

COMMISSIONERS
MIKE GLEASON - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE



ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Commissioner

Direct Line: (602) 542-4143
Fax: (602) 542-0765
E-mail: kmayes@azcc.gov

May 20, 2008

Parties to the Docket

**Re: Tucson Electric Power Company Rate Case Proposed Settlement Agreement;
Docket Nos. E-01933A-07-0402, E-01933A-05-0650.**

Dear Parties to the Docket:

On May 12, Administrative Law Judge Jane Rodda issued a Procedural Order setting out a schedule for filing a written encapsulation of the Tucson Electric Power ("TEP") Rate Case Settlement Agreement recently reached by a majority of the Parties to this case, along with dates for a hearing in the matter. The Order calls for the written Agreement to be docketed by May 29.

According to public statements issued by TEP in recent weeks and by the Parties in a May 8 procedural conference, it would appear as though a majority of Parties have agreed to support a six percent base rate increase for the Company. Since several Parties to the original case recommended either a rate decrease or a minimal rate increase, I would like those Parties to be prepared to answer questions regarding how and why they came to support the higher rate increase. Additionally, since several Parties originally indicated support for little or no increase, I will want to know what additional ratepayer benefits – beyond those proposed in the original rate case – have been proposed as part of the Settlement Agreement. Specifically, I am interested in knowing whether consumers will see additional benefits in the areas of renewable energy and energy efficiency. Therefore, to assist the Commission in its deliberations, I would like the written Settlement Agreement to address the issues below. If the Agreement does not include provisions in each of these areas, I would like the Parties to be prepared to provide testimony on them, or be prepared to state why they were not included in the Settlement Agreement.

- **Renewable Energy:** While the Commission recently adopted TEP's Renewable Energy Standard ("REST") implementation plan, under which the Company will begin working toward its 15 percent renewable energy mandate by 2025, I would like the Parties to consider whether the Company can or should commit to escalating its timetable for enacting the REST, or commit to doing more than its REST requirement. The Parties should also demonstrate how TEP is altering its generation portfolio in advance of what is almost certain to be an era of carbon taxation or cap and trade at the federal level. Specifically, how will TEP begin to shield its customers from the exposure to higher future rates created by virtue of the fact that the Company receives nearly 70 percent of its electric generation from coal-fired sources? Do the Parties believe an increased commitment to renewable energy is a ratepayer benefit that should be offered as part of the Settlement Agreement?

- **Partial Requirements Service (“PRS”) tariffs:** During Public Comment in this case, the City of Tucson¹ stated that it is concerned that TEP’s PRS tariffs will unfairly and unnecessarily inhibit the installation of large solar projects at several City facilities, as this tariff allows TEP to charge customers with facilities that produce their own energy greater than 100 kws a higher rate than those that do not self-produce. I would like the Parties to present the Commission with a PRS tariff that does not penalize large scale solar projects, a penalty that obviously would be counter to the Commission’s policy of encouraging renewable energy in Arizona.
- **Demand Response:** To date, TEP has engaged in little if any Demand Response. Other states are beginning to make good use of this energy saving and load shifting measure, in which utilities contract with large industrial or commercial customers to voluntarily shift their usage to off-peak hours or shed load during pre-arranged time periods, when electricity generation is most costly, thereby saving both the utility and its customers money. Please tell the Commission what Demand Response programs the Company will adopt as part of this Settlement Agreement.
- **Time of Use:** The Commission in recent years has insisted that electric providers adopt time of use tariffs that allow customers to shield themselves from the effects of rate increases by shifting their usage to pre-established “off-peak” hours. Please file a Time of Use tariff that provides consumers a reasonable opportunity to pay reduced rates by shifting their usage to off-peak hours.
- **Demand Side Management:** The Commission has also been focused on requiring the state’s utilities to engage in energy efficiency programs, and increasing the use of the “Negawatt”, a term that refers to the notion that the cheapest form of energy an electric company can produce is one it doesn’t have to produce. To date, TEP has implemented 56 Megawatts or 129,926 Megawatt hours of energy efficiency programs. As with its Renewable Energy commitment, please tell the Commission whether TEP should be required to go beyond the levels of DSM proposed by the Parties to the original case, given that several Parties to the case had recommended no rate increase or even a rate decrease and given the Company’s disproportionate reliance on coal-fired generation. Do the Parties believe that a heightened commitment by TEP to DSM is a ratepayer benefit that should be offered as part of the Settlement Agreement? Further, please address the questions raised by SWEEP in its direct testimony in the case, in particular, SWEEP’s questions regarding the timing of the introduction of the DSM programs. Will any new or expanded DSM programs be implemented at the time of the adoption of any order in this case, and if not, why? When will the adjustor mechanism for these programs be activated, and when will the programs be presented to the Commission for a vote?
- **Low-income assistance:** Any rate increase proposed for TEP’s service territory would likely be felt the most acutely by the Company’s low-income customers. I would like the Parties to propose improvements or enhancements to the Company’s low-income assistance programs that will largely hold the Company’s most vulnerable consumers harmless from the proposed rate increase.

¹ Similar comments were filed as part of testimony provided by the Dan Neidlinger on behalf of the Department of Defense, which believes that TEP’s PRS tariffs could stand in the way of a solar installation at Davis Montham Air Force Base.

Page 3

Thank you for your attention to these issues.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kris Mayes', with a long horizontal flourish extending to the right.

Kris Mayes
Commissioner

Cc: Chairman Mike Gleason
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Gary Pierce
Ernest Johnson
Rebecca Wilder
Brian McNeil