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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

MIKE GLEASON, Chairman  
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JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

2008 MAR 11 P 3: 25  
AZ CORP COMMISSION  
DOCKET CONTROL

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

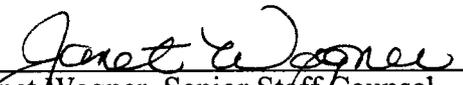
IN THE MATTER OF THE FILING BY  
TUCSON ELECTRIC POWER COMPANY TO  
AMEND DECISION NO. 62103.

DOCKET NO. E-01933A-05-0650

STAFF'S NOTICE OF ERRATA

Staff of the Arizona Corporation Commission ("Staff") hereby provides notice of filing Exhibit Nos. AAA, BBB, CCC, and DDD of the public version of John Antonuk's Direct Testimony in the above-referenced matter. These exhibits were inadvertently omitted from Staff's initial filing.

RESPECTFULLY SUBMITTED this 11<sup>th</sup> day of March, 2008.

  
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**DOCKETED**  
MAR 11 2008

DOCKETED BY nr

1 Original and 15 copies of the foregoing filed  
this 11<sup>th</sup> day of March, 2008 with:

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3 Docket Control  
4 Arizona Corporation Commission  
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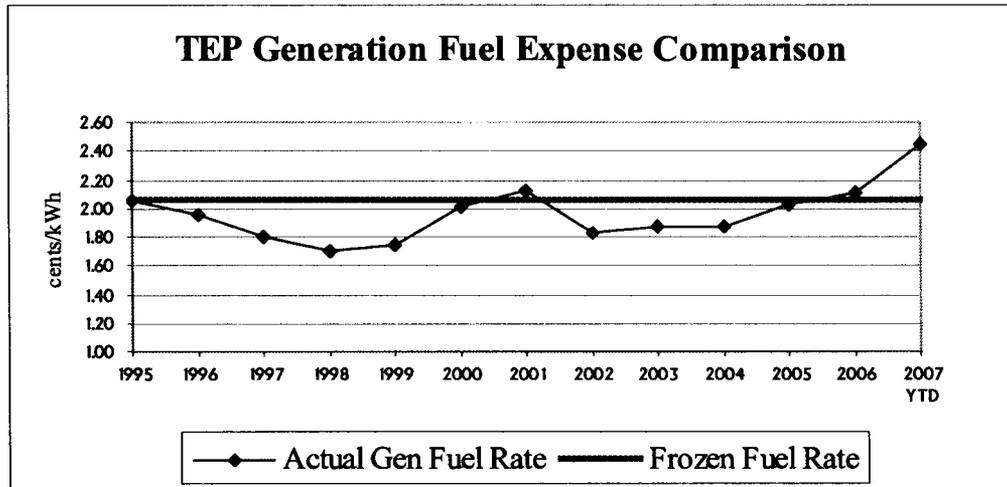
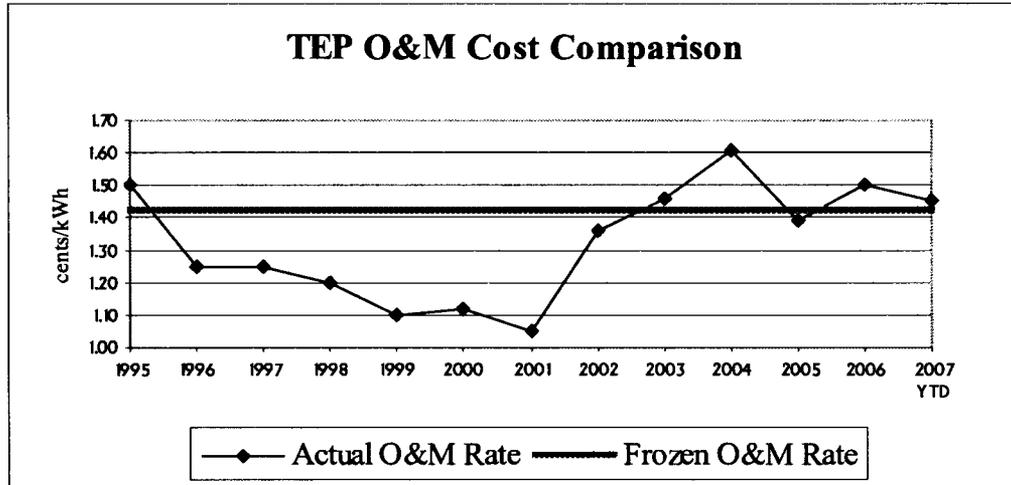
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DRAFT OF TESTIMONY EXHIBITS

EXHIBIT AAA



Sources:

Actual O&M costs for 1998-2007 were provided in response to Staff Data Request 8.4(b); actual O&M costs for 1995-1997 were taken from bar chart in 1998 Annual Report (p. 16). The frozen O&M rate was provided in supplemental response to Staff Data Request 8.4(c).

