

ORIGINAL

OPEN MEETING AGENDA ITEM



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COUNTY ADMINISTRATOR'S OFFICE

AZ CORP COMMISSION  
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130 W. CONGRESS, TUCSON, AZ 85701-1317  
(520) 740-8661 FAX (520) 740-8171

C.H. HUCKELBERRY  
County Administrator

November 5, 2009

The Honorable Commission Chair Kristin Mayes and  
The Honorable Commissioners Sandra Kennedy, Paul Newman,  
Gary Pierce, and Bob Stump  
Arizona Corporation Commission  
Commissioners Wing  
1200 W. Washington - Second Floor  
Phoenix, Arizona 85007

Arizona Corporation Commission  
**DOCKETED**  
NOV - 6 2009

Re: ACC Docket RE-00000A-07-0608 - Net Metering Rules

DOCKETED BY

Dear Commissioners:

I am writing to request that you approve some version of *Aggregated Net Metering (ANM)* at your November 19 or 20, 2009 open meeting on this case.

My letter of October 10, 2008 to the Arizona Corporation Commission (ACC), which is already attached to this docket, documents the diverse benefits that would accrue to ratepayers who are the same persons as taxpayers, and Pima County if rule changes were adopted to enable ANM. In that letter, I generally define ANM as allowing a utility customer like Pima County to interconnect to the grid on the Utility side of our meters and self-generate, or have generated, electricity on land owned by the County and credit that power to their many meters in a net metering manner. The generated power would be actually consumed by other Users and the Utility fully compensated at the base rates and surcharges applicable to those meters.

I understand that the Commission may have concerns regarding potentially unabsorbed fixed utility costs that may result if significant amounts of utility electricity sales were displaced by large Customer self-generated solar electric projects if ANM functionality was approved. When considering how to resolve that concern, I encourage you to consider "total" costs and benefits to ratepayers, not just those associated with the generation and distribution of electricity, and the following observations and circumstances:

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First, I understand that several other states have considered and studied the impact of similar ANM rules, found that ANM is net advantageous to ratepayers, and adopted rules supporting ANM.

My October 10, 2008 letter to the ACC proposed that initial ANM rule changes be restricted to State, County and City governments and Federal Military installations and to sites that would support interconnect points within or adjacent to the distribution grid with sufficient existing or future planned distribution capacity required to support the intended amount of *Green* power generation. As an alternative, my letter also proposed that the ACC direct Tucson Electric Power Company (TEP) to work with the County to enable us to establish a 15 megawatt ANM Solar Electric Facility on a suitable parcel of County land.

In addition to the environmental and social benefits, either of these options would:

- Allow time for actual fixed cost absorption and rate data to be developed and impact studies to be performed before the ANM rule availability was expanded;
- Provide direct cost avoidance benefits to ratepayers by offsetting the imminent *Brown* power carbon penalty which would be paid by ratepayers via the fuel surcharge (PPFAC), which would preserve for other use the remainder of the \$454 million of TEP Competition Transition Charge over-collections presently being used to pay those costs;
- Significantly reduce the amount of precious local water required to generate *Brown* power; the TEP 2010 generation plan will require from five to seven million gallons of water [1/2 to 3/4 gallon/kilowatt hour (kwh)];
- Limit incremental utility infrastructure costs and provide distribution efficiency benefits as contemplated by the current TEP solicitation for solar facility site locations within the "distribution" grid;
- Reduce current Utility administrative and engineering costs; larger capacity projects would result in fewer projects and related Utility costs;
- Provide direct cost benefit to ratepayers via significantly more productive use of Renewable Energy Surcharge (RES) funds paid by ratepayers. Typically, commercial scale ratepayers like Pima County utilize our existing Utility expense funds which are based on current Utility rates and surcharges of about 10 to 11 cents/kwh to partially fund solar facilities; a one megawatt facility typically

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costs about 25 cents/kwh to establish requiring RES subsidy and funding of about 15 cents/kwh or more. The greater scale enabled by ANM would reduce the gross price/kwh to about 15 cents/kwh, which would reduce the RES subsidy required to only five cents/kwh REC subsidy: a 300 percent productivity improvement in the use of RES funds provided by ratepayers. This will avoid the significant burden that will be placed on ratepayers to fund the RES as achievement of the ACC's Renewable Energy generation goal increases annually to 15 percent.

- Create the mass demand necessary to accelerate the development of cost effective solar solutions by private sector manufacturing and achievement of solar electric cost parity with Utility retail rates and phase-out of the RES and need to subsidize;
- Create higher wage jobs, work, and tax revenues which would enable the County to fund needed services and/or avoid tax increases on taxpayers, who are the same persons as ratepayers;
- Support aggressive achievement of ACC Renewable Energy goals.

