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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

DOUG LITTLE - CHAIRMAN
BOB BURNS
BOB STUMP
TOM FORESE
ANDY TOBIN

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-15-0142 **NOTICE OF FILING EXCEPTIONS TO RECOMMENDED OPINION AND ORDER ON BEHALF OF NUCOR STEEL--KINGMAN**

Nucor Steel--Kingman ("Nucor"), hereby provides notice of filing its Exceptions to the Recommended Opinion and Order in the above-referenced matter.

DATED this 29th day of July, 2016.

Arizona Corporation Commission
DOCKETED
JUL 29 2016
DOCKETED BY

MUNGER CHADWICK, P.L.C.

Robert J. Metli
Attorneys for Nucor Steel--Kingman

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BEFORE THE ARIZONA CORPORATION COMMISSION

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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-15-0142 EXCEPTIONS TO RECOMMENDED OPINION AND ORDER

Nucor Steel—Kingman ("Nucor"), by and through undersigned counsel, hereby files its exceptions and proposed amendments to the Recommended Opinion and Order issued in this case on July 20, 2016. We acknowledge the time and effort invested by the ALJ and parties in the process that produced the Recommended Opinion and Order, but we respectfully disagree with certain recommendations that are likely to—in some cases, perhaps inadvertently—further increase Nucor's rates. Throughout the case, several parties have acknowledged the significant (and long-term) cross-subsidization of other customers by large commercial and industrial customers such as Nucor. In fact, UNS Electric's initial filing recommended only a nominal rate increase for LPS-TOU customers and a small *decrease* for LPS customers,[1] consistent with an approach that reflected the results of the Company's Class Cost of Service Study ("CCOSS"). Yet, by our estimates, the changes outlined in the Recommended Order and Opinion could result

[1] *See* UNSE 31, Exhibit CAJ-2 (recommending a test year margin increase, with fuel true-up and margin increase, totaling -0.44% for LPS and 0.17% for LPS-TOU; and with application of margin increase, fuel/PPFAC True-up, TCA, and deferred credit, totaling -7.79% for LPS and -9.67% for LPS-TOU).

in a rate increase for Nucor well over 10%—a shockingly high increase, considering that electricity is the single largest variable input into Nucor's production of steel.

We urge the Commission to carefully consider the impact of the proposed rate increase on Nucor in this difficult economic period and to adopt the rate reduction recommended in the Company's Direct Testimony, or at most, the rate increase outlined in the Company's Rebuttal Testimony.[2] We also urge the Commission to continue to address the other concerns raised by Nucor and other industrial customers going forward.

It is our understanding that changes in "revenue assignment" to various classes become compounded by the changes to the design of the Purchased Power Fuel Adjustment Clause ("PPFAC"), leading to higher rates for customers within the LPS class that might not otherwise be obvious. Thus, we urge the Commission to carefully consider how the combined effect of revenue assignments and the PPFAC would impact the total monthly bills of UNS Electric's industrial customers.

Aside from the recommended rate increase to the LPS Class as a result of these revenue assignment recommendations, Nucor is particularly concerned about a proposed new method for calculating demand charges. The Recommended Opinion and Order contains language on pages 83-84 related to the calculation of demand charges for large customers that we believe, if interpreted incorrectly, could lead to a substantial negative impact on Nucor—further amplifying the rate increase recommended by the ALJ, as it applies to Nucor. Therefore, we request clarifying language on pages 83-84 as discussed below and in Attachment 1.

- **The most straightforward interpretation of the updated demand charge billing criteria on page 84 is to apply it to only the LPS-TOU tariff.**

[2] *See* UNSE-32, Exhibit CAJ-R-2 (recommending a test year margin increase, with fuel/PPFAC True-up, and TCA totaling 2.37% for LPS and 2.61% for LPS-TOU; and with application of deferred credit, -4.99% for LPS and -4.32% for LPS-TOU).

We appreciate the ALJ's consideration of the application of demand charges to large industrial energy consumers. The ALJ appears to agree that the "proposed rate design for the LPS class does not seem to provide a good matching of cost causation and revenue recovery."[3] However, the changes recommended by the ALJ on page 84 could be interpreted in several ways, some of which could have drastic negative consequences for Nucor.