Actual generation fuel expense for 1998-2007 was provided in response to Staff Data Request 8.5(a); actual generation fuel expense for 1995-1997 was taken from bar chart in 1998 Annual Report (p. 14). The frozen generation fuel rate was provided in supplemental response to Staff Data Request 8.5(c).

**EXHIBIT BBB****Calculation of Estimated Over-Earning Benefit to TEP under the Settlement Agreement 1999-2002**

	<b>Retail kWh Sales</b>	<b>O&amp;M Excess cents/kWh</b>	<b>Retail O&amp;M Over-earning</b>	<b>Wholesale kWh Sales</b>	<b>O&amp;M Excess cents/kWh</b>	<b>Wholesale O&amp;M Over-earning</b>
1999	7,789,000,000	0.33	\$25,703,700	5,224,000,000	0.33	\$17,239,200
2000	8,186,000,000	0.31	\$25,376,600	6,209,000,000	0.31	\$19,247,900
2001	8,261,000,000	0.38	\$31,391,800	6,733,000,000	0.38	\$25,585,400
2002	8,012,000,000	0.07	<u>\$5,608,400</u>	4,017,000,000	0.07	<u>\$2,811,900</u>
			\$88,080,500			\$64,884,400
	<b>Generation</b>	<b>Gen Fuel Excess cents/kWh</b>	<b>Gen Fuel Over-earning</b>	<b>Total Over-earning</b>	<b>Revenue Equivalent</b>	
1999	11,115,678,000	0.31	\$34,458,602	\$77,401,502	\$128,556,154	
2000	11,945,701,000	0.05	\$5,972,851	\$50,597,351	\$84,037,139	
2001	12,182,994,000	(0.06)	(7,309,796)	\$49,667,404	\$82,492,591	
2002	11,471,573,000	0.23	<u>\$26,384,618</u>	<u>\$34,804,918</u>	<u>\$57,807,488</u>	
			\$59,506,274	\$212,471,174	\$352,893,373	

**Sources:**

Retail and wholesale sales were taken from the 2002 and 2003 Annual Reports; generation was taken from the 2002 Annual Report. Over-earnings (operating income) were grossed up to revenue using TEP conversion factor of 1.6609.

O&M Excess was calculated as the difference between actual O&M cost (for 1998-2007 provided in response to Staff Data Request 8.4(b), and for 1995-1997 taken from bar chart in 1998 Annual Report (p. 16)) and the frozen O&M rate provided in supplemental response to Staff Data Request 8.4(c).

Generation Fuel Excess was calculated as the different between actual generation fuel expense (for 1998-2007 provided in response to Staff Data Request 8.5(a) and for 1995-1997 taken from bar chart in 1998 Annual Report (p. 14) and the frozen generation fuel rate provided in supplemental response to Staff Data Request 8.5(c).

**EXHIBIT CCC****Analysis of Revenue Shortfall/Excess with Carrying Costs**

	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>		
Beginning Balance	\$0	(\$134,199,770)	(\$233,708,880)	(\$340,342,536)		
Current Year Excess	(\$128,556,155)	(\$84,037,140)	(\$82,492,591)	(\$57,807,488)		
Carrying Cost	(\$5,643,615)	(\$15,471,970)	(\$24,141,064)	(\$32,419,823)		
Ending Balance	(\$134,199,770)	(\$233,708,880)	(\$340,342,536)	(\$430,569,848)		
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>4 mo 2008</b>
Beginning Balance	(\$430,569,848)	(\$354,085,621)	(\$266,284,567)	(\$166,224,221)	(\$51,618,336)	\$76,622,171
Current Year Shortfall	\$109,482,000	\$113,890,000	\$118,249,000	\$123,767,000	\$127,189,000	\$33,508,000
Carrying Cost	(\$32,997,773)	(\$26,088,946)	(\$18,188,654)	(\$9,161,115)	\$1,051,507	\$2,705,481
Ending Balance	(\$354,085,621)	(\$266,284,567)	(\$166,224,221)	(\$51,618,336)	\$76,622,171	\$112,835,652

**Sources:**

Current year shortfall figures taken from TEP Exhibit KCG-1; current year excess figures were taken from Liberty Exhibit BBB. Analysis uses TEP operating income to revenue conversion factor of 1.6609 and cost of capital of 8.78%.

