UNSE states that RUCO's use of historical and projected DPS growth rates are inappropriate in its constant growth DCF analysis, and that there is no basis for RUCO to change its methodology when it previously relied on EPS growth rates. UNSE explains that the constant growth DCF model is a forward-looking model that looks at investors' required returns based on future cash flows, and thus the appropriate measure of growth in the model is investors' expected growth and not actual, historical growth. Further, UNSE states that EPS growth rate projections are more appropriate than projections of DPS growth rates because earnings are a determinant of dividend payouts, management decisions can impact dividend growth rates in a manner that is not indicative of earnings growth, academic research indicates EPS growth rates are most relevant in stock price valuation, investment analysts primarily rely on EPS growth projections, and EPS growth rates come from multiple sources while RUCO's projected DPS growth rates came only from *Value Line.* UNSE contends that adjusting RUCO's DCF analysis to use projected EPS growth rates instead of historical and projected DPS growth rates results in a COE midpoint of 9.55%, an increase from RUCO's 9.03%.[118]

In addition, UNSE criticizes RUCO's CAPM analyses for relying on a historical market risk premium and contends that the analyses are not forward-looking because RUCO relies on either current or historical market data instead of forward-looking data, even though RUCO acknowledges that the benefit of the CAPM is that it is forward looking. Further, UNSE states that the results of RUCO's CAPM analysis, as adjusted using a Hamada adjustment, is incorrect and should not be considered because the Hamada adjustment should be based on the market value of debt and equity and not the book value, as is indicated in the academic literature. UNSE further argues that RUCO's Hamada adjustment was based erroneously on RUCO's comparison of UNSE's debt/equity ratio to holding company debt/equity ratios rather than those of the operating companies. UNSE notes that no other party made a Hamada adjustment. UNSE contends that adjusting RUCO's CAPM analysis to rely on a historical market return less RUCO's risk-free rate results in a COE mean and median result of 11.01% and 11.20%, an increase from RUCO's 9.38% and 9.53%.[119]

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[118] Ex. UNSE-21 at 7, 64, 66-67, 69-70 (Bulkley Rebuttal); Ex. UNSE-22 at 29-30 (Bulkley Rejoinder).

[119] Ex. UNSE-21 at 7, 70-71, 77-78, 82-83 (Bulkley Rebuttal); Ex. UNSE-22 at 3-4, 31-32 (Bulkley Rejoinder); UNSE's Opening Brief at 22-23.

B. Cost of Debt

UNSE states that its actual cost of long-term debt at the end of the test year was 4.18%, and after a minor adjustment to the credit facility commitment fees, the Company's proposed cost of debt is 4.19%. The Company notes that the proposed cost of long-term debt is less than the cost of debt of 4.66% authorized in its last rate case.[120]

UNSE states that no party has opposed using the actual cost of debt and the parties agree on 4.19%.[121]

C. Capital Structure

The parties agree on a capital structure comprised of 46.28% long-term debt and 53.72% common equity, which is based on the Company's actual capital structure at the end of the Test Year.[122] UNSE asserts that its equity ratio of 53.72% is reasonable and within the range of equity ratios for the utility operating subsidiaries of the proxy group, which range from 46.21% to 60.72%, with an average of 52.96%.[123]

D. Return on Fair Value Increment

1. UNSE

The Commission authorized a return on the FVI of 0.50% for UNSE in Decision No. 75697. UNSE observes that the Arizona Constitution, Article XV, § 14, requires the Commission to apply the fair value of a company's property when setting rates, and that Arizona courts have found that the "reasonableness and justness of the rates must be related to this fair value finding."[124] UNSE explains:[125]

> Part of the rationale behind a fair value analysis is that once investments are made in utility infrastructure to provide public service, that investment is permanently dedicated to that use. Unlike many other investments, an investor cannot decide to remove the funds in order to invest them in a more profitable venture. A fair value return can

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[120] Ex. UNSE-17 at 2, 7-8 (Pritz Direct).

[121] UNSE's Opening Brief at 12; Ex. RUCO-10 at 3 (Cassidy Direct); Ex. RUCO-11 at 1, 14 (Cassidy Surrebuttal); Ex. S-14 at 21 (Gorman Direct).

[122] Ex. UNSE-17 at 2, 7-8 (Pritz Direct); Ex. RUCO-10 at 3, 7-8 (Cassidy Direct); Ex. RUCO-11 at 1, 14 (Cassidy Surrebuttal); Ex. S-14 at 21 (Gorman Direct); UNSE's Opening Brief at 24.

[123] Ex. UNSE-17 at 7 (Pritz Direct); Ex. UNSE-20 at 7, 78, 81 (Bulkley Direct).

[124] *Simms v. Round Valley Light & Power Co.*, 80 Ariz. 145, 151 (1956); *see also Scates v. Arizona Corp. Comm'n*, 118 Ariz. 531 (App. 1978).

[125] UNSE's Opening Brief at 25 (footnotes omitted).

> incentivize permanent investment in the facilities to provide utility service because it ameliorates the inability to move the investment elsewhere.
>
> The fair value increment return has been developed as a conservative approach to satisfy the Arizona Constitution's Fair Value requirement. Over the past several years, the return on the fair value increment (i.e. the difference between Original Cost Rate Base and Fair Value Rate Base) applied by the Commission has been one-half of the risk-free rate of return. This is the methodology that UNSE has proposed in this case. The other parties have agreed to this methodology; however, the parties disagree as to what specific rate of return should be applied to the fair value increment.

UNSE states that the FVI represents the appreciation in the value of its assets due to inflation, and typically has been set at 50% of the real risk-free rate.[126] The Company initially calculated a cost rate for the FVI of 0.69%, one-half of its determined risk free rate of 1.38%, which it updated to 0.72% in Rebuttal without requesting an increase to its proposed return.[127] UNSE now accepts Staff's Surrebuttal position of a 0.70% return on FVI return.[128]

2. RUCO

RUCO recommends that a 0.00% cost rate be assigned to the FVI. RUCO states that if the Commission were to authorize a return on the FVI, it would require a downward adjustment to the authorized ROE because a return on the FVI mitigates risk. RUCO opposes a return on the FVI because, RUCO contends, it provides shareholders with a return on non-investor supplied capital. RUCO states that there is no financial basis to award a return on the FVI, and that profit should be allowed only on an investment and not inflation.[129]

3. Staff

Staff developed its recommended FVI return using the same methodology as the Company, initially recommending a return on FVI of 0.35%, based on 25% of Staff's estimated real risk-free rate of 1.40%. In its Surrebuttal Testimony, Staff updated its recommended return on FVI using a 50% weighting to the real risk-free rate, acknowledging that the Commission has used a FVI based on 50% of the risk-free rate in prior cases and stating that it was more consistent with Staff's recommendations

[126] Ex. UNSE-20 at 86 (Bulkley Direct); Ex. UNSE-21 at 88 (Bulkley Rebuttal).
[127] Ex. UNSE-20 at 8, 93 (Bulkley Direct); Ex. UNSE-21 at 5, 16, 90-91 (Bulkley Rebuttal).
[128] Ex. UNSE-22 at 2 (Bulkley Rejoinder); Ex. UNSE-18 at 2 (Pritz Rejoinder).
[129] Ex. RUCO-10 at 38-39 (Cassidy Direct); Ex. RUCO-11 at 14 (Cassidy Surrebuttal); RUCO's Closing Brief at 11; RUCO's Responsive Brief at 5; Tr. at 637-638 (Cassidy).

in other recent rate cases. Staff states that stability and predictability in measuring the FVI "would be fair and reasonable to all stakeholders." Staff explains that applying a FVI return enhances UNSE's operating income and cash flows, which strengthens its revenue and cash flow credit metrics and supports its bond rating, lowering investment risk. Staff states that this risk reduction is paid for by customers through an incremental increase in rates. Staff ultimately recommends a FVI return of 0.70%.[130]

4. UNSE Response

UNSE argues that RUCO's recommendation violates the Arizona Constitution by failing to give weight to fair value in setting rates. The Company argues that RUCO's assertion that the FVI reflects non-investor supplied capital is similar to the "prudent investment theory, which allows a return only on a rate base established by what was prudently invested in the utility, i.e., the value at the time of investment."[131] UNSE notes that in *Simms* the Arizona Supreme Court rejected the use of the prudent investment theory as it violates the fair value provision of the Arizona Constitution.[132]

UNSE also disputes the assertion that the FVI is non-investor supplied capital, but rather, it is "captured investor capital." UNSE explains that in a non-utility setting, this captured capital could be re-invested for a market return. Applied to utilities, the Company believes that the FVI is a captive investment. "Because UNSE's assets are permanently dedicated to serving electric customers, UNSE cannot cash out and re-invest elsewhere." According to the Company, calculating a risk-free rate of return is a conservative way to recognize the Company's true fair value and provides appropriate compensation for its investment of capital dedicated to ensuring safe and reliable service.[133]

In addition, UNSE disagrees with RUCO that applying a return on the FVI results in less risk for UNSE, which should be reflected in a lower ROE. UNSE maintains that RUCO has not conducted an analysis to determine the relative risk of UNSE and the proxy group companies, and thus RUCO cannot reasonably determine the impact of a return on the FVI to UNSE's relative risk. UNSE argues that relative risk of the Company to the proxy group is influenced by increased regulatory risk in

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[130] Ex. S-14 at 83-84 (Gorman Direct); Ex. S-16 at 2, 22-24, Exhibit MPG-3 (Gorman Surrebuttal); Ex. S-8 at 3-4 (Smith Surrebuttal); Staff's Opening Brief at 28-29.
[131] UNSE's Opening Brief at 26; *see also Simms*, 80 Ariz. at 150-151.
[132] UNSE's Opening Brief at 26; *Simms*, 80 Ariz. at 151.
[133] UNSE's Opening Brief at 26.

Arizona, the limited ability for timely recovery of capital expenditures, and the Company's plans for increasing its generation portfolio, and there is no evidence that these risks are influenced by a return on the FVI.[134] UNSE states that reducing the ROE because of an authorized return on the FVI reduces the FVROR and negates the intent of the Fair Value clause of the Arizona Constitution.[135]

UNSE agrees generally with Staff's calculation of the return on FVI, but disagreed with Staff's initial proposal to reduce the FVI cost rate to 25% of the real risk-free rate. UNSE states that it is reasonable to apply the full real risk-free rate, but recognizes that the Commission historically has applied 50% of the real risk-free rate to establish the FVI cost rate.[136]

E. Resolution

The final ROE, cost of debt, return on FVI, WACC, and FVROR positions of the parties are as follows:

Party	ROE	Cost of Debt	FVI	WACC	FVROR
UNSE	9.95%	4.19%	0.70%	7.28%	5.19%
RUCO	9.26%	4.19%	0.00%	6.91%	4.61%
Staff	9.40%	4.19%	0.70%	6.99%	4.99%

Based on the evidence, we find that the Company's actual capital structure of 46.28% debt and 53.72% equity is within a reasonable range, and we adopt it. We also find that the cost of debt of 4.19%, agreed to by the parties, is reasonable and we adopt it.

We agree with RUCO's assertion that the FVI represents non-investor supplied capital and that the application of a return on the FVI provides utilities with a premium return above the nominal ROE applied to rate base. UNSE's assertion that the FVI is better characterized as a captive investment does not change the fact that the FVI simply represents the inflation on the OCRB, the funds for which were provided by ratepayers as non-investor supplied capital.

We agree with Walmart, RUCO, and Staff's characterization of UNSE's requested ROE as excessive, as it represents the very high end of the parties' COE analyses and the authorized ROEs from this jurisdiction and others. In addition, by our approval of the proposed SRB with modifications, as discussed further below, the Company's risk is further reduced. We do not share the Company's

[134] Ex. UNSE-21 at 89 (Bulkley Rebuttal).
[135] Ex. UNSE-20 at 87-90 (Bulkley Direct); UNSE's Opening Brief at 26-27.
[136] Ex. UNSE-21 at 89-90 (Bulkley Rebuttal).

overstated concerns about the potential impacts on its credit rating. And we note that the Company's credit rating is higher than the typical rating in the proxy group and the Company has been able to maintain that rating with an authorized ROE of 9.5% and no approved capital cost recovery mechanism. Because of the Company's reduced risk due to our approval of the proposed SRB with modifications, we find it is reasonable and appropriate to authorize an ROE of 9.75% and no return on the FVI, as agreed to by the Company at the Commission's January 17, 2024, Open Meeting.

Capital Source	Amount ($ thousands)	Percent	Cost Rate	WACC
Long-Term Debt	$248,381	46.28%	4.19%	1.94%
Common Equity	$288,330	53.72%	9.75%	5.24%
Total Capital	$536,711	100%	—	7.18%

We believe that the cost of capital values that went into the overall FVROR determination are consistent with the ROE ranges presented by the parties, are representative of interest rates expected during the time that new rates will be effect, and appropriately balance the positions of the parties.

Accordingly, based on a WACC of 7.18%, no return on the FVI, UNSE's required Operating Income, and its FVRB of $568,789,000, we find that a FVROR of 4.90% is reasonable.

VII. Operating Income

A. Operating Revenue Adjustments

UNSE states that the following Operating Revenue adjustments are uncontested: adjustments to Non-Retail and Non-Recurring revenues, adjustments to remove the Tax Cuts and Jobs Act ("TCJA") Customer Credit from Test Year Revenue, adjustments to Miscellaneous Service revenues, recalculation of unbilled revenue, removal of all revenues collected under the Lost Fixed Cost Recovery ("LFCR") mechanism, and adjustments to the Base Cost of Fuel and Purchased Power. UNSE also made net adjustments to Test Year revenue to reflect a weather normalization adjustment and a customer annualization adjustment, based on methods used and approved in the Company's last rate case.[137]

As discussed further in Section XI, UNSE initially proposed eliminating the DSM and REST surcharges and instead recovering those costs in base rates. RUCO and Staff opposed the Company's

[137] Ex. UNSE-14 at 40, 52-53 (Rademacher Rebuttal); Ex. UNSE-30 at 11-14 (Dang Direct); UNSE's Opening Brief at 27.

proposal.[138] SWEEP supports the Company's original DSM proposal but agrees to maintain the DSM surcharge.[139] UNSE now agrees to maintain its REST and DSM surcharges.[140]

No party has contested the Company's proposed Operating Revenue adjustments. We find that UNSE's adjusted Test Year jurisdictional Operating Revenue of $228,097,000 is reasonable and we adopt it.

B. Uncontested and Resolved Operating Expense Adjustments

UNSE proposes total Test Year Operating Expenses of $207,807,000.[141]

UNSE made the following pro forma expense adjustments, most of which are uncontested: (1) removal of advertising expenses related to branding; (2) adjustment of Bad Debt Expense to reflect pro forma weather-normalized, customer-annualized Test Year operating revenues and the average percentage of bad debt expense during the three twelve-month periods prior to the Test Year; (3) adjustment to the Base Cost of Fuel and Purchased Power; (4) adjustment to recover the Customer Covid-19 Discount pursuant to Decision No. 77849 (December 17, 2020), amortized over three years; (5) adjustments to Depreciation and Amortization expense; (6) removal of Fortis Management Fees; (7) adjustments to Income Tax Expense to reflect UNSE's proposed operating revenues, operating expenses, and rate base; (8) adjustment to reflect the annualized interest cost associated with customer deposits; (9) removal of some membership dues, including those related to legislative advocacy; (10) adjustment to normalize annual plant overhaul and outage costs; (11) adjustments to Payroll and Benefit Expense and Payroll Tax Expense; (12) adjustments to Pension Expense and Supplemental Executive Retirement Plan Expense ("SERP"); (13) adjustments to Short-Term Incentive Compensation ("Performance Enhancement Plan" or "PEP") expense; (14) adjustments to Long-Term Incentive Compensation expense; (15) adjustment to Post-Retirement Benefits Expense; (16) normalization adjustment to Property and Liability Insurance Expense; (17) adjustments to Property

[138] Ex. RUCO-4 at 2 (Michlik Surrebuttal).
[139] Ex. SWEEP-2 at 4-5 (Potter Surrebuttal).
[140] Ex. UNSE-7 at 2, 17 (Dukes Rebuttal); Ex. UNSE-15 at 22 (Rademacher Rebuttal).
[141] Ex. UNSE-3, Schedule C-1 (Rejoinder Schedules).

Tax Expense; (18) inclusion of Rate Case Expense; (19) adjustment to expenses associated with Sales for Resale; and (20) adjustment to Transmission Expense.[142]

In its Rebuttal Testimony, UNSE removed industry and membership dues opposed by RUCO, Long-Term Incentive Compensation, and SERP expenses.[143] In addition, UNSE removed the associated amortization expense from its operating expense calculation in conjunction with the removal of the initially proposed DSM regulatory asset from rate base, and removed other DSM and REST expenses.[144] In its Rejoinder Testimony, UNSE removed its proposed Rebuttal pension expense increase as recommended by Staff, removed Board of Director Fees as proposed by RUCO, removed food expenses as proposed by RUCO, and removed 50% of PEP expense as proposed by RUCO.[145] The Company also trued-up its payroll and payroll tax adjustments.[146] In addition, RUCO accepted the Company's plant retirements and corresponding depreciation expense.[147] UNSE also made corresponding updates to ADIT, depreciation expense, and property taxes to reflect its final PTYP amount.[148]

In response to UNSE's Rebuttal testimony raising concerns about Staff's recommended periods not being representative of normal ongoing conditions, Staff agreed to UNSE's Bad Debt Expense Adjustment based on a revised uncollectibles rate of 0.35186% using the average rate from the end of 2019 and 2022, intended to reflect a normal rate.[149]

The remaining contested Operating Expense adjustments relate to credit card processing and walk-in fees, Rate Case Expense, and directors and officers ("D&O") liability insurance. UNSE believes that the parties' differing adjustments to Depreciation and Amortization Expense, Depreciation and Amortization Expense – PTYP Retirements, Property Tax Expense, and Income Tax

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[142] Ex. UNSE-14 at 33-54 (Rademacher Rebuttal); Ex. UNSE-16 at Exhibit JJR-RJ-1 (Rademacher Rejoinder); Ex. UNSE-30 at 11-14 (Dang Direct).
[143] Ex. UNSE-15 at 26-28, JJR-R-1 (Rademacher Rebuttal); Ex. RUCO-4 at 2 (Michlik Surrebuttal).
[144] Ex. UNSE-7 at 2, 17 (Dukes Rebuttal); Ex. UNSE-15 at 22 (Rademacher Rebuttal).
[145] Ex. UNSE-15 at 25-26 (Rademacher Rebuttal); Ex. UNSE-16 at 2 (Rademacher Rejoinder); Ex. RUCO-4 at 10-11, 15-16 (Michlik Surrebuttal); Tr. at 320 (Rademacher).
[146] Ex. UNSE-15 at 23-25 (Rademacher Rebuttal); Ex. RUCO-4 at 2-3 (Michlik Surrebuttal); UNSE's Opening Brief at 28-29.
[147] Ex. RUCO-7 at 14 (Brown Surrebuttal); UNSE's Opening Brief at 28-29; Tr. at 685-687 (Smith).
[148] UNSE's Opening Brief at 28-29.
[149] Ex. UNSE-15 at 16-18 (Rademacher Rebuttal); Ex. S-8 at 8-9 (Smith Surrebuttal).

Expense are related to other contested adjustments and not to a dispute over the methodology in calculating the expenses.[150]

C. Credit Card and Walk-In Fees

1. UNSE

UNSE currently charges a fee for payments made using debit or credit cards, or for cash payments made at walk-in locations, such as Walmart. The Company initially proposed including in its revenue requirement the credit card and walk-in fees currently paid by participating customers.[151] Following the Commission's recent decision in TEP's rate case[152] rejecting a similar proposal, UNSE withdrew its request in its Rejoinder Testimony.[153]

2. Staff and RUCO

Staff and RUCO opposed the original request. Staff stated that the cost shift burdens all customers with costs originating only from customers using their credit and debit cards to pay bills.[154] RUCO explained that the proposal is inconsistent with the cost causation principle, which mandates that costs be borne by the customers that cause the cost to be incurred by the utility. RUCO further explained that requiring all ratepayers to pay the cost could incentivize customers to switch to using credit cards to earn rewards, benefitting those ratepayers and potentially leading to higher processing fees for UNSE. RUCO also noted that the proposal would require ratepayers who do not use credit cards to subsidize the increasing fees of those who do. RUCO stated that it could support a low-income payment card processing program if customers were enrolled in a low-income program, a POA was filed with the Commission, and annual reports were filed.[155]

3. Wildfire

Wildfire did not address these fees in its post-hearing briefs, but did support the Company's original request to recover the costs of walk-in and credit card payments through base rates throughout

[150] UNSE's Opening Brief at 29, 32.
[151] Ex. UNSE-24 at 9-10 (Petersen Direct).
[152] Decision No. 79065 at 42 (August 25, 2023).
[153] Ex. UNSE-26 at 1-2 (Petersen Rejoinder); Ex. UNSE-16 at 2 (Rademacher Rejoinder); Tr. at 401 (Petersen).
[154] Ex. S-18 at 13 (Hunsaker Direct).
[155] Ex. S-6 at 35 (Smith Direct); Ex. RUCO-1 at 13-15 (Michlik Direct); Ex. RUCO-4 at 12-14 (Michlik Surrebuttal).

the proceeding. Because it is unclear whether this issue remains disputed by Wildfire despite the Company's withdrawal of its original proposal, we address it as a contested issue.

Wildfire states that the credit card and walk-in fees disproportionately burden low-income customers who are more likely to not have a checking or savings account and thus cannot send in-network payments. Wildfire notes that in Arizona, 4% of households do not have a checking or savings account and 40% have established accounts but continue to use non-traditional or predatory financial solutions. In addition, Wildfire states that low-income customers are more likely to make multiple payments towards their bills, incurring fees each time they pay. Wildfire maintains that removing credit card fees will reduce costs for struggling customers, reduce barriers to payment, and encourage low-income customers to continue making regular payments. Wildfire further argues that incorporating the cost of all payment methods into base rates ensures that customers are not penalized for their income level or technological abilities.[156]

Wildfire requests that the Commission, at a minimum, approve a similar fee treatment for low-income customers as was approved for APS in its last rate case, Decision No. 78317 (November 9, 2021), and to credit back payment fees to CARES program customers.[157]

4. Resolution

We acknowledge the legitimate issues raised by Wildfire but decline to adopt the Company's original proposal because it constitutes a cost-shift to other customers and is not supported by any other party. However, we encourage the Company, Wildfire, and other stakeholders to consider options for reducing these fees for the benefit of low-income customers in conjunction with the stakeholder process discussed further below to consider options for modifying UNSE's CARES program.

