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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

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IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY FOR
THE ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE OF
ITS OPERATIONS THROUGHOUT THE STATE
OF ARIZONA.

DOCKET NO. E-01933A-07-0402

IN THE MATTER OF THE FILING BY TUCSON
ELECTRIC POWER COMPANY TO AMEND
DECISION NO. 62103.

DOCKET NO. E-01933A-05-0650

PROCEDURAL ORDER
(modifies form of notice and extends
mailing deadline)

BY THE COMMISSION:

By Procedural Order dated October 5, 2007, the Arizona Corporation Commission ("Commission") set the above-captioned matter for hearing and provided a form of notice for Tucson Electric Power Company ("TEP" or "Company") to mail to all of its customers and to publish.

During the Procedural Conference held October 1, 2007, the Administrative Law Judge requested that the parties review the forthcoming proposed form of notice and notify the Commission of any proposed clarifying changes.

On October 17, 2007, TEP filed Comments on the Proposed Form of Notice.

On October 18, 2007, Commission Utility Division Staff ("Staff") filed a Response to TEP's Comments, expressing a preference for the original form of notice.

Although TEP's comments have little substantive impact on the form of notice, some of them are well-taken and promote the accuracy of the description of the Company's application. Consequently, the form of notice¹ provided in the October 5, 2007 Procedural Order, should be

¹ TEP's proposed modifications only affect the first paragraph of the notice, and only that portion of the notice is being modified and set forth herein.

1 modified as set forth below.

2 IT IS THEREFORE ORDERED that the notice set forth in the October 5, 2007 Procedural
3 Order is modified as follows²:

4
5 **Summary**

6 On July 2, 2007, Tucson Electric Power Company (“TEP” or “Company”) filed an
7 application with the Arizona Corporation Commission (“Commission”) for a rate
8 increase to become effective January 1, 2009. TEP’s filing includes three alternative
9 methods for determining TEP’s rates. Under the “Market Methodology” alternative,
10 the unbundled generation service rate would be set at a market-based rate using the
11 Market Generation Credit in TEP’s tariff as established by Commission Decision Nos.
12 62103 and 65751, and all other rates would be set under cost-of-service principles.
13 Under this approach the rates customers pay for generation would fluctuate based on
14 an index for the cost of power in the wholesale market. TEP estimates that the Market
15 Methodology initially would produce a rate increase of approximately 21.9 percent
16 over TEP’s current retail rates based on Company projections for wholesale market
17 power prices. The “Cost-of Service Methodology” alternative would have TEP’s retail
18 rates based on cost-of service principles for distribution, transmission and generation
19 services. This proposed methodology includes regulatory assets for the purported
20 costs associated with the transition of generation service from a regulated monopoly to
21 a competitive scheme and then back to a regulated monopoly; would implement a
22 purchased power and fuel adjustment clause (“PPFAC”) to recover TEP’s power
23 supply costs; and would restore the exclusivity of the Company’s Certificate of
24 Convenience and Necessity. TEP estimates the Cost-of-Service Methodology initially
25 will produce a rate increase of approximately 23.0 percent over TEP’s current retail
26 rates based on its projections for future power supply costs. The implementation of a
27

28 ² The notice provided to customers may be single-spaced.

1 PPFAC would cause the generation portion of a customer's bill to fluctuate based on
2 power and fuel supply costs. The third proposed alternative is the "Hybrid
3 Methodology" under which TEP's retail rates would be based on cost-of-service
4 principles for distribution, transmission and generation, but some of TEP's generation
5 assets would be excluded from rate base and designated as wholesale assets. The
6 Hybrid Methodology incorporates a regulatory asset and includes a PPFAC. TEP
7 expects the Hybrid Methodology initially to produce a rate increase of approximately
8 14.9 percent over current retail rates based on the Company's projections for future
9 power supply costs.³

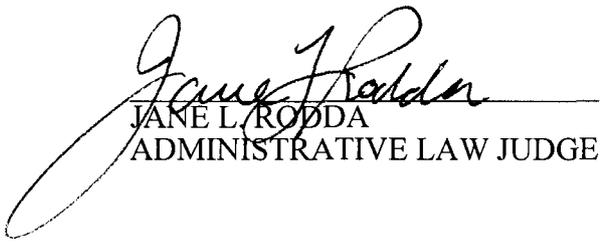
10
11 IT IS FURTHER ORDERED that in order to provide sufficient time for TEP to include the
12 notice in all of its customer bills, the deadline for mailing the notice is extended until December 31,
13 2007.

14 IT IS FURTHER ORDERED that except as provided herein concerning the form of notice
15 and the deadline for mailing, all other provisions of the October 5, 2007 Procedural Order remain
16 unchanged and in effect.

17 IT IS FURTHER ORDERED that the Ex Parte Rule (A.A.C. R14-3-113 - Unauthorized
18 Communications) continues to apply to this proceeding and shall remain in effect until the
19 Commission's Decision in this matter is final and non-appealable.

20 IT IS FURTHER ORDERED that the Presiding Officer may rescind, alter, amend, or waive
21 any portion of this Procedural Order either by subsequent Procedural Order or by ruling at hearing.

22 DATED this 25th day of October, 2007.

23
24
25 
26 JANE L. RODDA
27 ADMINISTRATIVE LAW JUDGE

28 ³ Please note that this form of notice is based on TEP's proposed modifications, but contains several minor alternations.

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2 this 25th day of October, 2007 to:

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