Utility Cost Reduction Opportunity. Considering the current economy and other organizations performance, TEP profits are exceptionally strong indicating that a rate increase would not be necessary or appropriate, and they have significant opportunity to reduce and control costs to offset any cost issue that might be created by ANM. The attached first page of a Unisource Energy press release dated August 3, 2009, indicates that they increased their 2Q NET income by 600 percent from \$5 million to \$31 million over the same period last year; provides primary credit for that performance to their TEP Division's acquisition of the base rate increase and fuel surcharge approved by the ACC effective December 1, 2008. Also attached please find an *Arizona Employment by (Industry) Sector* study prepared by the Arizona Department of Commerce and US Department of Labor that indicates that utilities enjoy the highest average wage in the State of Arizona; much greater than that paid to "Management of Companies," "Professional, Scientific & Technical," and "Manufacturing" or "Construction." It is probable that there are many other areas where cost reduction and control efforts would be productive.

Alternative Efforts to Develop an ANM Solution. During the first half of 2009, Pima County staff organized a project team and met with TEP senior staff with the objective of developing tariffs that would allow the Utility to aggregate and purchase ratepayer demand

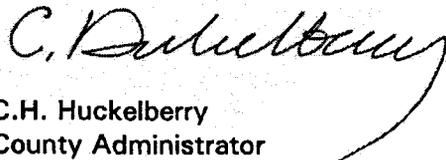
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for *Green* power and support County establishment of an ANM 15 megawatt solar electric generating facility. The product of those meetings validated and generated the Community Solar Tariffs proposed by TEP as part of the 2010 RES filing, which will fully preserve TEP rates/profits, but TEP was not successful in providing a tariff that would support the establishment of a County ANM Solar electric facility.

In closing, I applaud the ACC's considerable efforts to consider all significant facets regarding Net Metering rulemaking. I do not believe that without action that would allow the development of factual statistics that further discussion would be productive. The available information clearly documents that adoption of rules that support some version of ANM would be provide significant net benefits to ratepayers and would also generate the data needed to quantify, identify and resolve any significant issues.

I would greatly appreciate your consideration of the information I have provided and adoption at your November 2009 meeting of some version of ANM that would allow Pima County to expedite the implementation of our proposed 15 megawatt solar electric project. This is a timely opportunity to provide significant and recurring benefits to our community, ratepayers and taxpayers.

Sincerely,



C.H. Huckelberry  
County Administrator

CHH/mjk

**Attachments:**

Arizona Commerce Department Employment & Average Wage by Sector, 1 page  
Unisource Energy August 3, 2009 News Release, 1 page  
Unisource Investor Relations Dividend History, July 15, 2009; 1 page

c: The Honorable Chairman and Members, Pima County Board of Supervisors  
Reid Spaulding, Director, Pima County Facilities Management Department  
George Widugiris, Director, Pima County Procurement Department  
Tedra Fox, Pima County Sustainability Manager  
Terry Finefrock, Pima County Chief Contracts and Procurement Manager



# THE ARIZONA ADVANTAGE

## Business is Booming!

- 1<sup>st</sup> on Expansion Management Magazine's list of Top States for Recruitment & Attraction. Arizona (May/June 2007)
- 1<sup>st</sup> on Expansion Management Magazine's list of Top Large Metros for Recruitment & Attraction. Phoenix-Mesa (May/June 2007)
- 1<sup>st</sup> on Expansion Management Magazine's list of Top Mid-Size Counties for Recruitment & Attraction. Pima (May/June 2007)
- 1<sup>st</sup> in Entrepreneur Magazine's list of the Hot Cities for Entrepreneurs - Phoenix (September 2006)
- 2<sup>nd</sup> ranked in % of High-Impact firms in medium MSAs, Tucson \*\*
- 2<sup>nd</sup> on Inc. Magazine's list of the Hottest Large Cities for Doing Business: Phoenix (Boombtowns 07, May 2007)
- 2<sup>nd</sup> on Inc. Magazine's list of the Hottest Small Cities for Doing Business: Yuma (Boombtowns 07, May)
- 2<sup>nd</sup> on Forbes List for top 25 Best Spots for Job Opportunities - Phoenix (February 2007)
- 2<sup>nd</sup> fastest growth rate for majority women-owned firms in US (Center for Women's Business Research 2006)
- 3<sup>rd</sup> in Semiconductor Exports, 4th in Tech Export Concentration in US (AeA, Trade in the Cyberstates: 2008)
- 3<sup>rd</sup> ranked in % of High-Impact firms in large MSAs, Phoenix-Mesa \*\*
- 7<sup>th</sup> nationally for the number high-tech establishments in Arizona (AeA, Trade in the Cyberstates: 2008)

\*\* Corporate Research Board, American Corporate Statistical Library (2007)

Arizona is one of the fastest-growing, most dynamic economies in the nation. Phoenix is now the nation's fifth most populous city. Both Fortune 500 and start-up technology companies call Arizona home, reaping the advantages of a competitive business climate and tax structure, a skilled, knowledge-based workforce, and world-class innovation, cultural and scenic resources.

