

ORIGINAL

OPEN MEETING AGENDA ITEM



0000084746

**BEFORE THE ARIZONA CORPORATION COMMISSION
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2008 MAY -5 A 10: 23

AZ CORP COMMISSION
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8 IN THE MATTER OF THE APPLICATION OF
 9 UNS ELECTRIC, INC. THE
 10 ESTABLISHMENT OF JUST AND
 11 REASONABLE RATES AND CHARGES
 12 DESIGNED TO REALIZE A REASONABLE
 13 RATE OF RETURN ON THE FAIR VALUE
 14 OF THE PROPERTIES OF UNS ELECTRIC,
 15 INC. DEVOTED TO ITS OPERATIONS
 16 THROUGHOUT THE STATE OF ARIZONA
 17 AND REQUEST FOR APPROVAL OF
 18 RELATED FINANCING.

Docket No. E-04204A-06-0783

Arizona Corporation Commission

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14 **EXCEPTIONS OF**
 15 **THE RESIDENTIAL UTILITY CONSUMER OFFICE**

16 The Residential Utility Consumer Office ("RUCO") makes the following Exceptions to
 17 the Recommended Opinion and Order ("ROO") on UNS Electric, Inc.'s ("UNS" or "Company")
 18 application for a rate increase.

19 **PROPOSED PPFAC - 90/10 SHARING**

20 The ROO rejects RUCO's proposal of a 90/10 purchase power fuel cost sharing
 21 mechanism. The ROO disregards the fact that a sharing mechanism would provide an
 22 incentive to align the Company's interests in acquiring power with the interests of the
 23 Company's customers who pay the costs that the Company incurs. The ROO rejects a
 24 sharing mechanism because the Company has no base load generation and is in the process

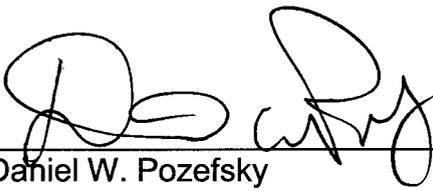
1 of acquiring new power resources. ROO at 72. It concludes that a sharing mechanism would
2 not be appropriate because of the potential volatility that the Company is likely to experience at
3 a time when it is acquiring new sources of power. Id.

4 Contrary to the ROO's conclusion, the fact that the Company is acquiring new sources
5 of power to replace its long-standing full requirements contract makes a sharing mechanism
6 more, not less, appropriate. In the most recent Arizona Public Service Company rate
7 proceeding, the Commission required that APS' Power Supply Adjustor retain its 90-10 sharing
8 provision. Decision No. 69663 at 106-107. A sharing mechanism is even more appropriate for
9 UNS Electric than it is for APS, given that the majority of APS power resources are supplied
10 from base load generation which is not subject to the same volatility as the short-term power
11 markets. Significant volatility in short-term power markets may suggest that the Company
12 should look to longer-term resources to meet its customers needs, not that it should get a free
13 ride to pass along all fuel and purchased power costs to customers. Indeed, the Company is
14 in the process of acquiring the Black Mountain Generating Station, which would lessen its
15 need to acquire power in short-term markets.

16 The Company is in the process of acquiring new power resources, and now is the most
17 appropriate time to provide incentive for the Company to make the best power choices.
18 Ratepayers also benefit from better and less costly power purchases. The 90/10 mechanism
19 is not a "penalty provision" and is as likely here to "hit the mark" as it did in the APS case. Id.
20 The Commission should require a 90/10 sharing provision consistent with that found
21 appropriate in Decision No. 69663.¹

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24 ¹ In Decision No. 69663, the Commission excluded from the 90-10 sharing mechanism fixed or demand
elements of long-term purchased power agreements acquired through competitive procurement, and renewable
energy purchases not otherwise recoverable though the Renewable Energy Standard. RUCO has no objection to
the same exclusions being applied to UNS Electric.

1 RESPECTFULLY SUBMITTED this 5th day of May 2008.

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5 Daniel W. Pozefsky
6 Attorney

7 AN ORIGINAL AND THIRTEEN COPIES
8 of the foregoing filed this 5th day
9 of May 2008 with:

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15 mailed this 5th day of May 2008 to:

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2 Secretary to Daniel Pozefsky

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