter Usage: 70 Therms						
	Current Rates	Proposed Rates	Current Bill	Proposed Bill	\$ Difference	% Difference
Customer Charge	\$10.00	\$10.00	\$10.00	\$10.00	\$0.00	0.00%
Delivery Charge (per therm)	\$0.3434	\$0.3434	\$24.04	\$24.04	\$0.00	0.00%
Purchased Gas Adjustment (per therm for March 2016*)	\$0.3824	\$0.3824	\$26.77	\$26.77	\$0.00	0.00%
Subtotal			\$60.81	\$60.81	\$0.00	0.00%
LFCR Rate	0.0961%	0.0855%	\$0.06	\$0.05	(\$0.01)	(16.67%)
Total			\$60.87	\$60.86	(\$0.01)	(0.02%)

*The March 2016 Purchased Gas Adjustment rate per therm incorporates a \$0.10 per therm credit that ended April 30, 2016.

Applying the proposed LFCR adjustment percentage of 0.0855 percent to the bill for a residential customer with an annual average usage of 42 therms, the estimated monthly bill impact would again be a decrease of approximately \$0.01 per residential bill (the calculated surcharge would go from \$0.04 to \$0.03 per residential bill).

UNS GAS, INC. LOST FIXED COST RECOVERY - LFCR EFFECTIVE JULY 2016 AVERAGE ANNUAL RESIDENTIAL BILL IMPACT						
Average Annual Usage: 42 Therms						
	Current Rates	Proposed Rates	Current Bill	Proposed Bill	\$ Difference	% Difference
Customer Charge	\$10.00	\$10.00	\$10.00	\$10.00	\$0.00	0.00%
Delivery Charge (per therm)	\$0.3434	\$0.3434	\$14.42	\$14.42	\$0.00	0.00%
Purchased Gas Adjustment (per therm for April 2016)	\$0.3660	\$0.3660	\$15.37	\$15.37	\$0.00	0.00%
Subtotal			\$39.79	\$39.79	\$0.00	0.00%
LFCR Rate	0.0961%	0.0855%	\$0.04	\$0.03	(\$0.01)	(25.00%)
Total			\$39.83	\$39.82	(\$0.01)	(0.03%)

*The April 2016 Purchased Gas Adjustment rate per therm incorporates a \$0.10 per therm credit that ended April 30, 2016.

RECOMMENDATIONS

Based on the above, Staff recommends that an LFCR rate of 0.0855 percent be approved and become effective July 1, 2016.

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.



for

Thomas M. Broderick
Director
Utilities Division

TMB:RSP:red\WVC

ORIGINATOR: Ranelle Paladino

BEFORE THE ARIZONA CORPORATION COMMISSION

1 DOUG LITTLE
2 Chairman
3 BOB STUMP
4 Commissioner
5 BOB BURNS
6 Commissioner
7 TOM FORESE
8 Commissioner
9 ANDY TOBIN
10 Commissioner

11 IN THE MATTER OF THE
12 APPLICATION OF UNS GAS, INC. FOR
13 APPROVAL OF A RATE INCREASE

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

14 Open Meeting
15 June 14 and June 15, 2016
16 Phoenix, Arizona

17 BY THE COMMISSION:

18 FINDINGS OF FACT

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

21 **Introduction**

22 2. On April 15, 2016, UNS Gas filed an application with the Arizona Corporation
23 Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery ("LFCR")
24 Mechanism adjustment effective July 1, 2016. The LFCR allows for the recovery of lost fixed costs, as
25 measured by revenue per therm, associated with the amount of energy efficiency ("EE") savings
26 determined to have occurred from programs authorized by the Commission.

27 3. UNS Gas is requesting that the LFCR charge be set at 0.0855 percent of the
28 customer's bill, which would result in a decrease of \$0.01 per month for a residential customer per bill
with an average monthly usage of 70 therms in the winter (or an average annual usage of 42 therms).

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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, the Utilities Division ("Staff") of the Commission will use best efforts to process the
25 matter such that a new LFCR adjustment will go into effect by July 1st of each year. However, the
26 LFCR 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.

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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 in the winter was approximately
10 \$0.05 per 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.

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20 Cost Revenues for 2014 were \$96,067. The approved LFCR rate for 2015 was 0.0961 percent
21 effective August 1, 2015. Using this rate, the estimated monthly bill impact for a customer with an
22 average monthly usage of 70 therms in the winter was approximately \$0.07 per residential bill (an
23 increase of \$0.02 per residential bill).

24 13. In Decision No. 75173, dated July 15, 2015, the Commission agreed that UNS Gas'
25 LFCR mechanism be set at 0.0961 percent effective August 1, 2015. On July 21, 2015, UNS Gas filed
26 its Rider R-6 LFCR to be in compliance with Decision No. 75173.

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1 **Staff Analysis**

2 14. Staff has reviewed UNS Gas' EE savings and annual revenue used in the calculation
3 for the LFCR adjustment in this application. Staff is in agreement on the annual revenue data, the
4 handling of the balancing account, and the level of EE savings used in calculation of the LFCR
5 adjustment percentage at 0.0855 percent.

6 15. As demonstrated in the table below, applying the proposed LFCR adjustment
7 percentage of 0.0855 percent to the bill for a residential customer with an average monthly usage of 70
8 therms in the winter, the estimated monthly bill impact would be a decrease of approximately \$0.01
9 per residential bill (the calculated surcharge would go from \$0.06 to \$0.05 per residential bill).

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18 *The March 2016 Purchased Gas Adjustment rate per therm incorporates a \$0.10 per therm credit that ended April 30, 2016.

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21 residential customer with an annual average usage of 42 therms, the estimated monthly bill impact
22 would again be a decrease of approximately \$0.01 per residential bill (the calculated surcharge would
23 go from \$0.04 to \$0.03 per residential bill).

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Total			\$39.83	\$39.82	(\$0.01)	(0.03%)

*The April 2016 Purchased Gas Adjustment rate per therm incorporates a \$0.10 per therm credit that ended April 30, 2016.

Recommendations

17. Based on the above, Staff has recommended that an LFCR rate of 0.0855 percent be approved and become effective July 1, 2016.

18. Staff has also recommended 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.

CONCLUSIONS OF LAW

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

2. The Commission has jurisdiction over UNS Gas, Inc. and over the subject matter of the application.

3. The Commission, having reviewed Staff's memorandum dated May 18, 2016, concludes that it is in the public interest to approve the Rider R-6 Lost Fixed Cost Recovery Tariff Adjustment as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that the Lost Fixed Cost Revenue mechanism adjustment for UNS Gas, Inc. be set at 0.0855 percent, effective July 1, 2016.

IT IS FURTHER ORDERED that UNS Gas, Inc. file a revised Rider R-6 consistent with the Decision in this case 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 _____, 2016.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

TMB:RSP:red\WVC

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

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8 Tucson, Arizona 85702

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