**EXHIBIT DDD****Evidence of UniSource's Strong Financial Position during the Settlement Period**1999 Annual Report

- Upgrades in 1999 and early 2000 of TEP bond ratings by Standard & Poor's, Moody's Investors Service, and Duff & Phelps; the upgrades generated savings of more than \$1 million in annual fees.
- Continued steady growth in operating income. Between 1995 and 1999 total growth was 28 percent, and reached 16 percent over 1999 alone.
- Debt reduction of \$89 million, increase in equity from \$12 million to \$324 million, and to increase the equity portion of its capital structure from 1 percent to 14 percent.
- Strong contribution to revenues from wholesale sales, which grew by 16 percent in MWh and by 20 percent in revenues, due to higher regional energy prices.
- Reduction in O&M expense by more than \$2 million; reduction in per-kilowatt-hour O&M expense of 8.3 percent from 1998 levels.
- Reduction of long-term debt expense of \$6 million (8 percent) due to redemption and prepayment.

2000 Annual Report

- Growth in operating revenues by 6 percent (from \$630 to \$665 million) spurred by more than doubling of wholesale revenues (from \$171 to \$360 million).
- Growth of 5.5 percent in retail revenues despite 1 percent reduction in retail rates.
- Dramatic rise in operating income of 28 percent (from \$154 million to \$197 million) from 1999 level.

- Increase to equity of \$48 million (15 percent) and decrease in total debt of \$26 million due to strong cash flows.
- Continued decrease in per-kilowatt-hour O&M expense of 1.8 percent from 1999 levels.
- Continued constant field employee numbers (as they had been for the past five years) while customers grew by almost three percent.
- Reduction of interest expense of \$4.4 million due to redemption and prepayment.

#### 2001 Annual Report

- Doubling of wholesale revenues (from \$360 to \$761 million), which exceeded retail revenues.
- Growth of 18 percent in operating income (from \$210 to \$248 million).
- Improvement to TEP gross margin of \$26 million over 2001 results.
- Decrease in total debt of \$333 million; decrease in debt cost of \$5 million.
- Increase in total equity of \$53 million, with significantly improved capital structure.
- Increase of 43 percent in earnings per share.

#### 2002 Annual Report

- Significant drop in revenue and operating income due to economic downturn, although still above 1999 levels.
- Positive contribution to net income by TEP, generating net earnings of \$53.7 million.

- Indication from Chairman that company expected a 10 percent annual earnings growth at TEP from 2002 to 2004 (despite rate freeze).

#### 2003 Annual Report

- Offer from Saguaro Group to purchase the company's stock at a 30 percent premium; expenses associated with proposed acquisition of \$3 million.
- Acquisition by UniSource of the gas and electric systems from Citizens Communications Company for \$223 million, financed in part by \$50 million from cash flows.
- Increase to net cash flows from operations of \$87 million from 2002.
- Increase of \$3 million in UniSource stock dividends.
- Dividends from TEP to UniSource of \$80 million.
- Growth in consolidated net income to \$113 million from \$35 million in 2002.

#### 2004 Annual Report

- Increase in net cash flows from operations of \$44 million and increase to operating income of \$16 million compared to 2003.
- Increase in TEP retail revenues of \$28 million with retail sales growth of 3 percent.
- Increase in TEP wholesale revenues of \$9 million despite 2 percent decrease in volume.
- Decrease to TEP long-term debt expense of 5 percent due to lower letter of credit fees.

2005 Annual Report

- Two notch upgrade in TEP's credit rating from Moody's Investor Service.
- Improvement in TEP equity position through financial restructuring.
- Increase in dividends, the sixth annual increase since dividends established in 2000.
- Increase of \$18 million in wholesale power revenues at TEP over prior year due to higher market prices, despite lower total kWh sales.
- Increase in TEP retail revenues of \$28 million.
- Growth of 5 percent in residential sales and 4 percent in commercial sales.
- Decrease in TEP total interest expense of \$17 million (11 percent), due to debt retirements and lower fees under a new credit agreement.
- Dividends from TEP to UniSource of \$46 million.

2006 Annual Report

- Receipt of the Index Award from the Edison Electric Institute (EEI) for outstanding shareholder returns over a five-year period, with UniSource claiming the top spot in EEI's small cap category with a return of 172 percent.
- Increase to net income of \$19 million over prior year.
- Growth in retail sales of 4 percent and increase of \$28 million in retail revenues.
- Growth in wholesale sales of 8 percent and increase of \$9 million in wholesale revenues.
- Decrease of \$13 million in TEP interest expense primarily due to lower interest rate on long-term debt and capital lease obligations.
- Payment by TEP of \$62 million in dividends to UniSource.