D. Rate Case Expense

1. UNSE

UNSE's application proposed a total rate case expense of $1,623,000, for an annual amount of $541,000. The Company now requests a total amount of $1,062,000, amortized over three years, at an annual amount of $354,000. UNSE states that it reduced the requested rate case expense based on the

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[156] Ex. WF-2 at 6-7 (Michael Surrebuttal).
[157] Ex. WF-2 at 7 (Michael Surrebuttal).

number of intervenors and the issues raised by the parties in Direct Testimony. UNSE states that its rate case expenses are reasonable and based on the actual expenses incurred, and are supported by Staff.[158]

2. Staff

Staff adopted the Company's proposed rate case expense.[159]

3. RUCO

RUCO contends that UNSE's rate case expense should be reduced because the same or similar issues were addressed in TEP's recent rate case, and the amount recoverable by UNSE should be limited to 50% of what the Commission awarded to TEP. For example, RUCO claims that UNSE and TEP paid the same cost of capital witness to come up with the same recommended ROE of 10.25%. RUCO contends that some savings in rate case expense should be expected for UNSE because the rate case was filed approximately five months after TEP, and RUCO believes that the issues, witnesses, intervenors, and testimony are "almost identical." RUCO further suggests that the TEP and UNSE rate cases should have been filed at the same time for greater efficiency.[160]

In addition, RUCO recommends that rate case expense be collected via a surcharge over four years to ensure that the authorized rate case expense is not under or over-collected from ratepayers. RUCO notes that it does not oppose allocating rate case expense based on the Company's Class Cost of Service Study ("CCOSS").[161]

4. UNSE Response

UNSE argues that RUCO's recommendation has no relationship to the Company's actual rate case expense. UNSE disagrees with RUCO's comparison of this rate case to TEP's rate case, and RUCO's claim that most of the issues, arguments, and positions are the same as in TEP. UNSE states that rate case expenses are based on the Company's own requirements to respond to data requests, file three rounds of testimony, file public notice, appear at hearing, complete post hearing briefs, and appear

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[158] Ex. UNSE-15 at 29-30 (Rademacher Rebuttal); Ex. UNSE-16 at 12-13 (Rademacher Rejoinder); UNSE's Opening Brief at 30-31.
[159] Ex. S-8 at 9-10 (Smith Surrebuttal).
[160] Ex. RUCO-3 at 2-3 (Michlik Rate Direct); Ex. RUCO-4 at 17 (Michlik Surrebuttal); Tr. at 502, 560-562 (Michlik).
[161] Ex. RUCO-3 at 3-4 (Michlik Rate Direct); Ex. RUCO-4 at 17-18 (Michlik Surrebuttal); RUCO's Closing Brief at 23; Tr. at 507-508 (Michlik).

at open meeting. UNSE notes that these requirements are completed using the Company's data and Test Year. Further, UNSE disagrees that it duplicated the cost of capital work in TEP because the analysis and recommendations from TEP's rate case cannot simply be copied here. The Company maintains that it and TEP did not pay twice for the same work. UNSE further notes that other rate expenses, such as the depreciation study, was prepared using UNSE's data. UNSE recognizes that there are some efficiencies because of the recent TEP rate case, but states that those savings already were factored into the Company's original and updated requests. Furthermore, UNSE argues, some of the rate case expense is attributable to costs that were not incurred by TEP, such as the development of an MP-EX program, replacement of the TCJA Tax Credit, and the decommissioning studies. The Company maintains that RUCO's proposal is arbitrary and capricious, and that UNSE's rate case expense is reasonable and reflects actual expenses incurred.[162]

In addition, UNSE states that the amortization period for rate case expense should reflect the anticipated time before the Company's next rate case. UNSE notes that in the past 15 years, it has completed four rate cases in addition to the current rate case. UNSE expects to continue filing rate cases approximately every three years due to factors such as population growth, inflation, declines in customer usage, and capital planning. UNSE argues that RUCO's four-year amortization period could extend rate case expense recovery beyond the effective date of the Company's next rate case, creating an issue with unrecovered expense. UNSE maintains that a three-year amortization period for rate case expense is reasonable and consistent with its projected rate case filings.[163]

UNSE opposes RUCO's proposal for recovery of rate case expense through a surcharge. UNSE states that it is a relatively minor expense compared to other costs that are recovered through adjustors or surcharges, and it is incurred infrequently. In addition, UNSE states that the surcharge proposed by RUCO would disproportionately impact residential, small commercial, and area lighting customers, because if the surcharge is based solely on the number of bills, the customers in these classes would

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[162] Ex. UNSE-15 at 30 (Rademacher Rebuttal); Ex. UNSE-16 at 12-13 (Rademacher Rejoinder); UNSE's Opening Brief at 30-31.

[163] Ex. UNSE-28 at 15 (Elliott Rebuttal); UNSE's Opening Brief at 31.

pay almost exclusively for the rate case expense. UNSE argues that its proposal spreads the expense more fairly among customer classes.[164]

5. Resolution

We agree with UNSE that RUCO's proposal to limit rate case expense to 50% of that included in TEP's rate case is arbitrary. UNSE's rate case is a stand-alone rate case with its own separate financial information to analyze, separate filing requirements, and a separate hearing process. RUCO was unable to identify any identical work that was included in the expenses for both UNSE and TEP.

Therefore, we find that UNSE's proposed rate case expense is reasonable and we adopt it. We will adopt RUCO's proposal to recover rate case expense through a surcharge and the surcharge shall be set to recover the rate case expense approved in this case over a period of three years. Based on a jurisdictional rate case expense of $353,739 and Total Company Adjusted Test Year Sales, we authorize a rate case expense surcharge of $0.000192 per kWh.

E. Director & Officer Insurance Expense

1. UNSE

The Company proposes to recover 100% of its D&O liability insurance expense of $9,137 in rates. UNSE notes that its D&O liability insurance costs were included in its prior rate case and that Staff support the inclusion of the costs.[165]

2. RUCO

RUCO recommends a 50/50 sharing of D&O liability insurance expense between customers and shareholders. RUCO maintains that D&O liability insurance benefits ratepayers and shareholders, noting that shareholders benefit from insurance coverage in litigation brought against the Company's directors and officers. RUCO acknowledges that ratepayers benefit as well from the ability of the Company to attract and retain directors and officers.[166]

3. UNSE Response

UNSE opposes RUCO's proposal for 50/50 sharing of D&O insurance. UNSE states that since the acquisition by Fortis, D&O insurance expense has declined substantially, from $88,212 in its last

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[164] Ex. UNSE-28 at 16 (Elliott Rebuttal); UNSE's Opening Brief at 31.
[165] UNSE's Opening Brief at 29.
[166] Ex. RUCO-1 at 6, 37-38 (Michlik Direct); RUCO's Closing Brief at 23; RUCO's Responsive Brief at 6.

rate case to $9,137 in the Test Year, due to the elimination of exposure to shareholder lawsuits. UNSE further states that the remaining premium primarily protects the personal assets of directors and officers from claims, which UNSE states is necessary for the recruitment and retention of executives.[167]

4. Resolution

We agree with RUCO and shall allow UNSE to recover fifty percent of its D&O liability insurance expense in this case from ratepayers and the other fifty percent of the costs shall be borne by shareholders.

F. Base Cost of Fuel and Purchased Power

UNSE proposes a Base Cost of Fuel and Purchased Power Rate of $0.069884 per kWh, an increase from its current rate of $0.053689 per kWh, based on its Test Year from July 1, 2021, to June 30, 2022. UNSE explains that the wholesale power and natural gas markets in the Southwest have changed significantly since the summer of 2020. The Company notes that it will reset the PPFAC Rate to zero when the new Base Cost of Fuel and Purchased Power Rate goes into effect, which will offset some, but not all, of the increase. UNSE states that the Test Year is the appropriate timeframe for setting the Base Cost of Fuel and Purchased Power Rate. The Company explains that it has evaluated the cost of fuel and purchased power from January 2022 to December 2023, and believes that extreme market events occurring from July 2022 to February 2023 render this period unrepresentative of future costs. Therefore, UNSE contends that it is most appropriate to use the actual Test Year costs in setting the Base Cost of Fuel and Purchased Power Rate, which better aligns with expected costs for 2024 and forward.[168]

Staff states that it reviewed documentation from the Company in support of its proposed Base Cost of Fuel.[169] Staff also reviewed the Company's fuel and power procurement practices and concludes that the Company's hedging policies are consistent with industry standards and have generally reduced cost volatility. Staff acknowledges the increase in natural gas and power prices in

[167] Ex. UNSE-15 at 21 (Rademacher Rebuttal); UNSE's Opening Brief at 29-30.
[168] Ex. UNSE-9 at 8, 13 (Sheehan Direct); Ex. UNSE-10 at 2-3 (Sheehan Rebuttal); UNSE's Opening Brief at 33.
[169] Ex. UNSE-10 at 14 (Smith Rate Direct).

2021 and 2022, and states that UNSE's hedging protocols worked as expected and limited market exposure to the highest price points.[170]

No party objects to UNSE's proposed Base Cost of Fuel and Purchased Power.

Based on the evidence, we find that UNSE's proposed Base Cost of Fuel and Purchased Power of $0.069884 per kWh is reasonable, and we adopt it.

VIII. Authorized Revenue Requirement

Based on the foregoing determinations, the following table details the adjusted Test Year net Operating Income we adopt for ratemaking purposes:

Adjusted Test Year Operating Revenue:	$228,097,000
Adjusted Test Year Operating Expenses:	$207,537,213
Net Yet Year Operating Income:	$20,559,787

Based on our findings and conclusions above, we find that a revenue increase of $9,763,672, or 4.3%, over adjusted Test Year revenues of $228,097,000, for a total revenue requirement of $237,860,672, is just and reasonable and in the public interest.

Adjusted Original Cost Rate Base	$388,200,000
Adjusted Fair Value Rate Base	$568,789,000
Adjusted Test Year Operating Income	$20,559,787
Test Year Original Cost Rate of Return	5.30%
Test Year Fair Value Rate of Return	3.61%
Required Operating Income	$27,870,661
WACC	7.18%
Fair Value Increment	$180,589,000
Adopted Return on FVI (%)	0.00%
Effective OCRB Rate of Return	7.18%
Adopted Fair Value Rate of Return	4.90%
Operating Income Deficiency	$7,310,874

[170] Ex. S-12 at 3 (Medine Direct).

Gross Revenue Conversion Factor	1.3355
Increase in Gross Revenue Requirement	$9,763,672
Increase in Revenue (%)	4.3%

IX. Customer Class Cost of Service Study and Revenue Allocation

A. Cost of Service Study

A cost of service study is an estimate of a utility's prudent costs of providing safe and reliable service. Once measured, the costs of service are allocated among the different customer classes, and that allocation is used as a starting point to establish just and reasonable rates for each class.

1. UNSE

UNSE prepared a CCOSS for this rate case analyzing all costs and services provided to each of its rate classes. The CCOSS is based on the Test Year and provides the individual class returns for the Company's six major customer classes (Residential, Small General Service, Medium General Service, Large General Service, Large Power Service, Lighting) with support for the calculations and weather normalization. UNSE explains that its CCOSS is the basis for developing equitable rates that accurately recover costs from those who cause them, consistent with the "cost causation" and "matching" principles of ratemaking. UNSE also states that rates reflecting cost causation principles provide greater revenue adequacy and stability, increased economic efficiency, and increased development and adoption of energy technologies. UNSE states that rate parity is achieved when all customer classes are paying their fully allocated share of the proposed revenue requirement as indicated by the results of the CCOSS.[171]

UNSE further explains that in comparison to other vertically integrated electric utilities, UNSE owns relatively limited generation and transmission plant, and is reliant on wholesale market purchases of power and the purchase of transmission rights. Consequently, UNSE states that this lower generation capacity and higher fuel and purchased power costs are reflected in its rates. Like other electric utilities, UNSE notes that it has fixed and variable costs, and the majority of non-fuel related utility costs are fixed. UNSE also states that because of the capital-intensive nature of electric utilities,

[171] Ex. UNSE-30 at 2, 4-5, 9 (Dang Direct); UNSE's Opening Brief at 36.

fixed costs are a high proportion of total costs. UNSE explains that the portions of fixed and variable costs included in the cost of service vary among customer classes. Included in the costs of the Company's CCOSS are the book value of accounting costs during the Test Year, costs from known and measurable adjustments, and pro forma adjustments.[172]

UNSE explains a three-step process for conducting the CCOSS, including functionalization of the embedded cost information compiled by the Company, classification, and allocation among the different customer classes. UNSE further explains that functionalization is the process of assigning a specific function to rate base expenses based on how the costs are incurred, with the primary functions being production, transmission, distribution, and customer. Classification involves categorizing costs, based on the reason the costs were incurred, into the categories of demand, energy, and customer. Last, UNSE states that cost allocation involves the creation of allocation factors to reflect how the costs were incurred.[173]

UNSE conducted a "minimum system" study, the results of which determine how much of certain distribution costs are driven by a demand component or a customer component, and which help determine an appropriate basic service charge. UNSE explains that the basic service charge determination includes customer-driven costs, such as metering and the customer-driven distribution costs, customer service, billing and financial software systems, a portion of distribution related operations and maintenance expenses, a portion of administrative and general expenses, a portion of general plant, and a portion of cybersecurity costs.[174]

UNSE states that the CCOSS it performed in this matter indicates that the Small General Service, Medium General Service, Large General Service, and Large Power Service classes are subsidy-paying classes, and the Residential and Lighting classes are subsidy-receiving classes. In addition, the CCOSS indicates that the minimum system cost for residential service is $27, and thus UNSE states a basic service charge up to that amount would be justified. UNSE notes that the current basic service charge for residential customers on standard two-part rates is $15 per month, and $12 per month for residential Time-of-Use ("TOU") customers and three-part rates. Currently, UNSE states,

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[172] Ex. UNSE-30 at 3-4 (Dang Direct).
[173] Ex. UNSE-30 at 5-8 (Dang Direct).
[174] Ex. UNSE-30 at 8-9 (Dang Direct).

only 18% of the average level of fixed costs are recovered through the current basic service charge for residential rates, with the remainder recovered volumetrically through delivery charges.[175]

In its Rebuttal Testimony, UNSE updated the CCOSS to reflect its position maintaining the DSM and REST surcharges, and to reflect the updated proposed revenue requirement.[176]

UNSE observes that no party opposes its CCOSS, with each party indicating either that it was done properly and accepting the results, or taking no position.[177]

2. Staff

Staff states that a CCOSS serves as a starting point for rate design and is considered along with other factors, such as gradualism and the Commission's policy objectives. Staff notes that the Company's CCOSS provides the individual class returns for UNSE's six major customer classes, and the support for these calculations, through three steps: functionalization, classification, and allocation. Staff explains that the purpose of a fully allocated cost of service study is to determine the cost to serve each individual customer class and subclass. This provides the Commission with a guideline for its reasonable allocation of revenue requirements among customer classes, along with its consideration of a utility's financial condition and requirements, as well as economic, social, historical, policy, and other factors that may impact a utility's customers.[178]

Staff did not perform a separate CCOSS, but reviewed the methodology used by UNSE. Staff notes that the Company performed a minimum system study and believes that it should continue to use this methodology going forward. Staff states that UNSE's CCOSS was consistent with the methodology generally accepted in the industry and that UNSE developed all allocation factors appropriately. Staff concludes that the results of the CCOSS were satisfactory, and Staff recommends that UNSE's CCOSS be accepted as reasonable in this case.[179]

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[175] Ex. UNSE-30 at 10 (Dang Direct).
[176] Ex. UNSE-31 at 2 (Dang Rebuttal).
[177] Ex. UNSE-31 at 1 (Dang Rebuttal).
[178] Ex. S-1 at 1-2 (Peralta CCOSS Direct).
[179] Ex. S-1 at 3, 4-5 (Peralta CCOSS Direct); Staff's Opening Brief at 16.

3. Resolution

We find that UNSE's CCOSS uses reasonable allocation factors, the Company's methodology is consistent with that generally accepted in the industry, and the results of the CCOSS are satisfactory. Therefore, we find that UNSE's CCOSS allocations and factors are reasonable, and we adopt them.

B. Revenue Allocation

1. UNSE

UNSE states that it uses the CCOSS as a guide for its rate design, but also considers customer bill impacts, general economic conditions, and policy goals, which preclude full parity across rate classes. Consequently, UNSE explains that its proposal allocates the non-fuel base revenue increase to all classes with a consideration of both the results of the CCOSS and the ultimate bill impact. UNSE states that its revenue allocation proposal is designed to shift the residential and lighting rate classes closer to parity with their respective costs of service as indicated by the CCOSS, and to spread the requested revenue increase to all customer classes through the energy and demand delivery charges. UNSE notes that the proposed revenue allocation does not achieve complete class parity under the CCOSS.[180] UNSE believes that its revenue allocation is reasonable and requests that the Commission adopt it.[181]

In its Rejoinder Testimony, UNSE states that it adopted a four-step approach for its proposed revenue allocation of its revised revenue requirement. First, the Company applied a $2 increase to the residential basic service charge. Second, UNSE limited the percentage revenue increase for the Medium General Service, Large General Service, and Large Power Service classes to half the percentage increase for the Small General Service class. The revenue increase applied to the Small General Service class was reduced from 8% in UNSE's Rebuttal Testimony to 6% of non-fuel energy and demand charges, and the revenue increase applied to the Medium General Service, Large General Service, and Large Power Service classes was reduced from 4% in Rebuttal to 3% of non-fuel energy and demand charges. UNSE notes that these increases are the same as proposed in Staff's Surrebuttal Testimony. Third, the Company calculated the revenue increase percentages for the Lighting class and

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[180] Ex. UNSE-27 at 2, 4 (Elliott Direct); UNSE's Opening Brief at 38.
[181] Ex. UNSE-28 at 11 (Elliott Rebuttal); UNSE's Opening Brief at 39.

the first-tier energy charges for residential customers, the increases for which were set at the overall non-fuel base revenue increase. Last, UNSE allocated the remainder of the requested increase to the second-tier energy rate and demand components for residential customers. The revenue allocation includes the Company's proposed increase to the CARES program discount, discussed further below.[182]

UNSE's table summarizes the total revenue and returns of the Company's proposed revenue allocations by rate class, based on its proposed Rejoinder revenue requirement:[183]

Rate Class	Proposed Revenue ($ millions)			% of Total	Return on Rate Base
	Non-Fuel	Fuel & Purchased Power	Total		
Residential	64.8	72.3	137.0	57.3%	2.51%
Small General Service	9.9	10.7	20.6	8.6%	15.30%
Medium General Service	26.0	30.4	56.4	23.6%	29.06%
Large General Service	5.2	9.1	14.3	6.0%	16.12%
Large Power Service	4.0	6.2	10.2	4.3%	14.93%
Lighting	0.6	0.1	0.7	0.3%	-10.00%
Total Retail	**110.4**	**128.7**	**239.2**		**7.28%**

UNSE states that if the revenue requirement proposed by the Commission is lower than that proposed by the Company in Rejoinder, it is not proposing a specific methodology for allocating that decrease.[184] UNSE's proposed increases to non-fuel margin rates by customer class are as follows:[185]

Rate Class	Percentage Increase
Residential	
Lower Usage Tier	12.5691%
Upper Usage Tier, Demand	29.2470%
Small General Service	6%
Medium General Service	3%
Large General Service	3%
Large Power Service	3%
Lighting	12.5691%

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[182] Ex. UNSE-29 at 2-3 (Elliott Rejoinder).
[183] Ex. UNSE-29 at 3, Exhibit JME-RJ-3 (Elliott Rejoinder).
[184] UNSE's Opening Brief at 38.
[185] Ex. UNSE-29 at 3 (Elliott Rejoinder).

2. Staff

Staff recognizes that UNSE's current rates recovered from the residential rate class are below the respective cost of service. Staff further acknowledges that UNSE's proposed rate design moves all classes closer to full parity by increasing the residential rate class rates, and by the Company's proposed allocated increases to the other rate classes.[186]

Staff accepts UNSE's approach to shift a portion of the revenue increase from the lower tiers of demand and energy usage to the higher usage tiers for residential customers.[187]

Staff recommends a similar percentage increase as the Company across all non-fuel energy and demand charges for all rate classes. Staff notes that the revenue impact for each rate class would depend on class load factors and mix of revenues collected from Basic Service Charges, delivery charges, and fuel charges.[188]

3. RUCO

RUCO did not object to UNSE's proposed revenue allocation.

4. Walmart

Walmart specifically supports UNSE's proposal to allocate generation capacity costs using the average and excess four non-coincident peaks allocator. Walmart does not take a position on the Company's proposed distribution, transmission, and customer cost allocators. In general, Walmart states that rates should be set based on the utility's cost of service for each rate class, which Walmart argues produces equitable rates that reflect cost causation, sends appropriate price signals, and minimizes price distortion.[189]

Walmart does not oppose UNSE's proposed revenue allocation at the Company's proposed revenue requirement. However, if the revenue requirement is reduced below the Company's proposal, Walmart recommends a revenue allocation that brings the rates paid by Small General Service, Medium General Service, Large General Service, and Large Power Service customers closer to the cost of service. Specifically, Walmart proposes that any reduction be allocated half to the Small General

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[186] Ex. S-18 at 4 (Hunsaker Direct).
[187] Staff's Opening Brief at 16; Ex. S-19 at 4 (Hunsaker Surrebuttal).
[188] Staff's Opening Brief at 16; Ex. S-18 at 5 (Hunsaker Direct); Ex. S-19 at 4 (Hunsaker Surrebuttal).
[189] Ex. Walmart-2 at 2-5, 8 (Chriss Rate Direct).

Service, Medium General Service, Large General Service, and Large Power Service rate classes based on the proportional contribution of each class to the total subsidy amount, and the other half allocated on an equal percentage basis to all customer classes.[190]

5. Resolution

In general, the CCOSS is the best evidence for allocating costs among customer classes and the primary basis for distributing the revenue requirement. When the revenue allocation perfectly aligns with the CCOSS, cost causers bear their own costs. We acknowledged in the Company's last rate case that the process towards parity was achievable, with recognition that full parity would not be achievable immediately, or even at the time of the next rate case.[191] In moving towards actual cost of service parity for each class, the principle of gradualism must be kept in mind. Ratepayers deserve a level of consistency in rates over multiple years to make prudent decisions on potential investments to improve efficiencies in energy use as a way to adjust their budgets.

We find that the revenue allocation proposed by the Company makes appropriate progress towards achieving parity among all rate classes. We decline to adopt Walmart's approach to further bring the Small General Service, Medium General Service, Large General Service, and Large Power Service customers closer to their respective costs of service. Although we recognize the subsidization of the Residential and Lighting classes, we also recognize the importance of gradualism, and believe that the revenue allocation, accepted by RUCO and Staff, moves in the right direction and strikes a fair and reasonable balance. We note that the proposed allocation provides an increase for the Residential and Lighting classes that is significantly greater than the revenue increase for the Small General Service, Medium General Service, Large General Service, and Large Power Service classes. Accordingly, we find that UNSE's proposed revenue allocation methodology is reasonable and we adopt it, with the ultimate revenue allocation to be applied by the Company scaled appropriately to correspond to the adopted revenue requirement.

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[190] Ex. Walmart-2 at 2-3, 10 (Chriss Rate Direct).
[191] Decision No. 75697 at 26.

X. Rate Design

UNSE, RUCO, Staff, Walmart, and Wildfire provided testimony on rate design issues in this matter. UNSE did not propose any new retail rate plans or programs, and did not propose significant changes to its rate design structures.[192] RUCO agrees with the rate structure proposed by the Company and believes that it is reasonably cost-based.[193] Staff also generally supports the Company's proposed rate design structure.[194] Wildfire opposes any rate increase.[195]

A. Basic Service Charge

1. UNSE

UNSE proposes an increase to its Basic Service Charge for residential customers of $2.00 per month and states that the CCOSS would support a more substantial increase to the Basic Service Charge because the minimum system study indicated a minimum system cost for residential service of $25.15. The proposed change would increase the monthly Basic Service Charge for all residential customers on non-TOU two-part rate plan options from $15.00 to $17.00 per month. For residential TOU and demand rate options, the monthly Basic Service Charge would increase from $12.00 to $14.00 per month. For non-residential rate plans, UNSE did not propose an increase to the Basic Service Charge.[196]

2. Staff

Staff supports a $2.00 increase in the Basic Service Charge for all residential rate plans and no increase in the Basic Service Charge for other rate classes. Staff states that an increase in the Basic Service Charge for residential customers is appropriate for recovering more fixed costs through fixed rates because of declining usage per customer and increasing peak demand.[197]

3. RUCO

RUCO also supports the proposed $2.00 per month increase to the residential Basic Service Charge.[198]

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[192] Ex. UNSE-27 at 2 (Elliott Direct); UNSE's Opening Brief at 39.
[193] Ex. RUCO-8 at 2 (Erdwurm Direct); Ex. RUCO-9 at 1 (Erdwurm Surrebuttal).
[194] Ex. S-18 at 3 (Hunsaker Direct).
[195] Wildfire's Opening Brief at 9.
[196] Ex. UNSE-27 at 2, 5 (Elliott Direct); Ex. UNSE-28 at 5 (Elliott Rebuttal).
[197] Ex. S-18 at 3, 5 (Hunsaker Direct); Ex. S-19 at 3 (Hunsaker Surrebuttal); Staff's Opening Brief at 16.
[198] Ex. RUCO-8 at 2 (Erdwurm Direct).

