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Commissioner Kristin K. Mayes
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

RE: Proposed Devers - Palo Verde No. 2 Power Line (the "Power Line")
Docket No. L-00000A-06-0295-00130 (the "Power Line Siting docket")

Dear Commissioner Mayes:

I am in receipt of your May 11, 2006 letter, wherein you raise several questions regarding the Power Line and its effect on Arizona utilities. My responses, while preliminary at this point, reflect Tucson Electric Power Company's ("TEP") current understanding of the proposed Power Line. TEP has not reviewed the Power Line application for a certificate of environmental compatibility and has not yet determined if it will intervene in the Power Line Siting docket. Accordingly, TEP reserves its right to amend any response or restate any position based upon additional information or changed circumstance.

Question 1:

Provide an analysis for this Docket on the question of when Arizona will "grow into" the power supplies at the Palo Verde Hub.

Response:

The current merchant generation output at or near the Palo Verde Hub is approximately 5,000 MW¹. While TEP cannot determine exactly how much of this capacity is currently under contract to existing Arizona utilities and California entities, we estimate it to be approximately 2,000 MW². The remaining 3,000 MW could be available to the Arizona market. In fact, a portion of this remaining capacity is utilized by Arizona utilities, including TEP, to offset running less efficient gas generators in the short-term and spot markets.

¹ This includes the following plants: Gila River (2,140 MW), Mesquite (1,250 MW), Arlington Valley (570 MW) and Harquahala (1,000 MW).

² Any amount under contract to Arizona utilities for 2006 would be included in their Summer Preparedness presentation resources. APS listed 925 MW of short-term market contracts with the majority presumed to be served out of the Palo Verde Hub. TEP listed 100 MW which is purchased at the Palo Verde Hub and an additional requirement of 250 MW of Short-Term capacity needs which will also be filled primarily out of the Palo Verde hub.

Arizona Public Service's ("APS") and Salt River Project's ("SRP") combined peak loads in 2006 total 13,532 MW³. Using a 3% load growth over the next 4 years would increase this peak to 15,230 MW. TEP projects its additional capacity needs for 2010 will be roughly 325 MW⁴. In addition, UNS Electric, Inc.'s ("UNSE") load will require an additional 600 MW of capacity in 2010⁵. Under these projections, Arizona utilities would grow into the uncommitted capacity in the 2010 - 2011 timeframe. It should be noted, however, that not all of this capacity would necessarily be purchased at the Palo Verde Hub.

Question 2

What does TEP anticipate it would be required to do in order to make up for any potential shortfalls?

Response

TEP plans to purchase a portion of its future capacity needs at the Palo Verde Hub. To accommodate the increased transmission required for this, TEP is participating in the Palo Verde to Pinal West Transmission Project which will give TEP an estimated additional 200 MW of transmission from Palo Verde to TEP's load area. It is estimated that this project will be completed prior to the 2008 summer season.

TEP also analyzes purchases from other markets and resources in the Southwest, as well as its own resource additions in an integrated resource plan, to evaluate the most economic and reliable manner to serve TEP's growing demand.

The addition of the Power Line will not necessarily change TEP's long-term plan or the availability of energy and capacity at the Palo Verde Hub. It may, however, affect the economics of the Palo Verde Hub and/or where TEP acquires additional capacity. It could also increase the amount of generation that TEP must use from its less efficient gas generators.

Question 3

Please provide any other environmental, operational, reliability or economic information with regard to this line that you believe would aid the Committee and the Commission in considering this project.

³ See 2006 Summer Power Preparedness presentations; SRP 6,210 MW, APS 7,322 MW, TEP 2,263 MW.

⁴ TEP's capacity needs in 2010 are forecast at 675 MW. The 350 MW of current purchased capacity for 2006 is included in the 2006 2000 MW committed capacity estimate for a net of 325 MW additional needed.

⁵ UNSE is currently served under a Full Requirements Contract by Pinnacle West Capital Corporation that expires in June of 2008.

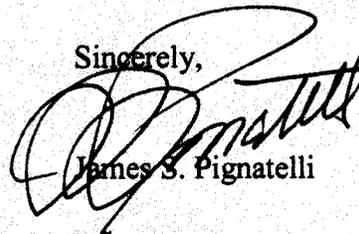
Response

TEP will reserve its response to this question until after it has reviewed the material submitted by the applicant(s) and other parties in the Power Line Siting docket. However, TEP is concerned at this point with the following issues:

- *The shift of costs between states.* Currently, the Southern California market prices are a premium to Palo Verde prices. California's increased access to generation at Palo Verde may serve to mitigate the pricing differential between Southern California markets and Palo Verde, tending to levelize prices between the two areas. Whether this results in higher overall costs to Arizona should be considered.
- *The overall effect of the Power Line on the Southwest region's economic dispatch.* The addition of transmission to efficient natural gas plants may provide for more efficient economic dispatch on a regional basis. Such an overall efficiency increase could reduce the regional demand for gas and thus reduce natural gas and potentially power prices.
- *The shift of emissions and water use between states.* California's increased access to generation at Palo Verde may serve to reduce the emissions and water usage in California. Whether this results in higher overall emissions and water use in Arizona should be considered.
- *The overall effect of the Power Line on the Southwest region's emissions.* The addition of transmission to efficient natural gas plants may provide for reduced emissions and water usage on a regional basis. The overall societal benefits of such a reduction should be considered.
- *The addition of the Power Line may increase the overall reliability of the power system in the Southwest, particularly in California.* This increased reliability and any increased operational flexibility should be considered.
- *The effects of increased natural gas use in the Phoenix area and its effect on the natural gas pipeline system, including gas availability.* The effect of the increase in natural gas usage should be analyzed and considered.

If you have any questions regarding these responses, or if you have any additional questions, please do not hesitate to contact me.

Sincerely,



James S. Pignatelli

cc: Docket Control