We believe the most logical reading of the two criteria on page 84 is that the ALJ intended to make these changes to the LPS-TOU tariff, and not to the entire LPS Class (which would include both the LPS and LPS-TOU tariffs). First, the updated peak demand calculation references on-peak hours, which would only apply to LPS-TOU customers, not all LPS customers. While there are a variety of definitions for "on-peak hours" included in the tariffs applicable to other customers (e.g., LGS-TOU-S, LGS-TOU, SGS-10 TOU-S, and RES-01 TOU SuperPeak), there is no definition of "on-peak hours" for customers served under the LPS tariff. Second, footnotes 322 and 323, which correspond with the ALJ's recommended changes, reference the LPS-TOU tariff specifically, which applies to Nucor. We do not believe the ALJ intended to create on-peak and off-peak periods for all LPS customers (since this was not discussed at all during any part of the proceeding), but instead intended these changes to only apply to the LPS-TOU tariff.

Consistent with this reading, we recommend clarifying the references to LPS and LPS-TOU as outlined in Attachment 1. We believe that these minor changes to terminology will result in the intended overall impact on industrial customers' demand charges.

- **Nucor recommends rewording the new demand charge calculation Criterion #1 in order to clarify its applicability.**

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[3] Recommended Order and Opinion at 84.

The proposed new demand charge Criterion 1 would base demand charges on "[t]he mean average of the greatest measured 15 minute interval demands read of the meter during the on-peak hours of each of the 4-CP months."[4] If the intent is to reflect the customer's average demand during the peak intervals within the four system peak months, we recommend replacing it with the following language:

> The customer's demand during the precise 15-minute intervals associated with the highest demand on the entire UNS Electric system in the months of June, July, August, and September of the previous calendar year. These four values (corresponding to the customer's contribution to peak demand value in these four summer months) shall be averaged.

If, instead, the intent is to apply Criterion 1 only during the four summer months as discussed below, then the following language might be appropriate: "The customer's demand during the precise 15-minute intervals associated with the highest demand on the entire UNS Electric system during the month."

Specific amendment language for both options are included in Attachment 1.

- **Nucor would support applying a revised "Criterion 1" to only summer months and the elimination of the 11 month ratchet for demand charges.**

One plausible interpretation of the criteria for demand charges offered by the ALJ is that during the summer months of June, July, August, and September, the two criteria listed on page 84 would be applied, and during the other eight months of the year, the billing demand of an LPS-TOU customer would be based on Criterion 2. We note that the changes recommended on page 84 do not directly address whether demand billing Criterion 3 (the 11 month ratchet) would continue to apply to the LPS-TOU tariff. Thus, such an interpretation would seem plausible. This interpretation would likely have a neutral or slightly positive impact on Nucor's rates, and would send more accurate price signals to LPS-TOU customers. If the intent of the Proposed Opinion is

[4] *Id.*

to apply Criterion 1 only during summer months and eliminate the 11 month ratchet, Nucor supports this change.

- **Other possible interpretations of the page 84 recommendations could lead to unintended negative consequences and possible reconfiguration of UNS customer groups.**

There are a few other possible interpretations of the recommendations on page 84, but each would create a new set of problems. Worse, some alternative interpretations could lead to substantial rate increases for Nucor—leading to even higher rate increases than recommended by the ALJ. We will address these alternative interpretations briefly below and explain why they are inconsistent with both the intent and the language of the proposed order.

  - **Alternative 1: Applying the time-of-use demand billing criteria on page 84 to all customers in the LPS Class (including both LPS and LPS-TOU) could have unintended negative consequences.**

As explained above, application of the two new criteria on page 84 to all four customers in the LPS Class (including three LPS customers and one customer served under the LPS-TOU tariff) is not feasible because the discussion of "on-peak hours" is not relevant to the three customers served under the LPS tariff. In spite of this, if the criteria were applied to all four customers, the results could be catastrophic for Nucor. It is not clear to us exactly how Criterion 1 would be applied as currently written ("The mean average of the greatest measured 15 minute interval demands read of the meter during the on-peak hours of each of the 4-CP months …"), but under some interpretations, a significant amount of the LPS Class's demand charges would be reallocated to UNS's only remaining LPS-TOU customer, Nucor. We estimate that the impact could be as high as an additional 7% rate increase on Nucor and would be a substantial windfall to other LPS customers.