4. Wildfire

Wildfire opposes the proposed rate increase generally and UNSE's proposed increase to the residential Basic Service Charge based on affordability for low-income customers. Wildfire states that customers, and particularly low-income families, cannot afford increases in their energy bills and larger fixed fees prevent households from having control over their bill.[199]

5. UNSE Response

UNSE notes that the proposed $2.00 increase in the residential Basic Service Charge will be offset by its proposed increase in the CARES discount for low-income customers, as discussed below. UNSE further notes that its proposed Basic Service Charges are consistent with those charged by other electric utilities in Arizona, and are lower than other utilities serving rural Arizona.[200]

In addition, UNSE states that with declining volumetric sales and increasing peak demand, it is important to increase its fixed cost recovery through fixed charges. UNSE contends that even with the proposed increase in the residential Basic Service Charges, the Company recovers over 75% of its residential fixed costs through volumetric rates.[201]

6. Resolution

UNSE's proposed increase to the Basic Service Charge for residential customers is supported by the CCOSS, which would support a higher increase, and is a fair and necessary component of moving the Company's revenue allocation closer to class parity. The proposed increase to the Basic Service Charge is supported by RUCO and Staff, and opposed by Wildfire, which opposes any increase. We recognize the hardships faced by many residential customers, but as discussed further below, adopt the Company's proposed CARES increase, which will more than offset the increase in the Basic Service Charge. Therefore, we find that UNSE's proposed $2.00 increase in the Basic Service Charge for residential customers is reasonable and we adopt it. We also find that UNSE's proposal to maintain the existing Basic Service Charges for all other rate classes is reasonable.

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[199] Ex. WF-1 at 11, 14 (Michael Direct); Wildfire's Opening Brief at 9.
[200] Ex. UNSE-28 at 12-13 (Elliott Rebuttal); UNSE's Opening Brief at 40.
[201] Ex. UNSE-28 at 14 (Elliott Rebuttal); UNSE's Opening Brief at 40-42.

B. Energy and Demand Delivery Charges

UNSE's energy and demand delivery charges are designed to recover its non-fuel revenue requirement, excluding the revenue collected by the Basic Service Charges. UNSE did not propose significant changes to the rate design structure of the current energy and demand delivery charges, but did propose to shift some cost recovery from the lower usage tier for the Residential Class to the upper usage tier. For other classes, UNSE proposes to increase the energy and demand delivery charges by comparable percentages.[202]

Staff accepts UNSE's proposal to shift some cost recovery for energy and demand delivery charges from the lower usage tier to higher usage tiers for the Residential Class. For all other classes, Staff recommends an increase to the energy and demand delivery charges by comparable percentages. Otherwise, Staff does not recommend any significant changes to the rate design structure of the current energy and demand delivery charges.[203]

UNSE and Staff agree on the structure for the Company's energy and demand delivery charges, and no other party objected to the proposed structure. We agree with the Company and Staff that it is reasonable and appropriate to shift some cost recovery for the energy and demand delivery charges from the lower usage tier to the higher usage tiers for the Residential Class, and to increase the charges for other classes by comparable percentages. Therefore, we find that the Company's rate structure for its energy and demand delivery charges is reasonable and appropriate, scaled appropriately to correspond to the adopted revenue requirement.

C. Base Power Charges

UNSE's Base Power Charges are designed to recover its fuel and purchased power expenses. The Company proposes to increase the existing Base Power Charges in equivalent percentages consistent with the increased pro-forma cost of fuel and purchased power.[204] Staff also recommends an equal percentage increase to the existing Base Power Charges across all rate classes consistent with Staff's recommended increase to the cost of fuel and purchased power.[205]

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[202] Ex. UNSE-3 at Schedule H-3 (Rejoinder Schedules); Ex. UNSE-27 at 6 (Elliott Direct).
[203] Ex. S-18 at 5, 6 (Hunsaker Direct); Ex. S-19 at 4 (Hunsaker Surrebuttal); Staff's Opening Brief at 16.
[204] Ex. UNSE-27 at 7 (Elliott Direct).
[205] Ex. S-18 at 5, 6 (Hunsaker Direct); Ex. S-19 at 4 (Hunsaker Surrebuttal); Staff's Opening Brief at 16.

UNSE's proposal for increasing its Base Power Charges, as agreed to by Staff, is reasonable and we adopt it.

D. CARES Program

1. UNSE

UNSE's CARES program offers discounts to customers with household incomes under 200% of the Federal Poverty Level. Currently, all CARES customers receive the same monthly discount of $16.00 per month. UNSE states that participation in the program has increased 11% since the last rate case due to an increase in the eligibility level in 2020 from 150% of the Federal Poverty Level and an easier online registration form. UNSE further explains that it also provides emergency bill payment assistance to qualifying customers, primarily through funds from the federal Low Income Home Energy Assistance Program.[206]

UNSE initially proposed increasing the monthly discount under its CARES program from $16 to $18. UNSE now proposes an additional $2 increase for a total monthly discount of $20, which UNSE states is consistent with the discount recently approved by the Commission for TEP's equivalent program. The Company states that it proposed the additional $2 increase after hearing feedback from customers in this case.[207] UNSE further states that the additional $2 increase from $18 to $20 would cost nonparticipating customers approximately $0.10 to $0.15 per month.[208]

UNSE also proposes changes to its rate tariffs regarding the CARES program, simplifying how eligibility criteria and discounts are presented in the Company's rate tariffs. Currently, the eligibility criteria and discounts are presented in three sections within the tariff sheet for each CARES residential rate plan. UNSE proposes a CARES Discount Rider R-20 that specifies program eligibility and the available discounts in one place, and the CARES sections in the current residential rate plans will be replaced with a single section in each plan that informs customers that they may be eligible for a CARES discount, referring them to Rider R-20 for the additional information.[209]

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[206] Ex. UNSE-24 at 12 (Petersen Direct).
[207] Ex. UNSE-27 at 2, 7 (Elliott Direct); Ex. UNSE-26 at 2 (Petersen Rejoinder); UNSE's Opening Brief at 43; Tr. at 438 (Petersen).
[208] Tr. at 477 (Elliott).
[209] Ex. UNSE-27 at 2-3, 8 (Elliott Direct); UNSE's Opening Brief at 43.

2. Staff

Staff supports UNSE's original proposal to increase the discount for the residential CARES program by $2.00, from $16.00 to $18.00 per month. Staff does not support the additional increase to $20.00.[210]

Staff also supports UNSE's proposed tariff changes and the CARES Discount Rider R-20 that simplifies the presentation of program eligibility and discount information.[211]

3. Wildfire

Wildfire states that UNSE's proposed increase to the CARES discount does not adequately hold low-income households harmless from the proposed rate increase. Instead, Wildfire proposes a two-tiered discount program with a 49.5% discount for customers with incomes less than 125% of the Federal Poverty Level and an 18% discount for customers with incomes between 125% and 200% of the Federal Poverty Level. Wildfire's tiers are based on a target energy burden. Wildfire proposes to allocate the costs across all customer classes.[212]

Wildfire believes that the application process for the CARES program could be similar to the existing application, but if the Company wanted to require income verification, it could collaborate with community action agencies and programs that do income verification, or explore the services used by APS for its program. Wildfire disputes that income verification is necessary, and notes that UNSE has not supported its assertion that fraud will increase. Wildfire further states that the tiered discount program should have clear and efficient procedures so that funding is directed to participant benefits and not administrative costs. Wildfire asserts that the Company should work collaboratively with external agencies, organizations, and individuals to minimize costs.[213]

Wildfire states that a tiered discount will give eligible customers an appropriate discount for their income level with the objective of reaching a target energy burden, instead of a flat discount across all eligible income levels. For example, Wildfire states that under the current CARES program, a family of four can earn a maximum of $60,000 to be eligible for the program, and that family would

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[210] Ex. S-18 at 6, 10 (Hunsaker Direct); Ex. S-19 at 5 (Hunsaker Surrebuttal); Staff's Opening Brief at 16; Tr. at 780-781 (Hunsaker).
[211] Ex. S-18 at 11 (Hunsaker Direct).
[212] Ex. WF-1 at 16-17, 19 (Michael Direct); Wildfire's Opening Brief at 7.
[213] Ex. WF-1 at 19 (Michael Direct); Wildfire's Responsive Brief at 3.

receive the same discount as a family of four earning $30,000. But with its proposed tiered discount plan, Wildfire states that the family earning less would receive a greater discount, accounting for their more limited financial means.[214]

Wildfire maintains that bill assistance programs are important but do not adequately mitigate the growing problems in Arizona with increasing rates, stagnant incomes, and low wages. Wildfire acknowledges the complexities involved in developing an effective tiered discount program but believes that it is necessary for low-income customers to afford their bills and to stay current on their bills. Wildfire supports the Company's request for a deferral order to recover costs of the CARES program in the future if significant modifications are made, stating that it will ensure sustainable and ongoing funding for the program and will address the Company's concerns with recovering the costs of a tiered program.[215]

Wildfire estimated the year-one cost of a tiered program to be $4 million based on a low-income residential average annual expenditure of $1,220 and based on the current level of participation in the CARES program. Wildfire further estimates that the tiered program would add $2.19 per month to residential bills of non-participating customers, the $20 discount would have an impact of $1.22 per month, and a 25% discount would have an impact of $1.55 per month.[216]

If the Commission does not approve a tiered low-income discount program, Wildfire requests that the Commission direct UNSE to engage in a stakeholder process to develop a tiered discount program for the Company's next rate case. Wildfire also recommends approval of a 25% discount instead of the $20 discount proposed by the Company pending the Company's next rate case. If the Commission continues to approve a flat rate, Wildfire acknowledges that a $20 discount is preferred to an $18 discount, and is consistent with that approved for TEP.[217]

Wildfire also recommends that UNSE increase its efforts to expand CARES enrollment, characterizing the program as "significantly undersubscribed." Wildfire notes that approximately 10% of UNSE's customers were enrolled in the CARES program in December 2022, but the Census reports

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[214] Ex. WF-2 at 4 (Michael Surrebuttal).
[215] Ex. WF-2 at 5 (Michael Surrebuttal).
[216] Ex. WF-1 at 23-24 (Michael Direct); Tr. at 850-851 (Michael).
[217] Ex. WF-2 at 6 (Michael Surrebuttal); Wildfire's Opening Brief at 8; Wildfire's Responsive Brief at 1-2; Tr. at 846 (Michael).

indicate that 32.4% of families and 40% of individuals in the Company's service territories have incomes at or below 200% of the Federal Poverty Level—the eligibility criteria for the program. Wildfire acknowledges that the Company engages in a number of customer outreach efforts, but does not attempt to measure the effectiveness of those efforts.[218]

4. RUCO

RUCO supports Wildfire's proposal and recommends a tiered discount program for CARES-eligible customers with larger discounts for lower-income households, stating that a tiered discount provides more rate relief to households with the greatest need. RUCO also prefers that the CARES discount be based on a percentage of the bill as opposed to the proposed flat discount because a percentage-based discount ties the discount level to electricity consumption, which will help correlate the discount to household size. RUCO cites the tiered discount program proposed by APS in its pending rate case as an example of a preferred low-income program. RUCO states that low-income customers struggle to pay their electric bills and the needs of customers with the lowest incomes should be prioritized. RUCO further states that if the Commission does not adopt a tiered discount program, then it should direct UNSE to meet with RUCO, Wildfire, and other stakeholders to evaluate alternative limited-income programs.[219]

5. UNSE Response

UNSE opposes the proposals from Wildfire and RUCO and maintains that an increase in the CARES program discount to $20 is most appropriate. UNSE notes that the proposal holds enrollees harmless from the increase in the proposed Basic Service Charge and a portion of the increase to the other base rate charges.[220]

UNSE identifies several administrative issues associated with adopting a tiered program, including the need for a third-party vendor to verify customer income levels due to the increased potential for fraud, the cost and availability of such a third-party vendor, the ability and the legality of the Company retaining customer-specific income data, and the administrative costs associated with implementing a system to track and record income levels. In addition, UNSE notes that Wildfire

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[218] Ex. WF-1 at 15 (Michael Direct); Wildfire's Opening Brief at 9.
[219] Ex. RUCO-8 at 2-3 (Erdwurm Direct); Ex. RUCO-9 at 2-3 (Erdwurm Surrebuttal); RUCO's Closing Brief at 24.
[220] Ex. UNSE-26 at 2 (Petersen Rejoinder).

estimated its proposal would result in a year-one program expense of $4.02 million—approximately double the cost of the current program, with a monthly increase for residential customers of $2.19. UNSE further notes that participation in its CARES program is increasing with 6,760 customers participating at the end of the June 30, 2022, Test Year, and 8,850 by June 30, 2023, a 31% increase.[221]

UNSE states that significant changes to the CARES program need to consider the manner in which the discounts are disbursed and how the program is funded. UNSE believes that the program should ensure that most of the funds associated with the program are used towards customer bills, and should be simple and easy for customers and for the Company to administer. UNSE states that its service territory is smaller and has a significantly lower median income than APS or TEP, and the Company needs additional time to provide a reliable estimate of the costs associated with a tiered, income-based program. Therefore, UNSE supports a process engaging stakeholders to discuss all aspects of a low-income program, and agrees to participate in the process for doing so as ordered by the Commission in TEP's rate case.[222]

6. Resolution

Based on the evidence presented, we do not adopt the proposals of Wildfire and RUCO for a tiered discount program or a 25% discount. We are concerned that the potential administrative procedures and costs associated with a tiered program have not been sufficiently addressed, particularly in light of the increasing enrollment in the program that the Company is experiencing. In addition, a percentage-based discount will provide greater benefits to customers with higher usage, but is insufficiently targeted to provide the greatest benefits to customers with the greatest need, and could result in significant financial impacts to non-participating customers as CARES enrollment increases. Further, there has been limited stakeholder involvement in this rate case and limited participation from customers in the Company's southern service area.

Therefore, we believe that it is reasonable to direct UNSE to meet with stakeholders to discuss the development of a tiered discount program, and we will require the Company to file a proposal for a new discount program in its next rate case. The Company shall participate in the similar process

[221] Ex. UNSE-25 at 4-6 (Petersen Rebuttal); UNSE's Opening Brief at 44-45.

[222] Ex. UNSE-25 at 5 (Petersen Rebuttal); Ex. UNSE-26 at 3 (Petersen Rejoinder); Tr. at 427 (Petersen). *See* Decision No. 79065 at 82 (August 25, 2023).

ordered for TEP, and is not required to engage in a separate stakeholder process. However, UNSE shall make best efforts to engage with all stakeholders in its service territories, including conducting separate meetings from TEP when appropriate to ensure that all customers and other stakeholders are given an adequate opportunity for participation in the process. The stakeholder process also should address options for reducing the financial impact to low-income customers from credit card processing fees and fees associated with in-person cash payments. In addition, the Company and stakeholders should discuss options for increasing enrollment in the CARES program, and UNSE is encouraged to implement the strategies developed before its next rate case.

We do not adopt UNSE's proposal to increase the CARES discount. Rather, the Company should keep the discount for the residential CARES program at the current amount of $16.00 per month.

E. Service Fees

The Company requests changes to its Service Fees as reflected in its Statement of Charges. UNSE states that it has evaluated the costs associated with providing various services, the number of instances each service was requested, and the appropriateness of the fees. UNSE proposes the following changes in its Service Fees:[223]

Description	Current Rate	Proposed Rate
Service Transfer Fee	$26.00	$37.00
Service Establishment, Reestablishment, or Reconnection of Service under usual operating procedures During Regular Business Hours (including Automated Meter Opt-Out Set-Up Fee[1])	$47.00	$43.00
Service Establishment, Reestablishment, or Reconnection of Service under usual operating procedures After Regular Business Hours (includes Saturdays, Sundays, and Holidays)	$149.00	$55.00
Service Reestablishment under other than usual operating procedures	$196.00	$259.00
Meter Test	$79.00	$126.00
Consumption History Request and Interval History Request[2]	$60.00	$50.00
Bill Processing Fee[3]	Non-Tariffed	$31.00

[1] The Automated Meter Opt-Out Set-Up Fee will apply only to those customers who request the removal of an automated meter.
[2] Fee will apply for each Interval History Request made or when customers request their Consumption History more than once in a 12-month period.
[3] The Bill Processing Fee will be assessed per every ten (10) bills that the customer requests. Each additional increment of ten (10) bills will result in another Bill Processing Fee.

[223] Ex. UNSE-30 at 14 and Exhibit JCD-1 (Dang Direct).

UNSE explains that increases in service fees are attributable primarily to increases in the wages and labor associated with performing certain services. For the proposed decreases in service fees, UNSE states that the reduction in costs associated with those services are a result of expansion of the Company's Advanced Metering Infrastructure technology.[224] UNSE notes that no party has opposed its proposed Statement of Charges.[225] The Company's proposed Statement of Charges is attached to this Decision as Exhibit A.

In addition, UNSE proposes eliminating the Distributed Generation ("DG") Incremental Meter Fee. UNSE states that historically the billing meter used for DG customers was more expensive than the one used for non-DG customers, which was reflected in an incremental fee approved by the Commission. However, UNSE explains, in recent years the Company has been replacing the higher cost meters for DG customers with an updated AMI meter that is the same as what is used for non-DG customers. UNSE anticipates that all older meters likely will be replaced before UNSE's next rate case. Therefore, UNSE believes the fee should be eliminated.[226]

Staff reviewed UNSE's proposed changes in its service fees, including the calculation for the service fees, and determined that the proposed changes are reasonable. Staff recommends adoption of UNSE's proposed Statement of Charges.[227]

No party opposed the proposed changes in UNSE's service fees.

Based on the evidence presented, we find that UNSE's proposed Statement of Charges is reasonable and should be adopted.

F. Rates and Bill Impacts[228]

The Company docketed final schedules, including rate design and bill impact schedules, on January 23, 2024. The typical customer bill impacts based on the findings herein would be as follows:

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[224] Ex. UNSE-30 at 14 (Dang Direct).
[225] UNSE's Opening Brief at 47.
[226] Ex. UNSE-31 at 2-3 (Dang Surrebuttal).
[227] Ex. S-18 at 9 (Hunsaker Direct); Ex. S-19 at 8 (Hunsaker Surrebuttal).
[228] Because UNSE has all of the substantive information necessary to prepare the schedules conforming to the resolutions herein, as well as the technical ability and computer applications needed, and the Commission is concerned that its own preparation of the schedules is more likely to result in inadvertent errors due to deficiencies in some of the electronic information possessed by the Hearing Division, it is just and reasonable and in the public interest to require UNSE to prepare and file a complete final rate design reflecting the findings and conclusions herein, as well as bill impacts.

Rate Plan	Annual Average Monthly Usage (kWh)	New Average Monthly Bill	Average Monthly Bill Increase	Average Monthly Bill % Increase
Residential Basic	952	$156.82	$17.24	12.4%
Residential Basic CARES	952	$140.82	$17.24	14.0%
Residential Basic CARES-Medical	952	$111.56	$15.20	15.8%
Residential Demand	952	$153.13	$17.86	13.2%
Residential Demand CARES	952	$137.13	$17.86	15.0%
Residential TOU	952	$150.44	$15.14	11.2%
Residential TOU CARES	952	$135.54	$16.24	13.6%
Residential Demand TOU	952	$149.40	$16.86	12.7%
Residential Demand TOU CARES	952	$133.40	$16.87	14.5%
Small General Service Basic	1,299	$211.02	$11.63	5.8%
Small General Service TOU	1,299	$221.72	$13.45	6.5%
Small General Service Demand	1,299	$213.63	$12.66	6.3%
Small General Service Demand TOU	1,299	$211.39	$14.34	7.3%
Medium General Service	26,256	$4,229	$234	5.8%
Medium General Service TOU	26,256	$3,975	$203	5.4%
Medium General Service – Agricultural Service	26,256	$4,108	$233	6.0%
Interruptible Power Service	26,256	$3,763	$238	6.7%
Large General Service	396,365	$54,005	$3,528	7.0%
Large Power Service	1,848,650	$224,727	$11,555	5.4%
Commercial Area Lighting Service	100	$18.21	$1.83	11.2%

For comparison, the typical customer bill impacts for UNSE's proposed Rejoinder rate design are as follows, which includes the riders and surcharges specified in UNSE's Statement of Charges, the expected PPFAC rate for January 2024, and the proposed DSM Surcharge increase, but not estimated taxes:[229]

Rate Plan	Annual Average Monthly Usage (kWh)	New Average Monthly Bill	Average Monthly Bill Increase	Average Monthly Bill % Increase
Residential Basic	952	$159.29	$19.71	14.1%
Residential Basic CARES	952	$139.29	$15.71	12.7%
Residential Basic CARES-Medical	952	$112.03	$15.67	16.3%
Residential Demand	952	$155.12	$19.85	14.7%
Residential Demand CARES	952	$135.12	$15.85	13.3%
Residential TOU	952	$152.99	$17.69	13.1%
Residential TOU CARES	952	$123.12	$13.13	11.9%
Residential Demand TOU	952	$151.94	$19.40	14.6%
Residential Demand TOU CARES	952	$131.43	$14.90	12.8%
Small General Service Basic	1,299	$213.94	$14.55	7.3%
Small General Service TOU	1,299	$224.76	$16.49	7.9%

[229] Ex. UNSE-29 at 4-5, Exhibit JME-RJ-4 (Elliott Rejoinder).

Small General Service Demand	1,299	$216.62	$15.65	7.8%
Small General Service Demand TOU	1,299	$213.61	$16.56	8.4%
Medium General Service	26,256	$4,288	$293	7.3%
Medium General Service TOU	26,256	$4,031	$259	6.9%
Medium General Service – Agricultural Service	26,256	$4,164	$289	7.5%
Interruptible Power Service	26,256	$3,808	$282	8.0%
Large General Service	396,365	$54,740	$4,262	8.4%
Large Power Service	1,848,650	$227,748	$14,576	6.8%
Commercial Area Lighting Service	100	$18.57	$2.19	13.4%

The following table describes the typical bill impacts for the Company's residential customers at different monthly usage levels, using UNSE's proposed Rejoinder rate design, and includes the riders and surcharges specified in UNSE's Statement of Charges, the expected PPFAC rate for January 2024, and the proposed DSM Surcharge increase, but not estimated taxes:[230]

Rate Plan	Annual Monthly Usage (kWh)	New Monthly Bill	Monthly Bill Increase	Monthly Bill % Increase
Residential Basic				
25th Percentile	393	$73.60	$7.34	11.1%
50th Percentile	765	$130.83	$15.55	13.5%
Average	952	$159.29	$19.71	14.1%
75th Percentile	1,300	$212.25	$27.44	14.8%
90th Percentile	1,969	$314.07	$42.32	15.6%
95th Percentile	2,469	$390.16	$53.42	15.9%
Residential TOU				
25th Percentile	420	$76.40	$8.01	11.7%
50th Percentile	773	$128.42	$15.21	13.4%
Average	926	$149.62	$17.09	12.9%
75th Percentile	1,262	$200.63	$25.51	14.6%
90th Percentile	1,840	$285.99	$37.75	15.2%
95th Percentile	2,277	$350.54	$46.99	15.5%
Residential Demand				
25th Percentile	372	$75.47	$9.79	14.9%
50th Percentile	776	$131.65	$16.87	14.7%
Average	944	$154.02	$19.70	14.7%
75th Percentile	1,357	$208.40	$26.53	14.6%
90th Percentile	1,959	$286.51	$36.25	14.5%
95th Percentile	2,354	$340.04	$43.21	14.6%
Residential Demand TOU				
25th Percentile	493	$92.00	$11.88	14.8%
50th Percentile	893	$144.66	$18.55	14.7%
Average	1,044	$164.16	$21.00	14.7%
75th Percentile	1,425	$212.85	$27.01	14.5%
90th Percentile	2,001	$287.47	$36.38	14.5%
95th Percentile	2,406	$340.27	$43.01	14.5%

[230] Ex. UNSE-29 at 4-5, Exhibit JME-RJ-5 (Elliott Rejoinder).

XI. Adjustor and Surcharge Mechanisms

A. PPFAC

1. UNSE

UNSE proposes two changes to its PPFAC POA. First, to modify the bandwidth limit on the amount that the PPFAC rate can be adjusted each month. And second, to support its participation in the WEIM.[231]

The purpose of the PPFAC is to track changes in UNSE's fuel, purchased power, and sales for resale to recover or return the increases or decreases in those expenses through an adjustor mechanism rather than a rate case. The PPFAC passes the Company's fuel and purchased power costs to customers with no markup. UNSE's PPFAC was approved by the Commission in Decision No. 70360 (May 27, 2008), and amended in Decision No. 74235 (December 31, 2013) and Decision No. 75697. The PPFAC uses a historical 12-month rolling average of actual fuel and purchased power costs to determine a rate, and the PPFAC rate is adjusted on a monthly basis. The allowable PPFAC costs are certain Federal Energy Regulatory Commission ("FERC") accounts, and generally include fuel and purchased power costs incurred to provide service to retail customers, and the prudent direct costs of contracts used for hedging system fuel and purchased power. The PPFAC bank balances represent an over or under recovery of actual purchased power and fuel costs in comparison to the actual amounts recovered through the Base Fuel and Purchased Power and PPFAC rates, and are used in the calculation of the PPFAC rate.

