

# UES Rate Proposal FAQ's

## Why

### Q: Why has UES filed a request to raise customers' rates?

A: UES is committed to providing safe, reliable electric service in an environmentally responsible manner at a reasonable price. We are simply asking the Arizona Corporation Commission (ACC) to allow us to recover the costs required to fulfill that commitment, and to make a fair profit.

### Q: Why is UES asking for recovery of its electrical system investments?

A: UES must continually repair and improve its electrical system to continue providing safe and reliable service and to comply with government mandates including the integration of energy efficiency and renewable energy programs. UES' rates, which must be approved by the ACC, are determined in part based on costs UES has already incurred. UES has filed a request for new, higher rates to recover the costs of system investments that include:

- \$57 million for distribution system improvements
- \$13 million to accommodate new customer demands
- \$10 million for solar photovoltaic projects

Since 2009, the company has experienced essentially flat sales due in part to a weak economy and government mandates.

### Q: What is the Black Mountain Generating Station (BMGS)?

A: BMGS is a two-unit, gas-fired power plant with a total capacity of 90 megawatts (MW). It is located near Kingman, Ariz. The plant was built by UniSource Energy Development (UED), a nonregulated subsidiary of UNS Energy Corporation. The facility began commercial operation in May 2008.

### Q: How does the purchase of BMGS factor in to this rate proposal?

A: UES' current electric rates were established by approval of the Arizona Corporation Commission (ACC) in September 2010. During these proceedings, the ACC determined that the purchase of the Black Mountain Generating Station could be incorporated into the base rates of UES electric customers if certain requirements were met. The ACC determined that "Customers can gain long-term benefits such as rate stability and electric reliability..." by incorporating the purchase of the plant into base rates, according to case filings.

In the 2010 proceedings, the ACC also required UES to file another rate request that considered costs incurred while operating BMGS once it was purchased by UES from UED.

In June 2011, UES obtained the necessary approval from the Federal Energy Regulatory Commission (FERC) to purchase the generating station. The purchase closed on July 1, 2011.

### Q: Why does UES' system need to be maintained and improved?

A: The electrical systems that serve both Mohave and Santa Cruz counties are under constant stress from customer usage, weather, age and other factors. UES must continually enhance, replace and repair systems to continue to provide safe, reliable service.

### Q: Why have your costs increased?

A: Despite our strong efforts to control costs, UES' Operating & Maintenance (O&M) costs have increased by approximately \$600,000 since our last rate case test year in 2008 due primarily to greater labor, materials, fuel, and environmental and regulatory compliance costs.

A "test year" is a 12-month period deemed to be representative of a utility's costs and revenues. Costs incurred during the test year are considered by the ACC in determining customer rates.

The current UES request for new rates is based on costs incurred by the company for the test year defined as July 1, 2011 through June 30, 2012. UES is requesting that new rates take effect in early 2014.

## Rates

### Q: How much of an increase is involved?

A: If granted in entirety, a typical residential customer would see an average monthly bill increase of about \$3.60. That increase could be partially offset by a customer's participation in one or more of our energy efficiency programs. Rate increases would also apply to non-residential customers, and vary according to customer classification.

### Q: When would the rate increase take effect?

A: While the ACC will ultimately decide when new rates take effect, UES is requesting that new rates take effect in early 2014.

### Q: Who decides whether UES can raise its rates?

A: The Arizona Corporation Commission sets UES' rates based on a review of UES' rate application.

# UES Rate Proposal FAQ's

## Q: What are "base rates"?

A: Base rates are the basic rates UES charges to recover the cost of investing in and maintaining its electric generation, transmission and distribution infrastructure and to operate the business.

## Q: Didn't UES recently make a change to its gas rates?

A: UES operations are divided among two subsidiary utility companies: UNS Electric and UNS Gas. Each company's rates are approved by the Arizona Corporation Commission in separate proceedings. For information about recent changes to gas rates, visit [uesaz.com/news/updates/gas-rates/](http://uesaz.com/news/updates/gas-rates/).

---

## Details

### Q: Is UES proposing any new surcharges as part of its new rates?

A: Yes. These include the Lost Fixed Cost Recovery Mechanism and the Transmission Cost Adjustment Mechanism.

### Q: What is the Lost Fixed Cost Recovery Mechanism (LFCR)?

A: While many of the costs we incur to serve customers are fixed, we recover many of those costs through volume-based rates. So when customers find ways to use less energy – either by taking advantage of one of our energy efficiency programs or installing a rooftop PV system – our ability to recover those costs through consumption is reduced. The LFCR reduces the penalties of complying with the ACC's Energy Efficiency Standard and the Distributed Generation (DG) component of its Renewable Energy Standard.

The LFCR is a mechanism designed to collect fixed delivery service costs that would have been recovered through usage lost to energy efficiency programs and DG systems. The LFCR is not intended to recover lost fixed costs attributable to other factors, such as weather or general economic conditions.

Similar mechanisms have been approved for other Arizona utilities.

## Q: What is the Transmission Cost Adjustment (TCA) Mechanism?

A: If approved, the TCA mechanism will allow UES to recover costs from customers who use UES transmission facilities. The TCA would be adjusted regularly to match a federal transmission tariff. The ACC has already approved a similar mechanism for use in Arizona.

## Q: How will UES' customers benefit from adoption of the TCA?

A: The timely recovery of transmission costs will provide necessary cash flow to help UES finance transmission capital additions and support credit quality. This can lower financing costs and may reduce the frequency of, and need to, file general rate cases

## Q: How would UES, customers and other parties benefit from the Energy Efficiency Resource Plan?

A: Customers benefit from a lower and more predictable Demand Side Management (DSM) surcharge and greater certainty about EE program availability, while DSM contractors can staff properly, operate efficiently with greater certainty about funding availability.

The ACC benefits from reduced administrative burden associated with annual implementation plans.

UES gains greater certainty about program funding and future energy savings.

## Q: What other changes are being made to UES' rates?

A: Some rates are being simplified to improve consistency and help reduce confusion for customers. We also have proposed changes to our commercial and industrial rates that allocate costs more fairly and improve the Company's ability to recover its fixed system costs.