In the broader discussion of revenue allocation, the ALJ correctly recognized that:

> [T]he larger commercial and industrial users on UNSE's system are suffering through slow economic times, the same as the residential and SGS customers. The larger users have subsidized the Residential and SGS Classes for many years, and while some subsidization can be in the public interest, the subsidies for UNSE have become excessive, and it is time that the Commission take action to move to a more equitable allocation of revenue.[5]

Interpreting the criteria on page 84 to apply to all customers in the LPS Class would have the effect of sharply increasing Nucor's rate—on top of other increases recommended by the ALJ—at the worst possible time. For all of these reasons, we believe that this alternative interpretation cannot stand.

- **Alternative 2: Creating a new LPS-TOU Class would have unclear impacts, but would require a significant amount of work before it could be properly implemented.**

We do not believe the ALJ intended to create a separate customer class for LPS-TOU customers. However, the Recommended Opinion uses the phrase "LPS-TOU Class" in at least two places.[6] There is currently no LPS-TOU Class. Instead, the one customer served under the LPS-TOU tariff (Nucor) is included in the LPS Class in UNS's CCOSS model. Within the revised LPS Class (after certain smaller customers are moved to other classes pursuant to UNS's recommendation), there will be four total customers in the LPS Class— three will continue to be served under the LPS tariff, and one will continue to be served under the LPS-TOU tariff (Nucor).

[5] *Id.* at 26.
[6] *See Id.* at 82, line 22, and at 83, line 2.

Modifying UNS Electric's CCOSS model to create an LPS-TOU Class at this late stage would be a major undertaking. All of the costs approved for inclusion in the utility's revenue requirement—including demand, energy, and customer charges—would need to be established for the divided LPS and LPS-TOU Classes. Nucor (and possibly others) would want an opportunity to examine how costs were directly-assigned to Nucor (i.e., the new LPS-TOU Class) in this process.

In short, following this path would create a lot of work and not resolve the demand charge issue. It would instead create cost allocation problems and extend this proceeding. We believe that the edits in Attachment 1 would clarify that the Recommended Opinion and Order did not intend to create a separate LPS-TOU customer class.

Conclusion

Nucor urges the Commission to review the overall revenue assignment to UNS Electric's LPS and LPS-TOU customers and consider the real impacts of a substantial rate increase during this difficult economic period. As for the proposed changes to the demand charge calculation for large customers, the most logical approach forward is for the Commission to clarify that the new billing criteria on pages 82 through 84 apply only to the LPS-TOU tariff. We have provided our recommendations in Attachment 1.

RESPECTFULLY SUBMITTED this 29th day of July, 2016.

MUNGER CHADWICK, P.L.C.

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ATTACHMENT 1

Nucor Proposed Amendment

1. **To clarify that the new demand charge criteria would be solely applicable to customers served under the LPS-TOU tariff:**

Page 82, line 22, change "LPS-TOU Class" to "customers served under the LPS-TOU tariff".

Page 83, footnote 321, change "LPS-TOU Class" to "customers served under the LPS-TOU tariff".

Page 84 line 6, change "LPS class" to "LPS TOU tariff".

Page 84, line 23, change "its LPS demand formula" to "the demand formula in the LPS-TOU tariff".

2. **To further clarify that it is not the intent of the Commission to order UNS Electric to create a new LPS-TOU "Class" within its Class Cost of Service Study:**

Page 83, line 2, change "LPS-TOU" to "LPS".

3. **To clarify demand charge billing criterion 1 of the LPS-TOU tariff:**

Page 84, lines 9-10, replace Criterion 1 with:

> "The customer's demand during the precise 15-minute intervals associated with the highest demand on the entire UNS Electric system in the months of June, July, August, and September of the previous calendar year. These four values (corresponding to the customer's contribution to peak demand value in these four summer month) shall be averaged."

If, instead, the intent is to apply Criterion 1 only during the four summer months as discussed above, then replace Criterion 1 with:

> "The customer's demand during the precise 15-minute intervals associated with the highest demand on the entire UNS Electric system during the month."