UNSE explains that the wholesale power and natural gas markets in the Southwest have undergone a significant change since the summer of 2020, increasing the cost of wholesale power. The Company notes that average wholesale power prices at Palo Verde Trading Hub increased 153% from 2019 to 2022. Further, UNSE states that natural gas prices are 332% higher than in 2019. UNSE further states that many utilities have curtailed operations at coal-fired power plants, and supply chain issues and commodity price increases have delayed the development and construction of new generation projects and renewable projects, and increased their costs.[232]

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[231] UNSE's Opening Brief at 60-62.
[232] Ex. UNSE-9 at 8-11 (Sheehan Direct).

UNSE states that it has relied heavily on market power for the last ten years, which benefitted customers from 2015 to 2020 because of a steady decline in wholesale power and natural gas prices. However, UNSE further states that its annual cost for fuel and purchased power has increased from \$88.6 million in 2020 to approximately \$142.3 million at the end of 2022. In addition, during the COVID-19 pandemic, UNSE delayed applying for any significant PPFAC surcharge increases to mitigate bill increases for customers. UNSE represents that in October 2021, the PPFAC bank balance was undercollected by approximately \$48 million, and the under-collection had grown to approximately \$75 million at the time of the rate application.[233]

On January 31, 2023, UNSE filed an application for a temporary adjustment to its PPFAC Surcharge Rate in Docket No. E-042204A-21-0374. On May 9, 2023, the Commission issued Decision No. 78969, approving a new temporary PPFAC Surcharge Rate of \$0.022259 per kWh, to remain in effect until the Company's PPFAC Bank Balance reaches zero.

UNSE notes that it will reset the PPFAC rate to zero when the new Base Cost of Fuel and Purchased Power Rate goes it effect, but the temporary PPFAC Surcharge Rate of \$0.022259 per kWh will remain in effect until the PPFAC Bank Balance reaches zero, which the Company estimates will occur by the end of 2025. UNSE states that increasing the Base Cost of Fuel and Purchased Power Rate to \$0.069884 per kWh, as discussed above, and reducing the PPFAC rate to zero will have the net effect of honoring the intent of Decision No. 78969 to extend the recovery of UNSE's under-recovered PPFAC Bank Balance over a 33-month period.[234]

UNSE's current PPFAC has a limit on monthly adjustments to no more or less than 0.83% of the preceding month's rate, which was set in Decision No. 74235. UNSE proposes increasing the monthly bandwidth to 1.25%. The Company states that it determined that a 1.25% bandwidth is appropriate because it balances improved PPFAC responsiveness to changes in energy costs with customer bill impacts. UNSE states that increasing the PPFAC bandwidth will enable the Company's PPFAC rates, which are calculated monthly based on a 12-month rolling average of historical fuel and purchased power costs, to respond more rapidly to fluctuations in energy costs, both upwards and

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233 Ex. UNSE-9 at 11-12 (Sheehan Direct).
234 Ex. UNSE-10 at 2-3 (Sheehan Rebuttal); Tr. at 251-252 (Sheehan).

downwards. UNSE further explains that the rolling 12-month cost recovery mechanism was designed to collect or refund most imbalances in a 12-month period, but due to market volatility, recovery times have been extended. UNSE states that improved responsiveness from increasing the bandwidth should mitigate the growth in undercollected and over-recovered PPFAC bank balances, and reduce costs for customers during the undercollection periods due to savings on financing costs. UNSE also notes that high under-recovered bank balances have, in the past, limited the Company's ability to secure market capacity for the summer months with some wholesale power counterparties.[235]

UNSE further explains that increasing the bandwidth from 0.83% to 1.25% would incrementally increase or decrease annual costs for residential customers up to $14.91, or less than $1.25 per month. In addition, the Company anticipates that increasing the bandwidth to 1.25% would reduce recovery times by 1 to 2 months per year, which will reduce the interest accruing on the PPFAC bank balance.[236] UNSE believes that modifying the bandwidth as requested would save UNSE customers approximately $400,000, based on an undercollected bank balance of $96 million and a continuing 4.7% interest rate.[237] UNSE notes that Staff supports the bandwidth increase and no other party addressed the issue.[238]

UNSE also proposes a revision to its PPFAC POA to support its participation in the WEIM and to address California Carbon Allowances ("CCAs"). UNSE makes off-system sales outside its service area, including California. California has a greenhouse cap and trade program that requires UNSE to purchase CCAs to offset the CO_2 emissions from the power it sells, and the Company currently does not have a mechanism in the PPFAC to track and recover those costs. The proposed revision to the PPFAC POA would include adding FERC Account 509 (Allowances) to the list of recoverable costs. UNSE notes that a similar POA modification was requested, and adopted, in TEP's recent rate case.[239] In addition, UNSE notes that Staff requested additional modifications, which the Company agreed to and incorporated into its updated proposed PPFAC POA.[240]

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[235] Ex. UNSE-9 at 14-15 (Sheehan Direct); Ex. UNSE-10 at 4-5, 8 (Sheehan Rebuttal); UNSE's Opening Brief at 60.
[236] Ex. UNSE-10 at 6-7 (Sheehan Rebuttal).
[237] Ex. UNSE-10 at 8 (Sheehan Rebuttal); Tr. at 278 (Sheehan).
[238] UNSE's Opening Brief at 61,
[239] Ex. UNSE-10 at 7 (Sheehan Rebuttal). *See* Decision No. 79065 at 95-96.
[240] Ex. UNSE-10 at 7 and Exhibit MES-R-2 (Sheehan Rebuttal); Ex. S-8 at 14 (Smith Surrebuttal).

No other party addressed the WEIM-related modification to the PPFAC POA.[241]

2. RUCO

RUCO does not oppose the proposed bandwidth increase or the WEIM-related modifications to the PPFAC POA.[242]

RUCO recommends that the Commission approve a 90/10 sharing mechanism between customers and shareholders for costs included in the PPFAC. RUCO states that a sharing mechanism would incentivize the Company to procure the lowest cost fuel because if fuel prices rise the Company would be obligated to pay 10% instead of passing the costs to ratepayers, and if fuel prices dropped then the Company would receive a 10% profit. RUCO states that the PPFAC is not working as intended because of price volatility related to large increases in gas prices. RUCO notes that UNSE purchases its fuel from the open market through purchased power agreements, and if there was another source that could provide UNSE with cheaper fuel, under the current PPFAC the Company would not have an incentive to purchase from the cheaper source because the costs are passed automatically to ratepayers. RUCO believes that under a 90/10 sharing agreement, the Company would look to other fuel providers to acquire fuel at lower prices.[243]

RUCO did not propose specific language for its 90/10 sharing mechanism or a revised PPFAC POA, but suggested that the Company and the Commission could use the sharing language previously approved for APS.[244]

3. Staff

Staff supports UNSE's proposal to increase the PPFAC bandwidth to 1.25%. Staff states that the PPFAC bandwidth was established several years ago, and it is reasonable to update it to correlate with current market conditions. Staff explains that the bandwidth limitation during periods of significantly volatile and increasing fuel and purchased power costs has contributed to the significant undercollected PPFAC balance. Staff states that if fuel and purchased power price volatility continues, the existing bandwidth may be insufficient to address fluctuations in fuel and purchased power costs

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[241] UNSE's Opening Brief at 62.
[242] RUCO's Closing Brief at 16.
[243] Ex. RUCO-4 at 18-19 (Michlik Surrebuttal); RUCO's Closing Brief at 17.
[244] Tr. at 544-545, 556 (Michlik); RUCO's Closing Brief at 19.

on a timely basis. Staff notes that increased responsiveness of the PPFAC will mitigate the growth in under or over-recovered PPFAC balances.[245]

Staff also supports UNSE's proposed revisions to the PPFAC POA addressing CCAs. Staff states that the proposal is reasonable and similar to the proposal made in TEP's recent rate case. Staff confirms that the sole purpose of the proposed PPFAC POA modification is to recover the costs of CCAs for energy sold into California, and California consumers will bear the entire cost of any CCAs purchased by UNSE.[246]

Staff recommends an addition to the language proposed by UNSE in the revised PPFAC POA to ensure that Arizona ratepayers do not bear the costs of California's CCAs: "UNSE shall not incur mandatory carbon emission allowance costs unless it passes those costs on to the California entities that are purchasing energy from UNSE. In no event shall UNSE incur California's carbon emission allowance costs when doing so does not provide an economical choice and a net benefit for UNSE's Arizona ratepayers." In addition, Staff recommends that UNSE notify the Commission at least 90 days prior to applying the amended PPFAC provision to sales made in any jurisdiction other than California, and if there are objections to the expansion, the Commission may schedule a process to resolve the issue.[247]

Staff notes that UNSE did not have any internal audits of fuel and purchased power during the Test Year or in the three years prior to the Test Year. Staff recommends that UNSE conduct an internal audit of its PPFAC-includable costs prior to its next rate case.[248]

Staff objects to RUCO's 90/10 sharing proposal, characterizing it as underdeveloped. Staff discourages adoption of a proposal that would create rewards and penalties for wholesale power and fuel costs that are largely outside the control of the utility. Staff raises concerns about profits for utilities if costs are better than forecasted, or adverse financial impacts if market costs increase unexpectedly.[249]

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245 Ex. S-10 at 9-10 (Smith Rate Direct); Ex. S-8 at 13-14 (Smith Surrebuttal); Ex. S-12 at 8 (Medine Direct); Staff's Opening Brief at 18.
246 Ex. S-10 at 11 (Smith Rate Direct); Ex. S-8 at 14 (Smith Surrebuttal).
247 Ex. S-10 at 12 (Smith Rate Direct); Staff's Opening Brief at 18-19.
248 Ex. S-10 at 18 (Smith Rate Direct).
249 Tr. at 706-708 (Smith).

4. UNSE Response

UNSE opposes RUCO's proposal for a 90/10 sharing mechanism, characterizing the proposal as incomplete. UNSE states that RUCO has not provided any specific details, a proposed POA, or any background on how the sharing mechanism would work or how something similar has worked in other jurisdictions. In addition, UNSE contends that RUCO has not provided evidence that a sharing mechanism would have resulted in the avoidance of cost increases.[250] UNSE states that it cannot adopt language from APS as suggested by RUCO because UNSE's PPFAC POA is structured differently.[251]

Further, UNSE disagrees that the PPFAC is not working as intended. UNSE states that the PPFAC is not designed to mitigate market volatility and instead is solely a mechanism designed to collect fuel and purchased power costs incurred by the Company. UNSE maintains that its hedging and competitive procurement practices mitigate fuel and purchased power cost volatility. The Company notes that it uses a three-year rolling hedging plan that locks in natural gas and purchased power on a time-blended basis, which helps mitigate exposure to seasonal volatility by purchasing non-discretionary volumes of fuel and purchased power over a 36-month period and helps avoid one-time large purchase commitments. UNSE contends that hedging does not guarantee the absolute lowest cost in the future, but does greatly reduce price volatility to the benefit of customers. UNSE further notes that significant increases in its bank balance over the last three years does not indicate that the PPFAC is not working as intended, but instead reflects the decision of the Company and the Commission to defer cost recovery and extend recovery periods on prior surcharge requests to mitigate impacts to customers during a period of high inflation in conjunction with capacity shortages and significant price increases in the wholesale power and natural gas markets.[252]

UNSE also disagrees that a 90/10 cost sharing mechanism would incentivize the Company to procure the lowest cost fuel. Instead, the Company believes it would incentivize the Company to engage in speculative trading practices, which it defines as "initiating a position with intention of profiting from a movement in the underlying price of the instrument or related commodity." UNSE notes that its Energy Risk Policies prohibit speculative trading regarding fuel and purchased power to

[250] Ex. UNSE-12 at 2 (Sheehan Rejoinder).
[251] UNSE's Opening Brief at 62.
[252] Ex. UNSE-12 at 3-5 (Sheehan Rejoinder).

protect UNSE and its customers. UNSE explains that it acquires low-cost, competitively priced fuel and purchased power for short-term resource needs through competitive Requests for Proposals ("RFPs") that lock in a fair market value at the time the RPF is conducted; and for longer-term resource needs, UNSE utilities an All-Source RFP process. The Company states that these RFP procurement processes mostly result in transactions that are locked in based on the lowest cost, but there are limited situations where the Company will enter into a transaction above the lowest cost if it provides additional reliability or operational flexibility.[253]

UNSE notes that the Commission did not adopt RUCO's proposed 90/10 sharing mechanism in TEP's recent rate case. UNSE further notes that Staff objects to the proposal.[254]

5. Resolution

We agree with the Company that the bandwidth change will allow more timely feedback for ratepayers when purchased power costs are high, which will help encourage conservation and allow customers to budget for higher costs. We further find that the Company's proposal to include WEIM-related cost recovery in the PPFAC is reasonable and unopposed. Therefore, we find that the Company's proposed changes to its PPFAC POA, as modified by Staff, are reasonable and adopted. We also adopt Staff's additional recommendation that UNSE provide notice if it intends to apply the revised PPFAC provision regarding CCAs outside of California, and Staff's recommended requirement that UNSE conduct an internal audit of its PPFAC-includable costs prior to its next rate case.[255]

We decline to adopt RUCO's 90/10 sharing mechanism. We agree with the Company and Staff that RUCO's proposal is insufficiently developed. Further, there is no evidence in the record that UNSE is not motivated to procure resources that are economically sensible, if not at the lowest cost available. We further agree with Staff that it would be imprudent to authorize a system that provides penalties and rewards for costs that are largely outside the control of the Company.

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[253] Ex. UNSE-12 at 3-4 (Sheehan Rejoinder).
[254] UNSE's Opening Brief at 62-63.
[255] The changes proposed by Staff appear to have been incorporated into the redline PPFAC POA included as Exhibit MES-R-2 to the Rebuttal Testimony of Mr. Sheehan (Ex. UNSE-10), which is attached to this Decision as Exhibit B.

B. WEIM Reporting

Staff notes that the Company began participating in the WEIM on May 3, 2022. Staff notes that UNSE anticipates $2.2 million of annual cost savings for its customers, and that based on the second quarter WEIM Market Benefits Report, UNSE customers saved approximately $1.5 million on a year-to-date basis. Staff recommends that UNSE develop its own estimate of the costs and benefits of participating in the WEIM for a full 12-month period and that UNSE report the information to the Commission once it is developed. Staff recommends that UNSE's estimates of costs and benefits from the Company's participation in the WEIM also should indicate whether UNSE is experiencing net positive benefits in each month of the 12-month period, or whether there are some months in which WEIM participation creates additional costs for the Company.[256]

We note that a similar request was made and adopted for TEP in its recent rate case.[257] Staff's recommendation is reasonable, and we adopt it. We direct UNSE to file its first annual WEIM benefits report on or before May 31, 2024, with each subsequent annual filing to be docketed by the same day.

C. Transmission Cost Adjustor

UNSE's current Transmission Cost Adjustor ("TCA") was approved in Decision No. 74235. UNSE states that since then, the Commission has adopted more detailed TCA POAs for other utilities. UNSE proposes changes to its TCA POA to conform with Commission-approved language used by other electric utilities with similar adjustors.[258]

Staff suggested minor modifications for the TCA POA, which were included in the revised TCA POA included in the Company's Rebuttal Testimony.[259] Staff recommends approval of UNSE's revised TCA POA.[260] No other party addressed the TCA POA.[261]

We approve UNSE's revised TCA POA, the redline version of which is attached to this Decision as Exhibit C.

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[256] Ex. S-10 at 18-20 (Smith Rate Direct).
[257] Decision No. 79065 at 100-101.
[258] Ex. UNSE-1 at 7 (Application); Ex. UNSE-14 at 56 (Rademacher Direct); UNSE's Opening Brief at 64; Tr. at 319 (Rademacher).
[259] Ex. UNSE-15 at 31, Exhibit JJR-R-5 (Rademacher Rebuttal).
[260] Ex. S-19 at 10 (Hunsaker Surrebuttal); Staff's Opening Brief at 19.
[261] UNSE's Opening Brief at 64.

D. Tax Expense Adjustor Mechanism

1. UNSE

UNSE requests approval of a new TEAM to replace its TCJA Tax Adjustment and allow the Company to pass through changes to tax rates in a more timely manner, replacing the current mechanism approved by the Commission to return tax credit refunds to customers. UNSE explains that the current TCJA Tax Adjustment is specific to the TCJA Federal legislation, and the proposed TEAM will include any future significant income tax changes, allowing the impact of such changes to be reflected in a timely manner without waiting for the next rate case or a special Commission decision.[262]

Specifically, UNSE states that the TEAM will provide a mechanism to pass through the following: (1) the income tax effects of tax legislation that impacted the Company's Test Year revenue requirements; (2) the change in EDIT compared to the Test Year; and (3) the accumulated balance account for the TCJA Tax Adjustment approved in Decision No. 76720. UNSE further states that this proposal is consistent with the TEAM approved for TEP in Decision No. 77856 (December 31, 2020).[263]

In addition, UNSE also proposes to amortize its accumulated property tax deferrals through the TEAM over two years. In its last rate case, the Commission authorized UNSE to defer 100% of property taxes above or below the test year level caused by changes in the composite property tax rate and changes in the Gila River valuation methodology. Lower composite property tax rates and a successful appeal of Gila River property tax values resulted in accumulated property tax deferrals at the end of the Test Year. UNSE states that those property tax deferrals can be used to credit customers and reduce their bills. UNSE proposes using the TEAM as the mechanism to issue those credits back to customers over a period of two years. UNSE believes that crediting customers through the TEAM is a simple and straightforward approach, and the Company states that property taxes would not be included in the TEAM on an ongoing basis unless authorized in a future rate case. UNSE indicates that the initial TEAM credit will be $0.0028/kWh beginning with the effective date of the rates

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[262] Ex. UNSE-1 at 7 (Application); Ex. UNSE-14 at 54 (Rademacher Direct); UNSE's Opening Brief at 65.
[263] Ex. UNSE-14 at 54 (Rademacher Direct).

approved in this Decision, with an approximate impact of a $2.80 reduction in an average monthly bill.[264]

2. Staff

Staff supports the Company's proposed TEAM, stating that it will provide the Company with a mechanism to address future changes in federal and state tax legislation, and will enable it to address accumulated balances in its TCJA balancing account. Staff's review of the proposed TEAM POA found it consistent with those approved by the Commission, and consistent with that approved by the Commission for TEP in Decision No. 77856 (December 31, 2020).[265]

Staff initially opposed including property taxes in the TEAM, stating that changes in property tax rates would be best addressed in a separate Property Tax Adjustor Mechanism ("PTAM").[266] Staff later determined that it did not support a PTAM because it was inconsistent with the objective of reducing and eliminating adjustor mechanisms.[267] Staff now agrees to returning the accrued property tax deferrals to customers through the TEAM, so long as the TEAM does not include property tax changes on an ongoing basis.[268]

3. Resolution

The Company's proposed TEAM is reasonable and unopposed. We approve the proposed TEAM and POA, and authorize the existing property tax deferral to be returned through the TEAM, but agree with Staff that property tax changes should not be included in the TEAM on an ongoing basis. The Company's proposed TEAM POA that included accumulated property tax deferrals was submitted with the Company's Direct Testimony and is attached to this Decision as Exhibit D. Minor modifications are necessary and should be made by the Company to clarify that property tax changes will not be included on an ongoing basis.

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[264] Ex. UNSE-14 at 55-56 (Rademacher Direct); Ex. UNSE-16 at 13-14 (Rademacher Rejoinder); UNSE's Opening Brief at 65-66; Tr. at 313-316, 318 (Rademacher), 463 (Elliott).
[265] Ex. S-10 at 20-21 (Smith Rate Direct).
[266] Ex. S-6 at 21-22 (Smith Rate Direct).
[267] Ex. S-8 at 15 (Smith Rebuttal).
[268] Tr. at 683, 688 (Smith); Staff's Opening Brief at 21.

E. Three-Year EE Implementation Plan and DSM Surcharge

1. UNSE

In accordance with Decision No. 75697, UNSE currently recovers DSM costs through a DSM surcharge, and the calculation for the rate is set forth in the DSM Surcharge POA. The DSM program costs include energy efficiency and demand response programs, along with energy efficiency performance incentives, and are recovered through a monthly per-kWh charge applied monthly to each customer unless exempted by the Commission. Following the Commission's direction in Decision No. 78499 (March 2, 2022),[269] UNSE initially proposed to account for its energy efficiency programs as a regulatory asset in rate base and to amortize the resources over seven years, eliminating its DSM surcharge.[270] Because of opposition from Staff and RUCO, UNSE now proposes to maintain its DSM surcharge and recover DMS costs through a revised DSM Surcharge POA.[271]

UNSE proposes to continue its current DSM Performance Incentive mechanism, which was established in Decision No. 72747 (January 20, 2012), and most recently approved in Decision No. 77206 (May 29, 2019). UNSE states that the Performance Incentive mechanism motivates UNSE to develop innovative programs that maximize savings for customers.[272]

UNSE proposes a Three-Year Energy Efficiency ("EE") Implementation Plan. UNSE states a Three-Year Plan will create a more efficient process and reduce administrative costs going forward. UNSE notes that prior to the recent approval of its 2022 EE Plan by the Commission in Decision No. 79096 (September 11, 2023), it had been eight years since approval of its energy efficiency/DSM programs. UNSE states that it filed several required annual or bi-annual proposed EE Implementation Plans that were not acted on by the Commission, and moving to a three-year planning cycle will reduce redundancy and save time for UNSE and Staff, while providing sufficient oversight. Further, UNSE states that a three-year planning and implementation cycle will align with the three-year cycle approved

[269] Decision No. 78499 directed APS, TEP, and UNSE to include in their next rate cases proposals for including DSM investments in rate base.
[270] Ex. UNSE-1 at 7 (Application); Ex. UNSE-6 at 11 (Dukes Direct).
[271] Ex. UNSE-7 at 18 (Dukes Rebuttal).
[272] Ex. UNSE-6 at 19 (Dukes Direct).

for TEP in Decision No. 79065, which will support operational efficiency and coordinated planning between UNSE and TEP.[273]

The final proposed plan updates the programs, measures, and budgets in accordance with the 2022 UNSE EE Plan approved in Decision No. 79096. UNSE's final proposed Three-Year Plan removes or modifies several programs and measures including removing the Residential Shade Tree program; removing 22 proposed measures from the Non-Residential programs; removing 5 proposed measures from the Residential programs, including smart thermostats, custom whole building, early retirement of HVAC with Quality Installation, HVAC replacement with Quality Installation, and Energy Smart multi-family new construction; removing funding for the Innovative Customer Pilot Framework while allowing the program to be approved and funded in the Research and Development budget; modifying eligibility for two residential measures to be available only for low-income customers, including custom HVAC and air sealing and attic insulation measures; modifying the Advanced Rooftop Controls pilot to limit eligibility to qualifying schools and government facilities; and modifying the Load Management Pilot to remove eight measures.[274]

UNSE states that the Commission approved an EE Implementation Plan in Decision No. 79096 with an annual budget of $4,305,744 and a performance incentive of $324,691, but that the Commission did not adjust the DSM surcharge rate at that time. The proposed budget for the Three-Year EE Plan is $13,891,306, a reduction from the originally proposed plan budget of $18,672,386, resulting from the changes made to conform the Three-Year EE plan to the 2022 EE Plan approved by the Commission. UNSE proposes an increase to the DSM Surcharge from the current rate of $0.001500/kWh to $0.002506/kWh, to correspond to the proposed budget for the Three-Year EE Plan.[275] The expected bill increases attributable to the proposed DSM Surcharge increase for residential customers is as follows:[276]

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[273] Ex. UNSE-6 at 21-22 (Dukes Direct); Ex. UNSE-7 at 21 (Dukes Rebuttal); Ex. UNSE-8 at 10-11 (Dukes Rejoinder); UNSE's Opening Brief at 35.
[274] Ex. UNSE-8 at 8-9 (Dukes Rejoinder).
[275] Ex. UNSE-8 at 9-10 (Dukes Rejoinder).
[276] Ex. UNSE-29 at 4-5, Exhibit JME-RJ-5 (Elliott Rejoinder); UNSE's Opening Brief at 36.

Rate Plan	Annual Monthly Usage (kWh)	DSM Monthly Bill Increase ($)	DSM Monthly Bill Increase (%)
Residential Basic ERRES			
25th Percentile	393	$0.40	0.5%
50th Percentile	765	$0.77	0.6%
Average	952	$0.96	0.6%
75th Percentile	1,300	$1.31	0.6%
90th Percentile	1,969	$1.98	0.6%
95th Percentile	2,469	$2.48	0.6%
Residential TOU ERREST			
25th Percentile	420	$0.42	0.6%
50th Percentile	773	$0.78	0.6%
Average	926	$0.93	0.6%
75th Percentile	1,262	$1.27	0.6%
90th Percentile	1,840	$1.85	0.6%
95th Percentile	2,277	$2.29	0.7%
Residential Demand ERRESD			
25th Percentile	372	$0.37	0.5%
50th Percentile	776	$0.78	0.6%
Average	944	$0.95	0.6%
75th Percentile	1,357	$1.37	0.7%
90th Percentile	1,959	$1.97	0.7%
95th Percentile	2,354	$2.37	0.7%
Residential Demand TOU ERRESDT			
25th Percentile	493	$0.50	0.5%
50th Percentile	893	$0.90	0.6%
Average	1,044	$1.05	0.6%
75th Percentile	1,425	$1.43	0.7%
90th Percentile	2,001	$2.01	0.7%
95th Percentile	2,406	$2.42	0.7%

UNSE requests that the Commission approve its revised DSM Surcharge POA, which incorporates the three-year planning cycle, and its Three-Year EE Implementation Plan, which the Company states mirrors the plan approved in Decision No. 79096. UNSE also requests approval of a DSM Surcharge rate of $0.002506/kWh .[277]

2. Staff

Staff does not support recovery of DSM costs through base rates, stating that it would cost ratepayers more money in the long term because the Company would earn a return on the costs.[278]

Staff has reviewed the Company's revised Three-Year EE Implementation Plan and the proposed DSM surcharge, and supports their approval.[279]

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[277] UNSE's Opening Brief at 35-36.
[278] Ex. S-19 at 10-11 (Hunsaker Surrebuttal); Ex. S-2 at 10 (Deezua Direct).
[279] Tr. at 769-770; Staff's Opening Brief at 21.

3. SWEEP

SWEEP recommends approval of the proposed Three-Year EE Plan, noting that it includes a new load management pilot and updated energy savings goals. SWEEP also notes that UNSE determined the plan is cost effective, with forecasted benefits that exceed the budgeted costs. SWEEP further states that ratepayers will benefit from the proposed Three-Year EE Plan because it has a 1.73 cost benefit ratio, and is forecasted to produce 975,481 MWhs in lifetime energy savings and 25 MW in peak demand savings.[280]

SWEEP supports and prefers the Company's original proposal to recover DSM costs through a regulatory asset in rate base amortized over seven years, replacing the DSM surcharge mechanism for recovery. SWEEP does not believe that moving DSM costs into base rates would reduce transparency for ratepayers because it would be consistent with the treatment of other energy resources. However, SWEEP also acknowledges that it is reasonable to use a cost recovery approach that maintains reliable and stable DSM funding sources, and SWEEP accepts continuing recovery through a surcharge if the DSM Surcharge is increased enough to allow UNSE to spend the full authorized budget.[281]

SWEEP recommends that UNSE consider implementing an ongoing Request for Information process to improve program delivery and design. SWEEP explains that an open process would encourage greater participation from local installers, contractors, and auditors; and should seek input from EE implementation partners on program design. SWEEP notes that UNSE has had difficulty historically with achieving the planned savings. SWEEP further recommends that UNSE conduct a customer segmentation analysis and establish metrics to track the effectiveness of its education and outreach efforts.[282]

4. UNSE Response

UNSE states that it currently is taking steps to improve program delivery, design, and participation. For example, UNSE conducts periodic Request for Information processes as needed to improve program design and delivery, and conducts customer segmentation analyses to identify

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[280] Ex. SWEEP-1 at 5, 8 (Potter Direct); Ex. SWEEP-2 at 3-4 (Potter Surrebuttal).
[281] Ex. SWEEP-1 at 12 (Potter Direct); Ex. SWEEP-2 at 4-5 (Potter Surrebuttal); SWEEP's Opening Brief at 2.
[282] Ex. SWEEP-1 at 8 (Potter Direct).

opportunities for DSM program participation. UNSE agrees to working with SWEEP to discuss additional suggestions.[283]

5. Resolution

Based on the evidence, we find that the recovery of EE/DSM costs through base rates would make these charges less transparent to ratepayers. Therefore, we find that it is reasonable to retain the DSM Surcharge mechanism as now proposed by UNSE.

Because UNSE has explained the steps it has taken to improve DSM program delivery, design, and participation, and because it has agreed voluntarily to work with SWEEP to discuss additional recommendations, we decline to order UNSE to engage in additional specific processes.

No party opposed the Three-Year EE Implementation Plan, the revised DSM Surcharge POA, or the DSM Surcharge rate of $0.002506/kWh. We find that a One-Year EE Implementation Plan is reasonable and we adopt it. The revised DSM Surcharge POA[284] is adopted; however, the proposal to increase the DSM surcharge rate is not approved and the current DSM surcharge rate of $0.001500/kWh shall remain in effect.

F. REST Surcharge

At present, UNSE's REST program costs are collected through a separate monthly REST surcharge to customers. The REST surcharge recovers costs for compliance with the Commission's Renewable Energy Standard as set forth in A.A.C. R14-2-1801 through R14-2-1816. UNSE updates its REST Implementation Plan and budget each year and submits the revisions to the Commission for approval. Annual updates allow the recovery of the costs of compliance. The surcharge recovers the above-market costs of renewable energy purchased power agreements, the ongoing Performance-Based Incentives provided through long-term contracts with commercial customers with distributed generation, and payments for excess energy produced by distributed generation as calculated through the use of the Resource Comparison Proxy rate for residential and small commercial customers not

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[283] Ex. UNSE-7 at 18, 22 (Dukes Rebuttal).

[284] A copy of the revised DSM Surcharge POA was included as Exhibit DJD-R-1 to the Rebuttal Testimony of Mr. Dukes, and is attached to this Decision as Exhibit E.

grandfathered under net metering. The REST includes a cap on monthly surcharges that varies by rate class.[285]

Following the Commission's direction in Decision No. 78237 (September 1, 2021),[286] UNSE initially proposed to include in base rates the costs currently recovered through the REST surcharge, thus eliminating the REST surcharge.[287] After considering concerns raised by Staff regarding the timeliness of cost recovery and customer credits if REST costs are over collected, UNSE revised its proposal to maintain the REST surcharge currently approved by the Commission in accordance with the Commission-approved POA.[288]

Staff recommends that UNSE continue to use the current REST surcharge mechanism approved by the Commission. Staff believes that recovery of REST and related costs through a deferral account would be less transparent and could result in an overcollection that cannot be addressed outside of a rate case.[289]

We note that the Company complied with the Commission's directive in Decision No. 78237 by submitting a proposal to eliminate the REST Surcharge and place the costs in base rates. However, given the concerns expressed by the parties and UNSE's subsequent withdrawal of its REST proposal, we find that it is reasonable to retain the Company's REST Surcharge consistent with the terms of its current POA.

G. Lost Fixed Recovery Mechanism

UNSE's LFCR provides for partial recovery of the lost revenues resulting from sales reductions associated with the REST surcharge. UNSE states that it is not proposing any modifications to the current structure or POA for its LFCR.[290] No other party has proposed changes to this adjustor.[291]

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[285] Ex. UNSE-6 at 8-9 (Dukes Direct).
[286] Decision No. 78237 ordered UNSE to collaborate with Staff to develop and file, on or before July 1, 2022, a proposal for Commission approval to phase out its REST surcharge.
[287] Ex. UNSE-1 at 6 (Application); Ex. UNSE-6 at 9-10 (Dukes Direct).
[288] Ex. UNSE-7 at 18 (Dukes Rebuttal); Ex. UNSE-15 at 30-31 (Rademacher Rebuttal); UNSE's Opening Brief at 34.
[289] Ex. S-20 at 7 (Deezua Direct); Ex. S-21 at 6-7 (Deezua Surrebuttal).
[290] UNSE's Opening Brief at 66.
[291] Staff's Opening Brief at 19.

XII. System Reliability Benefits Proposal

A. UNSE

In its application, UNSE proposed an RTM to recover the revenue requirement for investments in new energy resources and some demand-side management measures and environmental controls. The Company stated that the RTM would support its resource transition plan and help mitigate the bill impacts that would result if the costs were unrecovered between rate cases.[292] In its Rebuttal Testimony, following feedback from Staff, the Company modified its proposed RTM to model the Commission-approved SIB for water and wastewater utilities. UNSE acknowledges the differences with electric utilities, but states that the intent of both mechanisms is the same—to improve the affordability and reliability of service, in the case of UNSE, by supporting the addition of cost-effective generation resources. Consequently, UNSE now proposes an SRB to support the replacement of energy and capacity from wholesale power purchases.[293]

UNSE states that it designed the SRB to support its plan to increase the amount of owned generation resources and to develop resources cost effectively while meeting the increasing energy needs of its customer base. UNSE emphasizes the importance of the SRB for two main reasons. First, UNSE is heavily reliant on the wholesale market for power, which results in greater price volatility for the Company and its customers. Although UNSE has made efforts to increase its ownership of generation resources in the past several years, the Company states that approximately 40% of customers' energy needs come from the wholesale market. UNSE contends that the SRB will stabilize long-term fuel and purchased power costs and will support reliability by increasing the amount of generation resources owned and controlled by the Company. UNSE also argues that the SRB supports rate gradualism by reducing the frequency and magnitude of future rate cases and will provide for gradual bill increases over time.[294]

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[292] Ex. UNSE-1 at 6 (Application); Ex. UNSE-6 at 3 (Dukes Direct).

[293] Ex. UNSE-5 at 1 (Gray Rebuttal); Ex. UNSE-7 at 1, 12 (Dukes Rebuttal); Ex. UNSE-8 at 5 (Dukes Rejoinder); Tr. at 121 (Gray).

[294] Ex. UNSE-5 at 1-2 (Gray Rebuttal); Ex. UNSE-7 at 2, 6, 10 (Dukes) Rebuttal); Ex. UNSE-8 at 2-3, 7-8 (Dukes Rejoinder); UNSE's Opening Brief at 52.

Second, UNSE notes that it is a relatively small utility, which makes it difficult to finance large investments while maintaining its financial stability and investment grade credit rating.[295] UNSE states that Moody's has noted several challenges affecting the Company's credit rating, including UNSE's small size, and the lengthy rate case process in Arizona and use of a historical test year, which contributes to regulatory lag. UNSE argues that with its plans for future capital spending, timely cost recovery will be important to the Company's financial strength moving forward.[296]

UNSE states that new energy resources are a risky investment for small utilities because of rising costs. UNSE indicates that it could reasonably be expected to pay between $180 million and $255 million for 150 MW of firm generating capacity, which is a need the Company has been seeking to address through its ongoing All-Source RFP process. UNSE further states that this amount of investment would represent between 45% and 64% of the requested OCRB in this case and a significant amount of the Company's net income. UNSE argues that these costs, in combination with regulatory lag, make the investments challenging for UNSE and explain its continued reliance on wholesale markets. UNSE believes that constructing its own generation resources without the SRB likely is not feasible, and the Company would be required to enter into partnerships to develop such resources.[297] UNSE contends that the SRB will maintain or strengthen its financial health, which will assist in attracting debt and equity capital on favorable terms, lowering costs for customers.[298]

UNSE explains that the urgency to develop generation resources is a relatively new issue because surplus capacity from natural gas facilities has been absorbed by utilities through purchased power agreements or acquisitions in the last few years, and with increasing load growth the problem will continue to worsen without additional construction.[299] UNSE states that its reliance on purchased power agreements is untenable because of limited availability in the Western regional grid. The Company notes that new technology, such as battery storage facilities, would allow UNSE to reduce its power purchases during peak periods, which reduces the purchased power costs passed on to

[295] Ex. UNSE-5 at 1-2 (Gray Rebuttal); Ex. UNSE-7 at 2, 6, 10 (Dukes) Rebuttal); Ex. UNSE-8 at 2-3, 7-8 (Dukes Rejoinder); UNSE's Opening Brief at 52.
[296] Ex. UNSE-17 at 4 (Pritz Direct).
[297] Ex. UNSE-5 at 2-3, 5 (Gray Rebuttal); Ex. UNSE-7 at 5, 9 (Dukes Rebuttal); UNSE's Opening Brief at 52; Tr. at 126 (Gray), 218-219 (Dukes).
[298] Ex. UNSE-7 at 7 (Dukes Rebuttal); UNSE's Opening Brief at 53.
[299] Tr. at 283-285 (Sheehan).

customers, resulting in a direct benefit to customers prior to the next rate case.[300] UNSE states that although customers benefited from the reliance on market power in the past, additional investment in generation resources is necessary to mitigate exposure to future increases, particularly because of capacity shortages in California and the Southwest.[301]

UNSE further explains that its most recent Integrated Resource Plan ("IRP") indicated that additional generation resources were needed by the Company to meet the increasing energy needs of its customers, identifying a 200 MW shortfall in peaking capacity. By acknowledging the IRP in Decision No. 78499 (March 2, 2022), UNSE states that the Commission supports its goal of increasing its own energy production to limit exposure to instability in the wholesale energy market. UNSE explains that the SRB also will help the Company achieve its goal of providing 50% of retail sales from renewable energy resources by 2035 as established in its 2020 IRP. The SRB, UNSE further explains, is a necessary mechanism for making the investments affordable, particularly in light of the Company's weakening financial metrics. In contrast to other Arizona electric utilities, like TEP and APS, UNSE states that its relative size, the rural nature of its service territory, and the lack of a well-populated base of operations to support revenue generation, support approval of an SRB in this case.[302]

UNSE proposes a minimum $25 million rate base investment because larger resource investments are a particular challenge for regulatory lag, and including a minimum investment amount ensures that the SRB will be limited in scope. The proposed SRB will include any qualified resource selected through an All-Source RFP, which can include any resource that provides safe, reliable, and affordable energy. UNSE states that the SRB will be technology neutral to maximize the safety, reliability, and affordability of future resource acquisitions.[303]

Similar to the SIB mechanism, UNSE states that the SRB will offer a benefit to customers through the timely sharing of any potential tax benefits associated with resource investments. The SRB will allow the Company to make qualified investments under the Inflation Reduction Act ("IRA"), which contains tax provisions for energy storage and renewable energy resources, and to match cost

[300] Ex. UNSE-5 at 2-3, 5 (Gray Rebuttal); Ex. UNSE-7 at 5, 9 (Dukes Rebuttal); UNSE's Opening Brief at 52; Tr. at 126 (Gray), 167-168 (Dukes).
[301] Ex. UNSE-9 at 16 (Sheehan Direct).
[302] Ex. UNSE-5 at 3 (Gray Rebuttal); Ex. UNSE-7 at 2, 9 (Dukes Rebuttal).
[303] Ex. UNSE-5 at 2 (Gray Rebuttal); Ex. UNSE-7 at 3, 4 (Dukes Rebuttal).

recovery with the tax benefits, which will result in savings for customers sooner than a rate case. In addition, UNSE will reduce the calculated revenue requirement for investments included in the SRB by 5%, an "efficiency credit," resulting in a direct and quantifiable credit for customers. In the Company's next rate case, the remaining investment would be included in rate base and the efficiency credit would be discontinued. UNSE's proposed POA for the SRB also includes an earnings test and a 3% year-over-year cap on revenue collection, which ensures that any recovery through the SRB does not result in a return that exceeds the Company's most recently authorized return.[304]

UNSE also states that the proposed POA for the SRB is similar to that approved for the SIB mechanism. UNSE states that although there is no requirement for rate case filings, the Company only can seek five SRB surcharges between rate case decisions, and only one per year. In addition, although preapproval of projects is not a requirement, the POA includes semi-annual reporting with each phase, including the IRP, All Source RFP, and Completed in Service Project, all of which leads up to a SRB surcharge request, which must be approved by the Commission. Also, UNSE states that like the SIB, the projects must be completed and actively serving customers before inclusion in the SRB. Further, when requesting an SRB surcharge, the Company must submit current financial documents; the tax multiplier, depreciation rate, and authorized ROR must be the same as that approved in the most recent rate case; a true-up calculation must be conducted to reconcile revenue collected with the revenue authorized; and the surcharge must be clearly displayed on customer bills.[305]

In addition, UNSE notes that the POA requires progress reports, which would include what projects came out of the All Source RFP that could be included in the SRB, and any project that was chosen and constructed would go on a schedule showing all costs and benefits and timing of when it would go into effect. Interested parties would have access to reports, and 60 days prior to requesting an SRB surcharge, the Company would file a notice of intent that would include additional information, with opportunity for review of supporting data.[306] At this time, UNSE states that it currently is in

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[304] Ex. UNSE-7 at 3-6 (Dukes Rebuttal); UNSE's Opening Brief at 51-52.
[305] Ex. UNSE-7 at 13-14 (Dukes Rebuttal).
[306] Tr. at 212-213 (Dukes).

negotiations with four different project developers for projects that would go into service in 2026 if selected.[307]

UNSE argues that the structure of its proposed SRB is not "outside the norm." UNSE notes that infrastructure investment between rate cases is not new, referencing the SIB mechanism and the environmental infrastructure investment adjustors for TEP and APS. UNSE maintains that Arizona law permits capital recovery outside the traditional ratemaking process. UNSE contends that the SRB and the proposed POA are modeled closely after the SIB, which has been upheld as constitutional.[308] In addition, UNSE states that half of U.S. utilities have an adjustor or tracking mechanism for utility infrastructure investments.[309]

UNSE requests that the Commission approve the POA submitted as Exhibit DJD-R-2 to the Rebuttal Testimony of Mr. Dukes, and attached to this Decision as Exhibit F.[310]

B. Staff

Staff recommends approval of the proposed SRB, stating that it contains a similar structure to the SIB mechanisms approved by the Commission for water and wastewater companies, contains an efficiency credit for customers, and will reduce UNSE's reliance on the wholesale energy market. Staff notes several benefits, including reliability for existing customers because the SRB will provide regulatory support for investment in new generation resources, which will support long-term reliability and affordability for customers. Staff also notes that the SRB promotes rate gradualism, will reduce the frequency and magnitude of future rate cases, and will mitigate regulatory lag. Staff states that a generating resource is an important component for meeting UNSE's long-term objective of reducing reliance on wholesale energy markets.[311]

Staff acknowledges the recent volatility in the energy market and states that increased ownership of generation resources by UNSE may be a strategy to protect customers from high energy rates. Staff states that although UNSE's hedging program is well-designed and achieves its objective,

[307] Tr. at 283 (Sheehan).
[308] UNSE's Opening Brief at 53-54, 58.
[309] Ex. UNSE-6 at 5 (Dukes Direct).
[310] UNSE's Opening Brief at 50-51; Ex. UNSE-7 at Ex. DJD-R-2 (Dukes Rebuttal).
[311] Ex. S-21 at 1-2, 3-4, 6 (Deezua Surrebuttal).

UNSE is more exposed to fluctuations in power prices than TEP or "many other utilities" because it owns relatively little generation.[312]

Comparing it to the SIB, Staff states that the proposed SRB is designed to facilitate development of plant that will ensure reliable and cost-effective electric service. Reliability, Staff contends, is particularly important for UNSE because of its limited amount of generation resources and its heavy reliance on wholesale markets. Staff notes that the SIB Settlement Agreement approved in Decision No. 73938 (June 27, 2013), requires plant investments to be for maintaining or improving existing service, reliability, integrity, and safety, and not to extend facilities or capacity for new customers. Staff states that UNSE acknowledges SRB projects will be necessary to provide proper, adequate, and reliable service for existing customers, and are not designed to serve or promote customer growth. Staff contends that the proposed SRB POA is almost identical in structure to the SIB POAs. And like the SIB, Staff states that the SRB rate adjustments will be based on a current finding of the fair value of UNSE's property.[313]

Staff agrees that the SRB will help the Company work towards its goal of providing 50% of sales to retail customers from renewable energy sources by 2035 as stated in its 2020 IRP. Staff notes that the Commission acknowledged UNSE's 2020 IRP as being reasonable and in the public interest in Decision No. 78499. The IRP described a goal of shifting from purchased power to greater reliance on owned generating resources. Staff believes that ownership of additional generating resources is critical to meeting the Company's long-term objective of reducing reliance on wholesale energy markets.[314]

Staff notes that the SRB POA requires a minimum rate base investment of $25 million for qualifying resources, which limits the eligibility of projects. The POA also includes an earnings test so that any recovery does not result in a return that exceeds the return approved in this Decision. The 5% efficiency credit also provides customers with direct and quantifiable savings. In addition, Staff states that the POA outlines a tax benefit sharing methodology that will ensure any applicable tax benefits associated with future resource development will be included in the SRB and passed to

[312] Ex. S-12 at 10-11 (Medine Direct).
[313] Ex. S-21 at 5 (Deezua Surrebuttal).
[314] Ex. S-21 at 4 (Deezua Surrebuttal).

customers. In addition, Staff states that the SRB will not recover any costs from customers until the qualifying generation resource is in service and revenue recovery is approved by the Commission.[315] Staff did not take a position on when a prudency determination should be made but acknowledged that an adverse prudency determination in a future rate case carries risks.[316] Staff supports the SRB POA included in UNSE's Rebuttal Testimony.[317]

C. RUCO

RUCO opposes the SRB and characterizes it as single-issue ratemaking. RUCO states that its position is the same as it was regarding the proposed SRB in TEP's recent rate case. RUCO argues that adjustor mechanisms to recover significant capital investments "advance the narrow self-interests of utilities by bypassing the traditional rate case process for plant additions." RUCO further contends that the SRB would shift risk to customers, lead to less regulatory oversight, minimize stakeholder input, and reduce regulatory lag such that customers would see rate increases sooner. RUCO argues that the traditional rate making process allows parties to debate the prudency and "used and useful" determinations of plant additions, protecting ratepayer interests.[318]

RUCO disagrees with Staff and the Company that the proposed SRB is similar to a SIB, stating that the only similarity is that they both allow cost recovery from the addition of plant between rate cases. RUCO states that the purpose of a SIB is to replace aging and deteriorating water and wastewater infrastructure, and that SIBs have not been authorized for electric utilities. RUCO notes that the proposed SRB will not be used to replace aging revenue neutral plant. In addition, RUCO states that the SIB is limited to five plant accounts, primarily pipes that leak. In contrast, RUCO explains that the SRB includes 30 different plant accounts, which is more extensive and varied.[319]

RUCO acknowledges that the proposed SRB includes an efficiency credit, the purpose of which is to provide some cost reductions to customers, which makes it appear more like a SIB. RUCO believes that the efficiency credit should be greater than 5%. RUCO also acknowledges that the proposed SRB requires a project to cost over $25 million before it can be included in the SRB. RUCO

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[315] Ex. S-21 at 2, 4-5 (Deezua Surrebuttal).
[316] Tr. at 823 (Deezua)
[317] Ex. UNSE-8 at 4 (Dukes Rejoinder).
[318] Ex. RUCO-4 at 3-4 (Michlik Surrebuttal); Tr. at 509 (Michlik).
[319] Ex. RUCO-4 at 4-6, 9 (Michlik Surrebuttal); RUCO's Closing Brief at 8.

further states that even though the Company's proposal includes an Earnings Test like the SIB, the Earnings Test could be circumvented easily. As an example, RUCO states that if the utility knew it would not pass the Earnings Test, it could give all employees a raise to pass the test, providing the utility with a perverse incentive unfavorable to ratepayers.[320]

RUCO further states that the Company has not done a cost study to show how much ratepayers may benefit in the future from the SRB. RUCO notes that the cost of solar, wind, and battery storage have decreased over time. RUCO maintains that rates are more fair when set with traditional ratemaking, absent a regulatory mandate to accelerate the placement of renewable energy or new technology, because the costs of new technology decrease over time and supply chain issues are expected to improve. RUCO states that the SRB costs will be passed to ratepayers, without any consideration of the cost savings associated with new plant, such as lower operating and maintenance expenses.[321]

RUCO emphasizes that the Commission rejected TEP's similar SRB request in its recent rate case, instead encouraging TEP to meet with Staff and stakeholders to discuss such a proposal before its next rate case. RUCO maintains that there are only two differences between UNSE's proposal and TEP's—the efficiency credit and a lower investment floor. RUCO argues that the concerns articulated by the Commission regarding TEP's proposal have not been resolved here.[322]

RUCO also raises concerns with the lack of a prudency determination until the Company's next rate case, and no rate case filing requirement. RUCO states that a determination of imprudency following a minimum $25 million investment would result in significant financial harm to the Company, likely making such a determination impossible.[323] RUCO acknowledges that a determination of prudency prior to include a project in the SRB would address some, but not all, of its concerns, but that a full rate case process would be more efficient.[324]

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[320] Ex. RUCO-4 at 8-9 (Michlik Surrebuttal); Tr. at 529 (Michlik).
[321] Ex. RUCO-4 at 9-10 (Michlik Surrebuttal); RUCO's Closing Brief at 7.
[322] RUCO's Closing Brief at 5-6.
[323] RUCO's Closing Brief at 9-10; RUCO's Responsive Brief at 2; Tr. at 510-511 (Michlik).
[324] Tr. at 564-565, 589 (Michlik).

D. UNSE Response

UNSE contends that in opposing the SRB, RUCO did not acknowledge the unique characteristics of UNSE, including its resource mix. UNSE disagrees with RUCO that the SRB will shift risk to customers and result in less regulatory oversight. UNSE states that the SRB will assist in developing new generation resources, which will reduce risk for customers by helping stabilize long-term fuel and purchased power costs, and will support reliability through the ownership of more generation resources. Further, UNSE states that the SRB will provide more regulatory oversight because the POA requires specific data and information to be filed for each qualifying investment, and requires Commission approval prior to inclusion in the SRB. In addition, SRB investments will be subject to the same scrutiny as all other investments in future rate cases, requiring Commission approval before inclusion in rate base.[325]

In response to RUCO's contention that the SRB is a "significant departure from traditional ratemaking," UNSE states that the use of a historical test year and the length of time to process a rate case limits the ability of the Company to invest in generation resources. The Company notes that new rates in this case are expected to be effective 20 months after the end of the Test Year. UNSE argues that the SRB would provide regulatory support to invest in generation that is necessary for long-term reliability and financial stability.[326] UNSE disagrees with RUCO that the SRB will accelerate cost recovery and cost ratepayers more. Instead, UNSE states that the SRB promotes gradualism and will reduce the frequency and magnitude of rate cases, and the efficiency credit will reduce the overall impact on ratepayer bills.[327]

In response to RUCO's criticism of the number of Plant Accounts eligible for inclusion in the SRB, UNSE states that qualifying resources under the SRB will be acquired through an All-Source RFP that is technology agnostic and that selects the most cost-effective technology meeting the requirements of the RFP. UNSE argues that narrowing the list of Plant of Accounts would impose a limit on eligible technologies that would undermine the benefits of an All-Source RFP, potentially increasing costs to customers form lack of flexibility. In addition, UNSE states that the All-Source

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[325] Ex. UNSE-8 at 4 (Dukes Rejoinder).
[326] Ex. UNSE-7 at 3 (Dukes Rebuttal).
[327] Ex. UNSE-7 at 15 (Dukes Rebuttal).

RFP mitigates RUCO's concern that costs of new technology decrease over time and that supply chain issues are expected to improve.[328]

In response to RUCO's assertion that the earnings test could be circumvented, UNSE expressed disappointment that RUCO believes it would manipulate the earnings test or otherwise mislead the Commission. UNSE states that RUCO's suggestion that the Company could give all employees a raise to pass the earnings test would violate Company policies and potentially other rules and regulations. UNSE reiterated that the intent of the earnings test is to ensure that the Company does not earn a return higher than the Commission-authorized rate of return, and that it provides some protection for customers.[329]

Regarding RUCO's concerns with the lack of a prudency determination and rate case filing requirement, UNSE states that it does not oppose including a rate case filing requirement after approval of an SRB project. In addition, UNSE states that a prudency determination made in conjunction with the SRB approval process could be a positive additional part of the process.[330]

UNSE disagrees with RUCO's assertion that the credit rating agencies assume that UNSE is able to obtain financial support from Fortis. UNSE states that it is unable to rely on equity contributions from Fortis instead of the SRB for significant capital investments. UNSE notes that it is required to maintain separate debt instruments and its own credit rating as a condition of the merger. UNSE explains that it must finance its own capital expenditures without reliance on the credit metrics or financial resources of Fortis. UNSE further notes that it must rely on debt and equity to finance significant capital expenditures to maintain a balanced capital structure, and overreliance on equity would lead to a higher equity ratio and higher rates in its next rate case. In addition, UNSE states that in its most recent financing order, the Commission limited parent company capital infusions for capital expenditures and general corporate purposes to $35 million for the period of 2020 to 2024.[331]

UNSE acknowledges that the SRB was not approved in TEP's recent rate case. However, the Company notes that the proposal was included late in the TEP rate case process, but in this case, there

[328] Ex. UNSE-8 at 5-6, 7 (Dukes Rejoinder).
[329] Ex. UNSE-8 at 6 (Dukes Rejoinder).
[330] Tr. at 222-223 (Dukes); UNSE's Responsive Brief at 13-14.
[331] UNSE's Opening Brief at 54-56.

has been sufficient time to evaluate the proposed SRB.[332] In addition, UNSE states that the proposed SRB in this case has been modified to address the concerns of the Commission raised in Decision No. 79065. In reference to the criticism that the only purpose of TEP's proposed SRB was to reduce regulatory lag, UNSE states that here, the proposed SRB is designed to maintain safe, reliable, and affordable service by reducing reliance on purchased power and to reduce ratepayer exposure to volatile wholesale power markets. UNSE further clarifies that the proposed SRB will not permit recovery until a project is in service. UNSE also states that mechanisms have been added to protect ratepayers, including a 5% efficiency credit, a 3% recovery cap, an earnings test, and semiannual progress reports. UNSE emphasizes that unlike TEP, the Company is a smaller utility serving rural areas that does not own significant generation resources or have sufficient cash flow to fund capital improvement projects.[333]

E. Resolution

We find that under the circumstances presented by the evidence in this case, it is reasonable and appropriate to approve an SRB for UNSE, with significant modifications to the proposed POA. There is no dispute that it is necessary for UNSE to add new generation resources to manage the increasing volatility in the purchased power market and the significant energy shortages in the western region. We recognize that a significant rate base investment, unaddressed until the next rate case, in combination with UNSE's relatively small rate base, could result in significant rate shock for customers. We are cognizant of the numerous comments from customers expressing alarm and financial harm from the sudden and significant bill increases experienced recently as a result of changes in the PPFAC surcharge. No solution has been presented to the Commission for addressing the significant PPFAC increases for customers other than greater ownership of generation resources by the Company.

Approval of the SRB will promote gradualism and reduce the potential for additional significant increases for ratepayers following the anticipated future rate base additions from the Company's capital improvement plans. Further, although the precise amounts cannot be determined at this time, the

[332] Ex. UNSE-7 at 14 (Dukes Rebuttal).
[333] UNSE's Opening Brief at 58-60.

PPFAC surcharge paid by customers will necessarily reduce as UNSE increases its owned generation resources. RUCO's suggestion that the Company use the traditional rate case process does little to address the issue of gradualism, which we find is particularly important here in light of the comments received from ratepayers. We are less persuaded by UNSE's concerns about its credit rating and more concerned about promoting gradualism and minimizing the impact to customers from large rate base investments, but we do acknowledge that the impact of regulatory lag is more significant for a small company like UNSE.

With the evidence presented in this case, we find that the only purpose and justification for the SRB is to add new generation resources and to increase UNSE's owned generation capacity. The SRB mechanism cannot be used to replace existing plant, and any concern that the plant sought to be included in the SRB was constructed to replace existing capacity should be raised by intervenors and Staff in response to an SRB Surcharge Request. Our approval here of the SRB mechanism does not constitute approval of any future surcharge requests, each of which will be evaluated carefully and considered based on customer impacts. We presume that SRB Surcharge Requests will be balanced with avoided costs from the PPFAC, which also will be reviewed with each request.

UNSE and Staff overemphasize the similarities of the proposed SRB to the existing SIB mechanism. Regardless, we need not discuss the numerous ways in which the Company's proposed SRB is different because we conclude that our constitutional authority supports its approval. In approving an SRB request, we will use the fair value determination made in this case, adding the value of the infrastructure improvements only after they are made, and relying on additional financial statements, data, and information included with each surcharge request.[334] A full rate case is not required to satisfy our constitutional mandate under Ariz. Const. art. 15, § 14.[335]

We acknowledge that the proposal here is improved over that presented in TEP's recent rate case and provides greater protections for ratepayers, but there is room for additional improvements. In particular, we share RUCO's concern that a finding of imprudency in a subsequent rate case after including an investment in the SRB would result in significant financial harm to the Company, likely

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[334] *See Residential Utility Consumer Office v. Ariz. Corp. Comm'n*, 240 Ariz. 108, 112-113 ¶ 16 (2016).
[335] *Id.*

impeding the Commission's ability or willingness to make such a finding. The Company and RUCO agree that a prudency determination prior to including a project in the SRB is worthwhile, and Staff acknowledged the potential harm from a finding of imprudency in a rate case. The risk of an adverse prudency determination in a future rate case is too high for ratepayers and the Company. Therefore, we find that it is reasonable and appropriate to require a determination of prudency prior to including a project in the SRB.

UNSE shall include a process for determining prudency in a revised SRB POA. Specifically, the Company shall add the following provisions to Section 7 (SRB Filing and Procedural Deadlines):

- Motions to Intervene must be filed no later than 30 days after the Company files the SRB Surcharge Request. Motions to Intervene can be filed as soon as the 60-day notice provided in Paragraph 7.b is filed.
- Parties may begin discovery as soon as intervention is granted.
- Staff shall file a Staff Report and either a Proposed Memorandum and Order addressing Staff's recommended approval or denial of the SRB Surcharge Request, including a recommendation regarding prudency, or a Request for Hearing to address only the issue of prudency, within 75 days after the Company files its Surcharge Request. Objections from Intervenors to the SRB Surcharge Request and Requests for Hearing on the sole issue of prudency also shall be filed within 75 days after the Company files its Surcharge Request.
- The Company and Intervenors shall have 14 days to respond to the Staff Report, a Request for Hearing, or an Objection to the SRB Surcharge Request.
- If a Request for Hearing is filed, the hearing shall be set to occur within 30 days of the deadline for responses to Requests for Hearing, unless the parties agree to a later date or a later day is necessary due to Commission scheduling constraints. The Hearing shall be limited to the issue of prudency and scheduled for one day only unless good cause is given for additional scheduled hearing days.

- If a Hearing is held, the Commission's Hearing Division shall issue a Recommended Opinion and Order for the Commission's final determination of prudency and approval or disapproval of the SRB Surcharge Request.

In light of the above additions, UNSE shall modify the statement included at the end of Paragraph 7 to read as follows: "Commission Staff and interested parties, including but not limited to those granted Intervention, shall have the opportunity to review the SRB filing and supporting data. The new SRB will not go into effect until approved by the Commission."

If a Hearing is held, it shall be limited to the issue of the prudency of the Company's investment. No other issues raised in the Staff Report, Responses to the Staff Report, or Objections to the SRB Surcharge Request will be addressed at the Hearing. In noting the limited nature of the Hearing, we remind parties of the definition of "prudently invested" found in A.A.C R14-2-103(A)(3)(l):

> Investments which under ordinary circumstances would be deemed reasonable and not dishonest or obviously wasteful. All investments shall be presumed to have been prudently made, and such presumptions may be set aside only by clear and convincing evidence that such investments were imprudent, when viewed in the light of all relevant conditions known or which in the exercise of reasonable judgment should have been known, at the time such investments were made.

We will maintain the same standard for prudency determinations made prior to approving an SRB Surcharge Request, presuming that the investments were prudently made, and requiring clear and convincing evidence before finding otherwise. Our determination on prudency will not be contested or readdressed in a subsequent rate case.

The proposed SRB POA does not include a specific provision regarding notice to customers, and the Company indicated that it would defer to the Commission for the appropriate notice provisions.[336] UNSE shall add to its revised POA a provision requiring that the Company mail notice of the filing of the SRB Surcharge Request to all customers with its regularly scheduled billing immediately following the filing of the SRB Surcharge Request, in a form acceptable to Staff. In addition, SRB filings will be made in a new docket, but a copy of the 60-day notice and a copy of the SRB Surcharge Request also shall be filed in this Docket.

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[336] Ex. UNSE-7 at 14 (Dukes Rebuttal).

We recognize that this is a new process for the Company, the Commission, stakeholders, and ratepayers. Therefore, we find that it is reasonable to modify several of the provisions included in the proposed SRB POA to add additional protections for ratepayers. We will reevaluate the POA in the Company's next rate case, and the Company can propose its original provisions at that time. First, we will not allow UNSE to defer amounts that exceed the 3% year-over-year cap or the earnings test for potential collection in a subsequent SRB filing. Specifically, in its revised POA, the Company shall delete the following statement from Paragraph 4: "If the Annual SRB Adjustment results in a surcharge in excess of the 3% year over year cap, any amount in excess of the 3% cap will be deferred for collection until the next SRB filing, but subject to the earnings test described in Section 9." In addition, the Company shall delete the following statement from Paragraph 9(d): "The excess amount shall be deferred for collection until a subsequent Surcharge Request, and subject to such future request's earnings test and year over year cap." In conjunction with those modifications, UNSE shall delete "deferred amounts" in the definition of Annual SRB Adjustment in Paragraph 2.

Second, we require UNSE to modify the SRB Balancing Account provisions in Paragraph 6. To the extent that actual revenues exceed the authorized SRB surcharge, that overcollection should be returned to ratepayers through a subtraction from the SRB calculation in the subsequent SRB filing. However, we will not allow the Company to collect an undercollection in subsequent filings. Paragraph 6 should be renamed appropriately with a corresponding change to the term "balancing account" in the definition of Annual SRB Adjustment in Paragraph 2, in Paragraph 7.g, and in Rate Schedule 2. The last sentence of Paragraph 6 should be modified to read: "If Annual SRB Adjustments are more than the revenues collected, the overcollection will be subtracted from the SRB calculation in the subsequent SRB filing."

In addition, the proposed POA in Paragraph 7.e allows the Company to make no more than five SRB Surcharge Requests between rate case decisions and no more than one every twelve months. We will limit the Company to three SRB Surcharge Requests before its next rate case decision, and maintain the limit on no more than one every twelve months. This limitation will encourage the Company to file a rate case sooner, without requiring it, providing the Commission and stakeholders the opportunity to review the SRB mechanism in the context of a full rate case proceeding. UNSE shall make the corresponding modification in its revised SRB POA.

The Earnings Test addressed in Paragraph 9 states that it will be based on the ACC jurisdictional allocations of UNSE's FERC Form 1 data, with allocations performed in the same manner as the methods used in UNSE's most recent rate case (Paragraph 9.b). In addition, Paragraph 9.b should be modified to require the adjustments to operating expenses adopted in the most recent rate case. Last, Schedule 2, Line 10 erroneously refers to Current Year Annual SRB Capital Carrying Costs from Schedule 1, Line 13, and instead should refer to Schedule 1, Line 20. UNSE shall include these modifications in its revised POA.

XIII. Compliance Filings and Rules and Regulations

A. Compliance Requirements

UNSE requests the removal of several compliance filings and requirements.[337] Staff agrees that the following compliance requirements can be eliminated:[338]

- The Retail Electric Competition Filing required by A.A.C. R14-2-1613. UNSE states that the Retail Electric Competition Rules are no longer relevant or necessary.
- The annual First and Final Bill Report required by Decision No. 64180 (October 30, 2001). UNSE states that very few estimated first and final bills are issued and it is cumbersome to track the few that are.
- The Annual Report on Time-of-Use Service Tariff participation, including savings and benefits, required by Decision No. 70440 (July 28, 2008). UNSE states that an appropriate TOU rate design should be considered by the Commission in rate cases.
- The Annual Report identifying worst performing circuits and what steps are being taken to mitigate poor performance required by Decision No. 71914 (September 30, 2010). UNSE states that it has an ongoing obligation to provide safe and reliable service, and to report on any significant outages, in addition to the system performance review conducted with financing authorizations and rate cases.

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[337] Ex. UNSE-24 at 24-25 (Petersen Direct).

[338] Ex. S-17 at 13-19 (Kern Direct); Staff's Opening Brief at 8-9.

UNSE also requested to remove the requirement to file the annual Meter Maintenance and Testing Report required by A.A.C. R14-2-209(E)(2) on the basis that Arizona's electric cooperatives were granted a waiver of the requirement. Staff recommends that the requirement, which reports the number of meters tested by the Company and the number outside the acceptable error allowance, remain in effect. Staff states that the report is required by the rules and UNSE's customer base is larger than most of the cooperatives that were granted a waiver.[339] UNSE accepts Staff's recommendation.[340]

B. CARES-Related Compliance Requirement

UNSE requests to eliminate a compliance filing requirement from Decision No. 74566 (June 20, 2014), which requires UNSE to provide information about the CARES program to customers who are significantly late in paying their bills for the first time. UNSE states that with the disconnection rules now in place, the requirement is not necessary because there is no longer a concern about allowing sufficient time for outreach and education about the program before disconnection. UNSE emphasizes that it will continue to notify customers of the CARES program, but that the filing requirement is not necessary. UNSE further states that it has robust CARES outreach efforts, and the Commission has received reports about such efforts for nine years. UNSE explains that CARES enrollment and payment assistance information is included on every bill with a disconnect notice, a CARES bill insert is included two times each year, CARES and general payment assistance information is shared quarterly on social media, information is shared on the radio twice each year, a newspaper print advertisement runs once a year, digital ads are placed on newspaper websites, and brochures in Spanish and English are distributed year-round.[341]

Wildfire initially opposed the Company's proposal, expressing concerns about enrollment in the CARES program. Wildfire stated that the requirement for UNSE to notify customers who are significantly late on their bill benefits customers who are eligible for the CARES program, noting that early enrollment in the CARES program can reduce arrearages and late fees.[342] Following testimony at the hearing, Wildfire indicates that it does not oppose eliminating the requirement for UNSE to

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[339] Ex. S-17 at 13-18 (Kern Direct); Staff's Opening Brief at 8.
[340] Ex. UNSE-25 at 8 (Petersen Rebuttal); UNSE's Opening Brief at 68.
[341] Ex. UNSE-24 at 25 (Petersen Direct); Ex. UNSE-25 at 8-9 (Petersen Rebuttal); UNSE's Opening Brief at 67; Tr. at 400 (Petersen).
[342] Ex. WF-1 at 14-16 (Michael Direct).

include certain information in a cover sheet to the report required by Decision No. 74566, but believes that the requirement from that Decision to require the Company to notify customers about the CARES program when they are significantly late in paying their bills for the first time should be retained.[343]

Staff supports the Company's request.[344]

C. Rules and Regulations

UNSE proposes several changes to its Rules and Regulations ("Rules"), many of which are non-substantive and thus were not addressed by Staff.[345] UNSE states that the proposed updates are to meet current operational needs, to better align the Rules with customers' needs, and to provide better service. The Company states that its proposed changes include clarifications to make the Rules easier to understand, and revisions to conform to modifications approved by the Commission in TEP's prior rate case.[346]

The Company proposed a revision to Section 1 (Applicability of Rules and Regulations and Description of Service) of its Rules to indicate to customers that acceptance of service from the Company also indicates express consent to the Company contacting the customer by phone, email, or text message regarding the customer's electric service. The Company also proposed several definitional changes in Section 2 (Definitions), which are similar to TEP's Rules and Regulations and the revisions to the Termination of Service Rules approved in Decision No. 78316 (November 9, 2021). UNSE proposed changes to Section 3 (Establishment of Service), Section 4 (Minimum Customer Information Requirements), Section 5 (Master Metering), Section 6 (Service Lines and Establishment), Section 7 (Line Extensions), Section 8 (Provision of Service), Section 9 (Character of Service – Voltage, Frequency, and Phase), Section 10 (Meter Reading), Section 11 (Billing and Collection), Section 15 (Temporary Service or Cyclical Usage), and Section 16 (Standby Service). Most of the modifications conform to changes approved for TEP or APS.[347]

[343] Wildfire's Opening Brief at 10-11.
[344] Ex. S-17 at 18 (Kern Direct).
[345] Ex. S-17 at 2 (Kern Direct).
[346] Ex. UNSE-24 at 17-18 (Petersen Direct).
[347] Ex. UNSE-24 at 18-23 and Exhibits LP-1 and LP-2 (Petersen Direct); Ex. S-17 at 3-13 (Kern Direct).

Staff raised minor issues with the proposed revisions, all of which were accepted by the Company.[348] Staff recommends approval of the Company's proposed changes.[349]

D. Resolution

Based on the evidence, we find that UNSE's proposed modifications to its Rules, with the minor modifications recommended by Staff, are reasonable and we adopt them.

Further, based on the evidence we find that UNSE's requests to eliminate certain compliance requirements are reasonable, and we adopt them, except for the Meter Maintenance and Testing Report, which we retain as recommended by Staff and agreed to by the Company, and the referenced CARES compliance requirement.

There was considerable confusion at the hearing as to what CARES reporting requirement UNSE sought to eliminate, and whether it was only a reporting requirement or a notice requirement the Company no longer believes is necessary. UNSE states that it will, and we find that it shall, continue to provide notice of the CARES program to customers who are significantly late in paying their bills for the first time, as required by Decision No. 74566. Decision No. 74566 also included the following, which we provide here in its entirety to clarify any remaining confusion: "IT IS FURTHER ORDERED that current reporting on the CARES programs continue and that UNS Electric, Inc. and UNS Gas, Inc. indicate in the cover letter the average increase or decrease in participation during the six-month reporting period." This reporting requirement is not specific to customers who are significantly late in paying their bills, nor is the specific cover letter requirement. General reporting about the CARES program and enrollment information in an easy-to-find location is important information for the Company to compile and for stakeholders and the Commission to access. Therefore, we find that it is reasonable and appropriate to retain the compliance reporting requirement in Decision No. 74566.

UNSE also proposed changes for the GoSolar Shares Program, renaming Rider-5 – Electric Service Solar Rider (Bright Arizona Community Solar) to Rider-5 – Electric Service Solar Rider (GoSolar Shares). Staff recommends approval of the tariff changes and we agree.[350]

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[348] Ex. S-17 at 2-13 (Kern Direct); UNSE-25 at 8 (Petersen Rebuttal).
[349] Ex. S-17 at 3-13 (Kern Direct); Staff's Opening Brief at 7.
[350] Ex. S-18 at 11 (Hunsaker Direct).

XIV. Buy Through Tariff

In compliance with Decision No. 77043 (January 16, 2019),[351] UNSE proposed a Market Pricing-Experimental ("MP-EX") Pilot program, an alternative generation/buy-through tariff for qualifying commercial and industrial customers, which the Company states is similar to the MP-EX tariff approved by the Commission for TEP. UNSE believes that a buy-through program is not appropriate for UNSE because of its size, resource mix, and customer demographics.[352]

Staff does not recommend approval of the MP-EX Pilot for UNSE because it may have a negative impact on non-participating customers.[353] No party expressed support for the proposal.

The Commission acknowledged in the Company's last rate case that a buy-through program is not appropriate for UNSE because of its size and customer demographics.[354] We do not find any basis in the record here for modifying our prior conclusion, and thus do not approve the MP-EX.

XV. Borderline Agreement with Mohave Electric Cooperative

UNSE executed a Borderline Agreement with Mohave Electric Cooperative ("MEC"), addressing service to Nucor. The Borderline Agreement was approved by the Commission in Decision No. 79173 (November 6, 2023). Nucor receives electric service from UNSE and intends to add a new electric arc furnace melt shop at its existing bar mill in Kingman, Arizona. Because UNSE does not have the capacity necessary to serve the additional load, Nucor approached MEC with a request to serve the additional load. MEC agreed to serve Nucor on the condition that it serve all of Nucor's load, and subject to the Commission's approval of the Borderline Agreement and an Electric Service Agreement[355] between MEC, Arizona Electric Power Cooperative ("AEPCO"), and Nucor.[356]

UNSE states that the Borderline Agreement does not impact the rate case because the requested revenue requirement includes a full year of normal revenue, expenses, and the rate base assets specific to serving Nucor. Therefore, according to UNSE, its proposed rate increase does not exclude Nucor,

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[351] Decision No. 77043 provided a policy statement regarding alternative generation/buy-through programs and ordered UNSE to propose such a program for medium and large commercial and industrial customers in its next rate case.

[352] Ex. UNSE-1 at 7-8 (Application); Ex. UNSE-32 at 3 (Bachmeier Direct).

[353] Ex. S-5 at 2-3 (Keene Direct); Staff's Opening Brief at 21.

[354] *See* Decision No. 75697 at 96.

[355] MEC, AEPCO, and Nucor are in the process of finalizing the Electric Service Agreement. A final version is expected by the end of 2023 and will be subject to Commission approval. *See* Decision No. 79173, Findings of Fact No. 3

[356] Ex. UNSE-8 at 11 (Dukes Rejoinder); Tr. at 214-215 (Dukes).

and if the Nucor load is served ultimately by MEC, UNSE will lose revenue, but the fixed costs to be covered by that lost revenue will not be shifted to other customers.[357]

Information regarding the Borderline Agreement was included in this Docket for informational purposes only and no further action is needed here because all related requirements will be addressed in Docket No. E-01750A-23-0248/E-04204A-23-0248.

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Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. The procedural history for this matter set forth in Section II of the Discussion portion of this Decision is accurate and we adopt it in its entirety as though set forth fully here.

2. The background information set forth in Section III of the Discussion portion of this Decision is accurate and we adopt it in its entirety as though set forth fully here.

3. The description of the parties' positions and the evidence described in Sections IV – XV of the Discussion portion of this Decision are accurate and we adopt them in their entirety as though set forth fully here.

4. The resolutions reached in the various subsections within Sections V – XIV of the Discussion portion of this Decision were reached after consideration of the evidence presented in this matter, as well as existing laws (the Arizona Constitution, statutes, rules, and case law, as applicable), and are just and reasonable and in the public interest. We incorporate the resolutions as though set forth fully here.

5. The rates and charges and terms and conditions of service resulting from the resolutions described in Finding of Fact No. 4 are just and reasonable and in the public interest.

6. The rates, charges, and terms and conditions of service resulting from the Commission's resolution of the issues herein do not result in "discrimination in charges, service, or facilities . . . between persons or places for rendering a like and contemporaneous service" under Article 15, § 12 of

[357] Ex. UNSE-8 at 11-12 (Dukes Rejoinder); Tr. at 215 (Dukes).

the Arizona Constitution.

7. The rates, charges, and terms and conditions of service resulting from the Commission's resolution of the issues herein do not "make or grant any preference or advantage to any person or subject any person to any prejudice or disadvantage" and do not "establish or maintain any unreasonable difference as to rates, charges, service, facilities or in any other respect, either between localities or between classes of service" under A.R.S. § 40-334.

CONCLUSIONS OF LAW

1. UNSE is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over UNSE, over the subject matter of its application, and over the issues raised and resolved herein.

3. Notice of the application and hearing was provided as required by Arizona law.

4. UNSE has a FVRB of $568,789,000.

5. A FVROR of 4.90% results in rates and a revenue requirement that are just and reasonable.

6. The rates, charges, and terms and conditions of service resulting from the Commission's resolution of the issues herein do not result in "discrimination in charges, service, or facilities . . . between persons or places for rendering a like and contemporaneous service" under Article 15, § 12 of the Arizona Constitution.

7. The rates, charges, and terms and conditions of service resulting from the Commission's resolution of the issues herein do not "make or grant any preference or advantage to any person or subject any person to any prejudice or disadvantage" and do not "establish or maintain any unreasonable difference as to rates, charges, service, facilities or in any other respect, either between localities or between classes of service" under A.R.S. § 40-334.

ORDER

IT IS THEREFORE ORDERED that UNS Electric, Inc. is hereby directed to file with the Commission, on or before January 31, 2024, revised schedules of its rates and charges consistent with the findings herein.

IT IS FURTHER ORDERED that the rates and charges approved in this Decision shall become effective for all service rendered on and after February 1, 2024.

IT IS FURTHER ORDERED that UNS Electric, Inc. shall notify its customers of the revised schedules of rates and charges by means of an insert in its next scheduled billing and by posting a notice on its website, in a form acceptable to the Commission's Utilities Division Staff.

IT IS FURTHER ORDERED that UNS Electric, Inc. is authorized to recover its jurisdictional rate case expense of $353,739 by means of a monthly surcharge of $0.000192 per kWh over a period of three years, commencing on the effective date of the rates approved in this Decision and terminating automatically after the authorized amount is recovered or after three years, whichever is sooner.

IT IS FURTHER ORDERED that UNS Electric, Inc. shall use the depreciation rates for its assets set forth in its application on and after the effective date of this Decision.

IT IS FURTHER ORDERED that UNS Electric, Inc. shall meet with the Commission's Utilities Division Staff and stakeholders, including but not limited to the Residential Utility Consumer Office and Wildfire, to discuss the development of a tiered low-income discount proposal, in conjunction with the process ordered for Tucson Electric Power Company in Decision No. 79065 (August 25, 2023). The stakeholder process should include discussion and proposals for increasing outreach and participation in the low-income discount program, and options for addressing the financial impacts of credit card processing fees and walk-in fees. UNS Electric, Inc. shall present the Commission with a revised low-income discount plan in its next rate case application for Commission consideration.

IT IS FURTHER ORDERED that UNS Electric, Inc. shall maintain the current Demand Side Management Implementation Plan surcharge rate of $0.001500/kWh.

IT IS FURTHER ORDERED that UNS Electric, Inc. shall file with Docket Control, as a compliance item in this Docket, within 30 days of the effective date of this Decision, a final Purchased Power and Fuel Adjustment Clause Plan of Administration, a final Transmission Cost Adjustor Plan of Administration, a final Tax Expense Adjustor Mechanism Plan of Administration, a final One-Year Demand Side Management Implementation Plan, and a final Demand Side Management Adjustor Charge Plan of Administration consistent with the findings in this Decision.

IF IS FURTHER ORDERED that UNS Electric, Inc. shall file with Docket Control, as a compliance item in this Docket, within 30 days of the effective date of this Decision, a final CARES Discount Rider R-20 consistent with the terms found herein.

IT IS FURTHER ORDERED that the Rules and Regulations changes proposed by UNS Electric, Inc., with the modifications proposed and agreed to by Staff, are approved, and UNS Electric, Inc. shall file as a compliance item in this Docket by January 31, 2024, revised Rules and Regulations consistent with this Decision.

IT IS FURTHER ORDERED eliminating the following compliance items for UNS Electric, Inc.: the Retail Electric Competition Filing required by A.A.C. R14-2-1613, the annual First and Final Bill Report required by Decision No. 64180 (October 30, 2001), the Annual Report on Time-of-Use Service Tariff participation required by Decision No. 70440 (July 28, 2008), and the Annual Report identifying worst performing circuits and what steps are being taken to mitigate poor performance required by Decision No. 71914 (September 30, 2010).

IT IS FURTHER ORDERED that UNS Electric, Inc. shall continue to comply with the CARES-related requirements in Decision No. 74566 (June 20, 2014).

IT IS FURTHER ORDERED that the revised Service Fees proposed by UNS Electric, Inc., as reflected in its proposed Statement of Charges, are approved, and UNS Electric, inc. shall file the revised Statement of Charges in its revised schedules of rates and charges.

IT IS FURTHER ORDERED that UNS Electric, Inc. shall notify the Commission at least 90 days prior to applying the Purchased Power and Fuel Adjustment Clause provision related to recovery of the costs of carbon credit purchases to sales made in any jurisdiction other than California, and if there are objections to the expansion, the Commission may schedule a process to resolve the issue.

IT IS FURTHER ORDERED that UNS Electric, Inc. shall conduct an internal audit of its Purchased Power and Fuel Adjustment Clause-includable costs prior to its next rate case.

IT IS FURTHER ORDERED that UNS Electric, Inc. shall file an annual report regarding the benefits of its participation in the Western Energy Imbalance Market on or before May 31, 2024, with each subsequent annual filing to be docketed by the same day.

IT IS FURTHER ORDERED that UNS Electric, Inc. shall file a revised System Reliability Benefits Mechanism Plan of Administration consistent with the findings contained in this Decision, as a compliance item in this Docket and for Staff's review and Commission approval within 90 days of the effective date of this Decision.

IT IS FURTHER ORDERED that UNS Electric, Inc. shall file its first filing required by the System Reliability Benefits Mechanism Plan of Administration in a new docket ("SRB Docket"). All subsequent reports and filings, including all 60-day pre-filing notices and Surcharge Requests, and other required reports, shall be filed in the SRB Docket. UNS Electric, Inc. also shall file a copy of any 60-day pre-filing System Reliability Benefits Surcharge Request notice and a copy of any filed System Reliability Benefits Surcharge Request in this Docket at the same time the documents are filed in the SRB Docket.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN O'CONNOR

COMMISSIONER MÁRQUEZ PETERSON

DISSENT

COMMISSIONER TOVAR

COMMISSIONER THOMPSON

COMMISSIONER MYERS

IN WITNESS WHEREOF, I, DOUGLAS R. CLARK, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 30th day of January 2024.

DOUGLAS R. CLARK
EXECUTIVE DIRECTOR

DISSENT Anna Tovar

DISSENT ______________________
JLM/(gb)

SERVICE LIST FOR: UNS ELECTRIC, INC.

DOCKET NO.: E-04204A-22-0251

Justina A. Caviglia
PARSONS BEHLE & LATIMER
50 West Liberty Street, Suite 750
Reno, NV 89501
and
Richard J. Angell
PARSONS BEHLE & LATIMER
201 South Main Street, Suite 1800
Salt Lake City, UT 84111
Attorneys for Walmart, Inc.
rangell@parsonsbehle.com
jcaviglia@parsonsbehle.com
Consented to Service by Email

Daniel Pozefsky
RESIDENTIAL UTILITY CONSUMER OFFICE
1110 West Washington, Suite 220
Phoenix, AZ 85007
dpozefsky@azruco.gov
jmccarty@azruco.gov
czwick@azruco.gov
procedural@azruco.gov
rdelafuente@azruco.gov
Consented to Service by Email

Michael W. Patten
SNELL & WILMER L.L.P.
One Arizona Center
400 E. Van Buren Street
Phoenix, AZ 85004
Attorneys for UNS Electric, Inc.
mpatten@swlaw.com
Consented to Service by Email

Bradley S. Carroll
TUCSON ELECTRIC POWER COMPANY
88 E. Broadway, MS HQE910
P.O. Box 711
Tucson, AZ 85702
Attorney for UNS Electric, Inc.
bcarroll@tep.com
Consented to Service by Email

Robert J. Metli
MUNGER CHADWICK & DENKER, P.L.C.
2999 N. 44th St., Ste. 306
Phoenix, AZ 85018
Attorneys for Nucor Corporation
rjmetli@mcdplc.com
ejl@bbrslaw.com
Consented to Service by Email

Timothy M. Hogan
Arizona Center for Law in the Public Interest
352 E. Camelback Rd., Ste. 200
Phoenix, AZ 85012
Attorneys for Wildfire and Southwest Energy Efficiency Project
thogan@aclpi.org
chanele@aclpi.org
kmcgowan@wildfireaz.org
Consented to Service by Email

Wesley Van Cleve, Interim Director
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007
LegalDiv@azcc.gov
utildivservicebyemail@azcc.gov
Consented to Service by Email

UniSource Energy SERVICES

UNS Electric, Inc.

Original Sheet No.: 801-0

Superseding Sheet No.: 801-0

UNS ELECTRIC STATEMENT OF CHARGES

Fee No.	Description	Rate	Effective Date	Decision No.
1.	Service Transfer Fee	$37.00	Pending	XXXXX
2.	Customer-Requested Meter Re-read	$26.00	Pending	XXXXX
3.	Special Meter Reading Fee[1] (including Customer Self-Reads)	$26.00	Pending	XXXXX
4.	Service Establishment, Reestablishment or Reconnection of Service under usual operating procedures During Regular Business Hours (including the Automated Meter Opt-Out Set-Up Fee[2])	$43.00	Pending	XXXXX
5.	Service Establishment, Reestablishment or Reconnection of Service under usual operating procedures After Regular Business Hours (includes Saturdays, Sundays and Holidays)	$55.00	Pending	XXXXX
6.	Service Reestablishment under other than usual operating procedures	$259.00	Pending	XXXXX
7.	Meter Test	$126.00	Pending	XXXXX
8.	Consumption History Request and Interval History Request[3]	$50.00 per hour	Pending	XXXXX
9.	Returned Payment Fee	$10.00	Pending	XXXXX
10.	Late Payment Finance Charge	1.5%	Pending	XXXXX
11.	Tax Reform Credit	-$0.0031 per kWh	Pending	XXXXX
12.	Bill Processing Fee[4]	$31.00	Pending	XXXXX

[1]For customers who choose to not have an automated meter installed or wish to replace an automated meter with a non-transmitting meter, the Special Meter Reading Fee (Fee No. 3) will be a monthly recurring charge.
[2]The Automated Meter Opt-Out Set-Up Fee (Fee No. 4) will only apply to those customers who request the removal of an automated meter.
[3]Fee No. 8 will apply for each Interval History Request made or when customers request their Consumption History more than once in a 12-month period.
[4]Fee No. 12 The Bill Processing Fee will be assessed per every ten (10) bills that the customer requests. Each additional increment of ten (10) bills will result in another Bill Processing Fee.

Filed By:	Dallas J. Dukes	Rate:	Statement of Charges
Title:	Vice President of Customer Experience, Programs and Pricing	Original Effective Date:	Pending
District:	Entire Electric Service Area	Original Decision No.:	XXXXX

UniSource Energy SERVICES

UNS Electric, Inc.

Original Sheet No.: 801-1

Superseding Sheet No: 801-1

UNS ELECTRIC STATEMENT OF CHARGES

Description	Rate	Effective Date	Decision No.
Rider-1 – Purchased Power and Fuel Adjustment Clause (PPFAC) PPFAC Temporary Surcharge	Varies–See Rider-1 $0.00987 per kWh	August 22, 2016 February 1, 2022-July 31, 2024	75697 78437
Rider-3 – Market Cost of Comparable Conventional Generation (MCCCG) Calculation as Applicable to Rider-4 NM-PRS	$0.0396 per kWh	September 1, 2022	78667
Rider-4 &14 – DG Incremental Meter Fee[1] Residential: Non-Residential:	$2.23 monthly $0.90 monthly	September 21, 2018	76900
Rider-5 – Electric Service Solar Rider (GoSolar Shares) Solar Block Energy Rate for Residential Service Solar Block Energy Rate for Small General Service Solar Block Energy Rate for Large General Service	$0.087445 per kWh $0.085495 per kWh $0.077991 per kWh	January 1, 2011 through December 31, 2013	72034
Rider-5 – Electric Service Solar Rider (GoSolar Shares) Solar Block Energy Rate for Residential Service Solar Block Energy Rate for Small General Service Solar Block Energy Rate for Large General Service	$0.084510 per kWh $0.078241 per kWh $0.076603 per kWh	January 1, 2014 through August 21, 2016	74235
Rider-5 – Electric Service Solar Rider (GoSolar Shares) Solar Block Energy Rate for Residential Service Solar Block Energy Rate for Small General Service Solar Block Energy Rate for Medium General Service	$0.075820 per kWh $0.073290 per kWh $0.073290 per kWh	August 22, 2016	75697
Rider-5 – Electric Service Solar Rider (GoSolar Shares) Solar Block Energy Rate for Residential Service Solar Block Energy Rate for Small General Service Solar Block Energy Rate for Medium General Service	$0.087629 per kWh $0.087629 per kWh $0.087629 per kWh	Pending	XXXXX

[1] As of August 22, 2016, all new DG Customers will be assessed a monthly fee, unless the no longer available one-time upfront fee was selected.

Filed By:	Dallas J. Dukes	Rate:	Statement of Charges
Title:	Vice President of Customer Experience, Programs and Pricing	Effective Date:	Pending
District:	Entire Electric Service Area	Original Decision No.:	XXXXX

UniSourceEnergy SERVICES

UNS Electric, Inc.

Original Sheet No.: 801-2

Superseding Sheet No.: 801-2

UNS ELECTRIC STATEMENT OF CHARGES

Description	Rate	Effective Date	Decision No.
Rider-8 Lost Fixed Cost Recovery (LFCR) Mechanism – Energy Efficiency Lost Fixed Cost Recovery (LFCR) Mechanism – Distributed Generation	1.1469% 0.3704%	September 1, 2022	78666
Rider-9 Transmission Cost Adjustor (TCA) – $/kWh charge (Non-Demand) Transmission Cost Adjustor (TCA) – $/kW charge (Demand)	$0.000845 per kWh $0.35 per kW	June 1, 2022	75697
Rider-10 Renewable Portfolio Standard (RPS) Credit	-$0.11	August 22, 2016	75697
Rider R-12 Interruptible Service Market Value Capacity Price (MVCP)	$4.80 per kW	(May 2022 through September 2022)	76900
Rider-14 Resource Comparison Proxy (RCP)	$0.1150 per kWh $0.1035 per kWh $0.1035 per kWh $0.0932 per kWh $0.0839 per kWh	September 21, 2018 October 1, 2019 October 1, 2020 October 1, 2021 October 1, 2022	76900 77375 77758 77758 78670
Rider-18 Tax Expense Adjustor Mechanism (TEAM)	$X.XX	Pending	XXXXX
Rider-19 Resource Transition Mechanism (RTM)	$X.XX	Pending	XXXXX
Rider-20 Residential CARES Discount	-$18.00	Pending	XXXXX

UNS Electric, Inc.
Purchased Power and Fuel Adjustment Clause
Plan of Administration

Table of Contents

1. GENERAL DESCRIPTION

This document describes the plan for administering the current Purchased Power and Fuel Adjustment Clause ("PPFAC") approved for UNS Electric, Inc. ("UNS Electric") by the Arizona Corporation Commission ("Commission").

The PPFAC described in this Plan of Administration ("POA") uses a historical twelve (12) month rolling average of actual fuel and purchased power costs to set a rate. The PPFAC rate is adjusted on a monthly basis. This POA describes the application of the PPFAC.

2. DEFINITIONS

Applicable Interest – Based on one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15. The interest rate is adjusted annually on the first business day of the calendar year.

Applicable Twelve (12) Months – The historical 12-month period that ends two months prior to the monthly PPFAC rate change. For example, a January PPFAC rate is based on the 12 months ending November 30.

Base Cost of Fuel and Purchased Power – An amount generally expressed as a rate per kilowatt-hour ("kWh"), which reflects the fuel, purchased power and purchased transmission cost embedded in the base rates by customer class as approved by the Commission in UNS Electric's most recent rate case. The Base Cost of Fuel and Purchased Power revenue is the approved rate per kWh times the applicable sales volumes. Decision No. XXXXX~~75697~~ set the average base cost at $0.XXXX~~053689~~ per kWh effective on Month, Day, Year~~August 22, 2016~~.

Brokerage Fees – The costs attributable to the use of brokers recorded in Federal Energy Regulatory Commission ("FERC") Account 557.

Carbon Emission Allowance Costs (FERC Account 509) – The costs incurred in purchasing allowances to meet legal requirements under the California greenhouse cap and trade program. Sales of electricity from resources which emit carbon must be accompanied by carbon emission allowances equal to the amount of carbon emitted in generating the electricity. UNS Electric shall not incur mandatory carbon emission allowance costs unless it passes those costs on to the California entities that are purchasing energy from UNS Electric. In no event shall UNS Electric incur California's carbon emission allowance costs when doing so is not an economical choice for UNS Electric's Arizona customers.

Fuel and Purchased Power Costs – The costs recorded for the fuel and purchased power used by UNS Electric to serve both Native Load Energy Sales and Off-System Sales. Wheeling costs are included.

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

Off-System Sales – Wholesale Sales made to non-Native Load customers, for the purpose of optimizing the UNS Electric system, using UNS Electric-owned or contracted generation and purchased power.

Off-System Sales Revenue – The revenue recorded from wholesale sales made to non-Native Load customers, for the purpose of optimizing the UNS Electric system, using UNS Electric-owned or contracted generation and purchased power.

PPFAC – The Purchased Power and Fuel Adjustment Clause was initially approved by the Commission in Decision No. 70360 (May 27, 2008), and amended in Decision Nos. 74235 (December 31, 2013), ~~and~~ 75697 (August 18, 2016), 76900 (September 20, 2018), and XXXXX (Month, Day, Year). 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. The PPFAC rate is adjusted monthly. The change in the PPFAC rate is banded, so the new monthly PPFAC rate cannot increase or decrease the Total Average Retail Fuel and Purchased Power Rate by more than 1.25~~0.83~~% from the preceding month's rate, unless authorized by the Commission. Any over or under recovery of actual costs is recorded in the PPFAC bank balance. If the PPFAC bank balance becomes over collected by more than $10 million, UNS Electric must file for a PPFAC rate adjustment within 45 days, or contact Staff to discuss why a PPFAC rate adjustment is not necessary at that time. If the PPFAC bank balance is under collected, the Company has the right to file an application with the ACC requesting a surcharge.

Preference Power – Power allocated to UNS Electric wholesale customers by federal power agencies such as the Western Area Power Administration.

Retail Native Load Energy Sales – The portion of load from Native Load Energy Sales retail customers that are served by UNS Electric.

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 UNS Electric system, using UNS Electric owned or contracted generation and purchased power.

Short Term Sales Revenue – The revenue recorded from short term wholesale sales made to non-Native Load customers, for the purpose of optimizing the UNS Electric system, using UNS Electric owned or contracted generation and purchased power.

Total Average Retail Fuel and Purchased Power Rate – The average base cost of fuel and purchased power ($0.XXXX~~053689~~ per kWh) plus the appropriate PPFAC rate.

Wheeling Costs (FERC Account 565, Transmission of Electricity by Others) – Amounts payable to others for the transmission of UNS Electric's electricity over transmission facilities owned by others.

Wholesale Native Load Energy Sales – The portion of load from Native Load Energy Sales wholesale customers that is served by UNS Electric, excluding the load served with Preference Power.

Wholesale Sales – Sales to non-retail customers.

3. CALCULATION OF THE PPFAC RATE

The PPFAC rate is calculated based upon a historical rolling average of fuel and purchased power costs, including the accumulated PPFAC bank balance, during the Applicable 12-Month period. All revenues from Off-System Sales and sales of renewable energy credits that do not flow through the Renewable Energy Standard Tariff will be credited against fuel and purchased power costs. The PPFAC rate shall be reset monthly, beginning the second month new rates are in effect. For example, if new rates are effective January 1, 2016, the PPFAC rate will be $0.0000 per kWh in the month of January 2016 and a new PPFAC rate will be effective in February 2016 based on the Applicable 12-Month period ending December 31, 2015.

The new PPFAC rate will be effective with the first billing cycle of each month and will not be prorated. The change in the PPFAC rate is banded, so the new PPFAC rate for a month cannot increase or decrease the Total Average Retail Fuel and Purchased Power Rate by more than 1.25~~0.83~~% from the prior month's rate. Any over or under recovery of actual costs is recorded in the PPFAC bank balance. The PPFAC rate shall be applied to the customer's bill as a monthly kWh charge that is the same for all customer classes.

4. ACCUMULATED PPFAC BANK BALANCE

UNS Electric shall maintain and report monthly the accumulated PPFAC bank balance. The PPFAC bank balance shall reflect any over or under recovery of actual purchased power and fuel costs compared with the actual amounts recovered through the Base Fuel and Purchased Power and PPFAC rates. The accumulated bank balance shall also be included in the Applicable 12-Month period and used in the calculation of the PPFAC rate.

5. VERIFICATION AND AUDIT

The amounts charged through the PPFAC will be subject to periodic audit to assure their completeness and accuracy and to assure that all fuel and purchased power costs were incurred reasonably and prudently. The Commission may, after notice and opportunity for hearing, make such adjustments to existing balances or to already recovered amounts as it finds necessary to correct any accounting or calculation errors or to address any costs found to be unreasonable or imprudent.

6. SCHEDULES

The following schedules are attached to this Plan of Administration:

Schedule 1: Total Average Retail Fuel and Purchased Power Rate Calculation
Schedule 2: PPFAC Rate Calculation
Schedule 3: Applicable 12-Month Total Average Fuel Account
Schedule 4: Surcharge/Credit Calculation
Schedule 5: Surcharge/Credit Tracking Account

7. *COMPLIANCE REPORTS*

UNS Electric shall provide monthly information reports to Commission Staff's Compliance Section and to the Residential Utility Consumer Office detailing all calculations related to the PPFAC. A UNS Electric Officer shall certify under oath that all information provided in the reports itemized below is true and accurate to the best of his or her information and belief and that there have been no changes to the Allowable Costs recovered through the PPFAC without Commission approval. These monthly reports shall be due within 45 days of the end of the reporting period.

The publicly available reports will include at a minimum:

1. The Total Average Retail Fuel and Purchased Power Rate Calculation (Schedule 1) and the PPFAC Rate Calculation (Schedule 2). Additional information will provide other relative inputs and outputs such as:
   a. Total power and fuel costs.
   b. Customer sales in both MWh and thousands of dollars by customer class.
   c. Number of customers by customer class.
   d. A detailed listing of all items excluded from the PPFAC calculations.
   e. A detailed listing of any adjustments to the adjustor reports.
   f. Total off-system sales revenues.
   g. System losses in MWh.
   h. Monthly maximum retail demand in MW.

2. Identification of a contact person and phone number from UNS Electric for questions.

UNS Electric shall also provide to Commission Staff monthly reports containing the information listed below. These reports shall be due within 45 days of the end of the reporting period. All of these additional reports must be provided confidentially.

A. Information for each generating unit will include the following items:
   1. Net generation, in MWh per month, and 12 months cumulatively.
   2. Average heat rate, both monthly and 12-month average.
   3. Equivalent forced-outage rate, both monthly and 12-month average.
   4. Outage information for each month including, but not limited to, event type, start date and time, end date and time, and a description.
   5. Total fuel costs per month.
   6. The fuel cost per kWh per month.

B. Information on power purchases will include the following items per seller (information on economy interchange purchases may be aggregated):
   1. The quantity purchased in MWh.
   2. The demand purchased in MW to the extent specified in the contract.
   3. The total cost for demand to the extent specified in the contract.
   4. The total cost of energy.

C. Fuel purchase information shall include the following items:
  1. Natural gas interstate pipeline costs, itemized by pipeline and by individual cost components, such as reservation charge, usage, surcharges and fuel.
  2. Natural gas commodity costs, categorized by short-term purchases (one month or less) and longer term purchases, including price per therm, total cost, supply basin, and volume by contract.
  3. Cost of energy purchased from net metered customers at the Commission authorized rate.
  4. The cost of the Medium General Service Agricultural Adjustment (the credits or charges applied to qualifying Customers' bills), which shall be treated as "Purchased Power" and shall be recorded in FERC account 555 and appropriately treated through the Purchased Power and Fuel Adjustment Clause (PPFAC) as any other prudent fuel or purchased power cost.

D. UNS Electric will also provide:
  1. Monthly projections for the next 12-month period showing estimated (Over)/under collected amounts.
  2. A summary of unplanned outage costs by resource type.
  3. The data necessary to arrive at the System and Off-System Book Fuel and Purchased Power cost reflected in the non-confidential filing.
  4. The data necessary to arrive at the Native Load Energy Sales MWh reflected in the non-confidential filing.

Workpapers and other documents that contain proprietary or confidential information will be provided to the Commission Staff under a fully executed protective agreement. UNS Electric will keep fuel and purchased power invoices and contracts available for Commission review. The Commission has the right to review the prudence of fuel and power purchases and any calculations associated with the PPFAC at any time. Any costs flowed through the PPFAC are subject to refund, if those costs are found to be imprudently incurred.

8. ALLOWABLE COSTS

A. Accounts

The allowable PPFAC costs include fuel and purchased power costs incurred to provide service to retail customers. Additionally, the prudent direct costs of contracts used for hedging system fuel and purchased power will be recovered under the PPFAC. The allowable cost components include the following FERC accounts:

- 501 Fuel (Steam)
- 547 Fuel (Other Production)
- 555 Purchased Power
- 565 Wheeling (Transmission of Electricity by Others)

These accounts are subject to change if the FERC alters its accounting requirements or definitions.

B. Other Allowable Costs

- Brokerage Fees recorded in FERC Account 557
- Carbon Emission Allowance costs recorded in FERC Account 509

These accounts are subject to change if the FERC alters its accounting requirements or definitions. Other costs or credits are allowed with approval from the Commission in an Order.

UNS Electric, Inc.
Transmission Cost Adjustor
Plan of Administration

Table of Contents

1. GENERAL DESCRIPTION

This document describes the plan for administering the current Transmission Cost Adjustor ("TCA") approved for UNS Electric, Inc. ("UNS Electric" or "Company") by the Arizona Corporation Commission.

The purpose of the ~~Transmission Cost Adjustor ("~~TCA~~")~~ is to provide a mechanism to recover transmission costs associated with serving retail customers at the level approved by the Federal Energy Regulatory Commission ("FERC") at the same time as new transmission rates become effective for UNS Electric~~, Inc. ("UNS Electric" or "Company")~~ wholesale transmission customers. UNS Electric shall ~~make an annual filing~~ file a notice with Docket Control that includes its revised TCA tariff, along with a copy of its FERC information filing of its annual update of transmission service rates ~~based on the Company's updated transmission service rates calculated~~ pursuant to the Company's Open Access Transmission Tariff ("OATT")~~, including all supporting data and documentation used in calculating the formula rate ("Informational Filing") and the TCA~~. This ~~Informational Filing~~notice shall be filed with the Commission no later than May 1.

The TCA applies to all UNS Electric Retail Electric Rate Schedules. For Standard Offer customers that are not demand billed, the TCA is applied to the bill as a monthly $/kWh charge. For Standard Offer customers that are demand billed, the TCA is applied as a $/kW charge. The charge and modifications to it, will take effect ~~in~~the first billing cycle in June without proration.

UNS Electric's transmission service rates ~~(the "Transmission Rates")~~ are calculated and filed annually in accordance with UNS Electric's approved formula rate and protocols.~~ The formula rate calculation is specified within UNS Electric's OATT, as may be amended from time to time, as filed with and approved by FERC.~~

2. CALCULATIONS

The calculated Transmission Rates will be set forth in UNS Electric's Informational Filing. Transmission Rates are determined for the following classes:

Demand Billed Customers
Non-Demand Billed Customers

In addition to the Transmission Rate, UNS Electric ~~will~~ charges retail customers for other transmission-~~related~~ services ~~("ancillary services")~~ in accordance with its OATT ~~("Ancillary Services Rates") at such time that the Company provides these services~~. These additional ancillary services ~~could~~ include:

Schedule 1: Scheduling, System Control and Dispatch Service
Schedule 2: Reactive Supply and Voltage Control
Schedule 3: Regulation and Frequency Response Service
Schedule 4: Energy Imbalance Service
Schedule 5: Operating Reserve – Spinning Reserve Service
Schedule 6: Operating Reserve – Supplemental Reserve Service

The revenue requirement resulting from the UNS Electric OATT rate is collected by UNS Electric from its retail customers in base rates. The TCA is intended to refund or recover the difference between transmission costs embedded in base rates as approved in UNS Electric's most recent rate case and the transmission costs in the annual UNS Electric formula rate information filing made with FERC.
~~The total UNS Electric OATT rate is the sum of providing Transmission Rates and Ancillary Service Rates. The revenue requirement resulting from the UNS Electric OATT rate are collected by UNS Electric from its retail customers, partly in base rates and the remaining through the TCA rate. The table below is an example of the TCA calculation using the UNS Electric OATT rate in effect as of December 31, 2012.~~

~~Line~~	~~Service Type~~		
		~~$/kWh~~	~~$/kW~~
		~~(A)~~	~~(B)~~
~~1.~~	~~Transmission Rate~~	~~$0.0059~~	~~$2.3022~~
~~2.~~	~~Scheduling~~	~~N/A~~	~~N/A~~
~~3.~~	~~Regulation and Frequency~~	~~N/A~~	~~N/A~~
~~4.~~	~~Energy Imbalance~~	~~N/A~~	~~N/A~~
~~5.~~	~~Spinning Reserve~~	~~N/A~~	~~N/A~~
~~6.~~	~~Supplemental Reserve~~	~~N/A~~	~~N/A~~
~~7.~~	~~Total~~	~~$0.0059~~	~~$2.3022~~
~~8.~~	~~Included in Retail Base Rates per OATT~~	~~$0.0059~~	~~$2.3022~~
~~9.~~	~~TCA (Line 7) – (Line 8)~~	~~$0.0000~~	~~$0.0000~~

~~UNS Electric's Transmission Rate shown on line 1 will change annually, whereas the Ancillary Rates shown on lines 2 through 6 will change only through a separate filing with FERC by UNS Electric.~~

3. ***FILING AND PROCEDURAL DEADLINES***

~~UNS Electric will file the Informational Filing, which includes the revised TCA and all supporting data and documentation used in calculating the formula rate with the Commission each year no later than May 1.~~ UNS Electric will file the calculated TCA rates with the Commission each year no later than May 1, 20XX, in the form of Schedules A through G, as attached to this document and described in Section 4 Compliance Reports. ~~The~~ Commission Staff and interested parties shall have the opportunity to review UNS Electric's FERC OATT Annual Filing of Transmission Rates pursuant to UNS Electric's Formula Rate Implementation Protocols~~Informational Filing~~.

The new TCA rates proposed by UNS Electric shall be effective in first billing cycle in June (without proration) unless Staff requests Commission review or otherwise ordered by the Commission. ~~The TCA rates are not prorated.~~

4. COMPLIANCE REPORTS

UNSE will provide an annual report to Staff detailing all calculations related to the calculated TCA rates. The report will include the following Schedules A through G, as attached to this document:

Schedule A: Non-redlined version of new Statement of Charges

Schedule B: Redlined version of new Statement of Charges

Schedule C: TCA Rate Calculation

Schedule D: Estimated Residential monthly bill impacts of the new TCA rates

Schedule E: Table illustrating the transmission cost embedded in base rates, the current and proposed TCA rates, and the differences in the current and new rates

Schedule F: Numerical inputs used to develop the new TCA rates

Schedule G: UNS Electric's Annual Update of transmission service rates pursuant to the UNSE Electric OATT, including supporting worksheets as filed with FERC and posted to ~~TEP~~UNS Electric's Open Access Same-Time Information System ("OASIS").

UNS ELECTRIC, INC.
TAX EXPENSE ADJUSTOR MECHANISM
PLAN OF ADMINISTRATION

Table of Contents

1. General Description

This document describes the plan for administering the Income Tax Expense Adjustor Mechanism ("TEAM") approved for UNS Electric, Inc. ("UNSE") by the Arizona Corporation Commission ("Commission") in Decision No. XXXXX (Month, Day, Year). The TEAM enables the pass-through of:

a. The income tax effects of tax legislation that materially impact the Company's Test Year revenue requirements[1];
b. The change in excess or deficient deferred income tax amortization ("EDIT") compared to the Test Year;
c. The accumulated balancing account for the Tax Cuts and Jobs Act Adjustment approved in Decision No. 76720 (May 22, 2018); and
d. Accumulated property tax deferrals and unprotected plant EDIT pursuant to Decision No. XXXXX (Month, Day, Year).

The TEAM will be calculated annually on a prospective basis.

2. Definitions

Annual Tax Expense Adjustment – The Annual Tax Expense Adjustment represents the amount to be passed through to jurisdictional retail customers in the subsequent 12-month period and is applied to customer bills via a $/kWh adjustment.

Base Revenue Requirements Change – The change in the Company's Base Revenue Requirements will be measured as the change in:

a. The Income Tax Rate-Test Year as compared to the Income Tax Rate-Revised as applied to the Company's Adjusted Test Year;
b. Annual amortization of excess or deficient deferred income tax regulatory accounts compared to the Company's Adjusted Test Year;

[1] "Material impacts" is defined as changing UNSE's revenue requirements by more than $0.5 million.

c. New permanent income tax adjustments (such as interest expense deductibility) compared to those taken in the Company's Adjusted Test Year; and
d. Amortization of accumulated property tax deferrals and unprotected plant EDIT pursuant to Decision No. XXXXX (Month, Day, Year).

Forecasted Retail kWh Sales – The forecasted kWh sales under applicable ACC jurisdictional retail electric rate schedules. A true-up reconciliation of the forecasted data will be completed in the following year through the Balancing Account.

Income Tax Rate-Revised – The income tax rate that is revised as a result of any Federal or state income tax legislation enacted and effective subsequent to UNSE's most recent rate case.

Income Tax Rate-Test Year – The income tax rate in effect and utilized in the Test Year as approved by the Commission in UNS Electric's most recent rate case.

Test Year – The 12-month period used in UNS Electric's most recent rate case decision.

3. Calculations

The Annual Tax Expense Adjustment is calculated annually and represents the amount to be passed through to jurisdictional retail customers. The adjustment is calculated based on the Company's Base Revenue Requirements Change.

The Annual Tax Expense Adjustment will be applied to the applicable customers' bill via a $/kWh adjustment over the 12-month period beginning with the first billing cycle in January as described in Section 5 below.

The TEAM $/kWh rate is calculated by dividing the Annual Tax Expense Adjustment by the Forecasted Retail kWh Sales.

4. Balancing Account

UNSE will maintain accounting records that accumulate the difference between the calculated Annual Tax Expense Adjustment as compared to the actual amounts applied to customers' bills through the TEAM $/kWh adjustment during the pass-through period (January through December). Additionally, as a result of utilizing Forecasted Retail kWh Sales, the balancing account will contain a true-up component in which estimated balances will be replaced with actual balances for the prior year filing.

Differences will be recorded to the TEAM Balancing Account each month. In the event that the Annual Tax Expense Adjustment is more or less than the amount passed through to customers as of the last billing cycle of December, the over or under collection will be subtracted from or added to the TEAM calculation in the subsequent period.

5. Filing and Procedural Deadlines

UNSE will file the Annual Tax Expense Adjustment, including all Compliance Reports, with the Commission for the upcoming year by September 1. The Commission Staff and interested parties will have the opportunity to review the TEAM filing and supporting data in the adjustor calculation. Unless the Commission has otherwise acted or Staff has filed an objection by November 1, the new TEAM $/kWh rate proposed by UNSE will go into effect with the first billing cycle in January (without proration) and will remain in effect for the following 12-month period.

6. Compliance Reports

UNSE will provide an annual report to Staff detailing all calculations related to the TEAM $/kWh adjustment. The reports will include the following Schedules 1 through 3 as attached to this document:

Schedule 1: Current Year Annual Tax Expense Adjustment and TEAM $/kWh Credit

Schedule 2: Current Year TEAM Balancing Account

Schedule 3: Adjusted Test Year Standard Filing Requirements Schedules

- Schedule 3-A1: Computation of Increase in Gross Revenue Requirements
- Schedule 3-B1(1): Summary of Original Cost Rate Base Elements
- Schedule 3-B1(2): Summary of RCND Rate Base Elements
- Schedule 3-C1: Adjusted Test Year Income Statement
- Schedule 3-C2: Computation of Gross Revenue Conversion Factor
- Schedule 3-C1 WP: Income Tax Workpaper Details

UNS ELECTRIC, INC.
Schedule 1 - TEAM
ANNUAL TAX ADJUSTMENT $PER KWH CREDIT
For the Period XX XX, XXXX to December XX XX, XXXX
(Thousands of Dollars)

Line No.	(A) Annual Tax Adjustment $per kWh Credit	(B) Reference	(C) $
1	Base Revenue Requirements Change	Schedule 3, A-1, Line 12	$ -
2	Total Balancing Account	Schedule 2, Line 4	-
3	Annual Tax Expense Adjustment	Line 1 + Line 2	$ -
4	Forecasted Adjustment Period Retail Sales (MWh)	Company Records	-
5	Annual $/kWh - (credit)/debit	Line 3 / Line 4	$ -

UNS ELECTRIC, INC.
Schedule 2 - TEAM
BALANCING ACCOUNT
For the Period XX XX, XXXX to December XX XX, XXXX
(Thousands of Dollars)

Line No.	(A) Current Year Balancing Account	(B) Reference	(C) $
1	Annual Tax Expense Adjustment	Previous Filing Schedule 1, Line 3	$ -
2	Annual Tax Expense Adjustment Difference (a)	Update Previous Filing	-
3	Amount Applied to Customer's Bills in Prior Credit Period (b)	Company Records	-
4	Balancing Account (c)	Line 1 + Line 2 -Line 3	$ -

(a) Represents any difference between the estimated Annual Tax Expense Adjustment and actual Annual Tax Expense Adjustment.

(b) Represents the amount applied to customers for the prior year approved credit period.

(c) The balancing account for UNS Electric's 1st TEAM filing shall reflect the accumulated balancing account for the Tax Cuts and Jobs Act Adjustment approved in Decision No. 76720 (May 22, 2018);

UNS ELECTRIC, INC.
Schedule 3-A1 - TEAM
COMPUTATION OF INCREASE IN GROSS REVENUE REQUIREMENTS
ACC JURISDICTION
For the Period XX XX, XXXX to December XX XX, XXXX
(Thousands of Dollars)

Line No.	Description	Original Cost	RCND	Fair Value
		(A)	(B)	(C)
1	Adjusted Rate Base	$ -	$ -	$ -
2	Adjusted Operating Income	-	-	-
3	Current Rate of Return	0.00%	0.00%	0.00%
4	Required Operating Income	-	-	-
5	Required Rate of Return on OCRB	0.00%	0.00%	0.00%
6	Adjusted Operating Income Deficiency on OCRB	-	-	-
7	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000
8	Increase/(Decrease) in OCRB Revenue Requirements	$ -	$ -	$ -
9	After Tax Return on Fair Value Increment			-
10	Revised Increase/(Decrease) in Base Revenue Requirements			$ -
11	Less: Approved Increase in Base Revenue Requirements Decision xxxxx			-
12	Base Revenue Requirements Change			$ -

(A) Source: Schedule 3-B1 (1) (F), Schedule 3-C1 (2)
(B) Source: Schedule 3-B1 (2) (F), Schedule 3-C1 (2)
(C) Calculation

UNS ELECTRIC, INC.
Schedule 3-B1 (1) - TEAM
SUMMARY OF ORGINAL COST RATE BASE ELEMENTS
TOTAL COMPANY AND ACC JURISDICTION
For the Period XX XX, XXXX to December XX XX, XXXX
(Thousands of Dollars)

		Original Cost						
		Total Company			ACC			
Line No.	Description	Decision xxxxx	Pro Formas to Decision xxxxx	Adjusted Decision xxxxx	Decision xxxxx	Pro Formas to Decision xxxxx	Adjusted Decision xxxxx	Line No.
		(A)	(B)	(C) = (A) + (B)	(D)	(E)	(F) = (D) + (E)	
1	Gross Utility Plant in Service	$ -	$ -	$ -	$ -	$ -	$ -	1
2	Less: Accumulated Depreciation & Amortization	-	-	-	-	-	-	2
3	Net Utility Plant in Service	$ -	$ -	$ -	$ -	$ -	$ -	3
	Deductions:							
4	Customer Advances for Construction	$ -	$ -	$ -	$ -	$ -	$ -	4
5	Customer Deposits	-	-	-	-	-	-	5
6	Accumulated Deferred Taxes	-	-	-	-	-	-	6
7	Regulatory Liabilities	-	-	-	-	-	-	7
8	Other	-	-	-	-	-	-	8
9	Total Deductions	$ -	$ -	$ -	$ -	$ -	$ -	9
	Additions:							
10	Regulatory Assets	$ -	$ -	$ -	$ -	$ -	$ -	10
11	Allowance for Working Capital	-	-	-	-	-	-	11
12	Other	-	-	-	-	-	-	12
13	Total Additions	$ -	$ -	$ -	$ -	$ -	$ -	13
14	Total Rate Base	$ -	$ -	$ -	$ -	$ -	$ -	14

UNS ELECTRIC, INC.
Schedule 3-B1 (2) - TEAM
SUMMARY OF RCND RATE BASE ELEMENTS
TOTAL COMPANY AND ACC JURISDICTION
For the Period XX XX, XXXX to December XX XX, XXXX
(Thousands of Dollars)

		RCND						
		Total Company			ACC			
Line No.	Description	Decision xxxxx	Pro Formas to Decision xxxxx	Adjusted Decision xxxxx	Decision xxxxx	Pro Formas to Decision xxxxx	Adjusted Decision xxxxx	Line No.
		(A)	(B)	(C) = (A) + (B)	(D)	(E)	(F) = (D)+ (E)	
1	Gross Utility Plant in Service	$ -	$ -	$ -	$ -	$ -	$ -	1
2	Less: Accumulated Depreciation & Amortization	-	-	-	-	-	-	2
3	Net Utility Plant in Service	$ -	$ -	$ -	$ -	$ -	$ -	3
	Deductions:							
4	Customer Advances for Construction	$ -	$ -	$ -	$ -	$ -	$ -	4
5	Customer Deposits	-	-	-	-	-	-	5
6	Accumulated Deferred Taxes	-	-	-	-	-	-	6
7	Regulatory Liabilities	-	-	-	-	-	-	7
8	Other	-	-	-	-	-	-	8
9	Total Deductions	$ -	$ -	$ -	$ -	$ -	$ -	9
	Additions:							
10	Regulatory Assets	$ -	-	$ -	$ -	-	$ -	10
11	Allowance for Working Capital	-	-	-	-	-	-	11
12	Other	-	-	-	-	-	-	12
13	Total Additions	$ -	$ -	$ -	$ -	$ -	$ -	13
14	Total Rate Base	$ -	$ -	$ -	$ -	$ -	$ -	14

UNS ELECTRIC, INC.
Schedule 3-C1 - TEAM
TOTAL COMPANY
TEST YEAR INCOME STATEMENT
For the Period XX XX, XXXX to December XX XX, XXXX
(Thousands of Dollars)

Line No.	Description	Total Company: Decision xxxxx Test Year Ended xx/xx/xxxx	Total Company: Proforma Adjustments	Total Company: Adjusted Decision xxxxx Test Year Ended xx/xx/xxxx	ACC Jurisdiction: Decision xxxxx Test Year Ended xx/xx/xxxx	ACC Jurisdiction: Proforma Adjustments	ACC Jurisdiction: Adjusted Decision xxxxx Test Year Ended xx/xx/xxxx	Line No.
		(A)	(B)	(C)=(A) + (B)	(D)	(E)	(F)=(D) + (E)	
	Operating Revenues							
1	Electric Retail Revenues	$ -	$ -	$ -	$ -	$ -	$ -	1
2	Sales for Resale	-	-	-	-	-	-	2
3	Other Operating Revenues	-	-	-	-	-	-	3
4	Total Revenues	$ -	$ -	$ -	$ -	$ -	$ -	4
	Operating Expenses							
5	Fuel and Purchased Power	$ -	$ -	$ -	$ -	$ -	$ -	5
6	Operations and Maintenance Excluding Fuel	-	-	-	-	-	-	6
7	Depreciation and Amortization	-	-	-	-	-	-	7
8	Income Taxes	-	-	-	-	-	-	8
9	Other Taxes	-	-	-	-	-	-	9
10	Total Expenses	$ -	$ -	$ -	$ -	$ -	$ -	10
11	Net Operating Income	$ -	$ -	$ -	$ -	$ -	$ -	11

UNS ELECTRIC, INC.
Schedule 3-C2 - TEAM
COMPUTATION OF GROSS REVENUE CONVERSION FACTOR
For the Period XX XX, XXXX to December XX XX, XXXX
(Thousands of Dollars)

Line No.	Description	Decision xxxxx Percentage of Incremental Gross Revenues (A)	Adjusted Decision xxxxx Percentage of Incremental Gross Revenues (B)	Line No.
1	Gross Revenue	100.000%	100.000%	1
2	Less: Uncollectible Revenue	0.00000%	0.00000%	2
3	Taxable Income as a Percent	100.00%	100.00%	3
4	Less: Federal and State Income Taxes	0.00%	0.00%	4
5	Change in Net Operating income	100.00%	100.00%	5
6	Gross Revenue Conversion Factor	1.0000	1.0000	6