## GROWTH INDICATORS

	2000	2008	% CHANGE 2000 - 2008
State Population	5,130,632	6,629,455	29.2%
Gross State Product (\$billion)	\$158.5	\$248.8	57.0%
Personal Income (\$ billion)	\$132.6	\$214.2	61.6%
Per Capita	\$25,653	\$32,953	28.5%
Retail Sales (\$billion)	\$37.6	\$49.7	32.3%
Value of All Building Permits (\$billion)	\$11.7	\$12.4	6.41%
Total Net Assessed Valuation (\$billion)	\$31.8	\$86.1	171%
Department of Defense Contracts (\$billion)	\$4.6	\$11.2	144%

Sources: Arizona Department of Commerce, U.S. Census, Arizona Department of Revenue, Arizona Real Estate Center - Arizona State University, www.governmentcontracts.com, Bureau of Economic Analysis.

## PRINCIPAL ECONOMIC ACTIVITIES

The major employment sectors in Arizona include aerospace, electronics and semi conductor manufacturing. Tourism, business services and back-office operations are also important sectors. Arizona's original export activities - agriculture and mining - remain significant in many rural parts of the state. Based on sheer size, the real estate and rental industries, the diverse tourism sector, and government are the largest economic sectors in Arizona. Relative to the national average, the construction sector is also unusually large because of the state's rapid growth in most recent years.

## ARIZONA EMPLOYMENT BY SECTOR Quarterly Census of Employment and Wages [QCEW or ES-202] 2008 Q3 Employment & Wages

Industry	Employment	Emp. % Change 07-08	Average Wage
Agriculture & Forestry	17,648	-7.2%	\$27,249
Mining	14,109	18.4%	\$64,624
Utilities	23,812	2.1%	\$76,503
Construction	188,396	-18.2%	\$43,722
Manufacturing	172,845	-5.3%	\$58,630
Wholesale Trade	106,562	-2.3%	\$59,362
Retail Trade	317,880	-4.0%	\$27,509
Transportation & Warehousing	84,400	0.1%	\$43,837
Information	43,295	-3.5%	\$53,717
Finance & Insurance	124,343	-4.7%	\$53,691
Real Estate, Rental & Leasing	51,288	-3.6%	\$40,743
Professional, Scientific & Technical	131,035	-1.2%	\$61,352
Management of Companies	27,582	0.9%	\$68,925
Administrative & Support	226,699	-8.2%	\$30,504
Educational Services	190,245	2.1%	\$36,874
Health Care & Social Assistance	291,359	5.2%	\$46,419
Arts, Entertainment & Recreation	53,968	0.3%	\$32,708
Accommodation & Food Services	230,214	-1.0%	\$16,985
Other (except Public Administration)	73,100	-1.8%	\$29,755
Public Administration	161,778	2.8%	\$51,725
Unclassified	3,163	43.3%	\$41,862
<b>Total</b>	<b>2,535,243</b>	<b>-2.9%</b>	<b>\$41,511</b>

Source: Prepared by Arizona Department of Commerce, Research Administration, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics

## LABOR FORCE DATA

	2000	2008
Civilian Labor Force	2,505,306	3,132,700
Employed	2,404,916	2,960,200
Unemployed	100,390	172,500
Unemployment Rate	4.0%	5.5%

Source: Special Unemployment Report, Arizona Department of Economic Security, Research Administration, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics



FOR IMMEDIATE RELEASE

Media Contact: Art McDonald, (520) 884-3628

Financial Analyst Contact: Jo Smith, (520) 884-3650

August 3, 2009

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**UNISOURCE ENERGY REPORTS SECOND QUARTER 2009 EARNINGS,  
NARROWS 2009 EARNINGS GUIDANCE RANGE**

- UniSource Energy's net income for the second quarter of 2009 was \$31 million, or \$0.80 per diluted share of common stock, compared with net income of \$5 million, or \$0.13 per diluted share, in the second quarter of 2008. Earnings for the second-quarter of 2009 also reflect an after-tax gain of \$3.6 million, or \$0.09 per diluted share on the sale of its equity interest in Carboelectrica Sabinas, S. de R.L. de C.V. (Sabinas), one of UniSource Energy's unregulated energy investments.
- UniSource Energy narrows its 2009 reported GAAP earnings guidance to \$2.55 to \$2.70 per diluted share from \$2.55 to \$2.90 per diluted share.

**Tucson, Ariz.** – UniSource Energy Corporation (NYSE: UNS) today reported second quarter 2009 net income of \$31 million, or \$0.80 per diluted share of common stock, compared with net income of \$5 million, or \$0.13 per diluted share, in the same period last year.

UniSource Energy's financial results are driven primarily by Tucson Electric Power (TEP), UniSource Energy's principal subsidiary, which reported net income of \$27 million for the second quarter compared with net income of \$6 million last year. The increase can be attributed to two key elements: first, a \$12 million increase in TEP's retail revenues (excluding renewable energy and demand side management charges) reflecting an average base rate increase of 6% that was effective December 1, 2008 and a Purchased Power and Fuel Adjustment Clause (PPFAC) that allows recovery of actual costs. The new rate structure contributed to a \$16 million increase in TEP's utility gross margin (retail and wholesale revenues net of costs and deferrals related to fuel, purchased power and transmission) over the second quarter of last year. The other key element is that during the second quarter of 2008 TEP incurred charges of \$22 million, including amortization of a regulatory asset and deferred revenues to be refunded; those charges will not recur in 2009.

Retail revenues were higher even though TEP's second-quarter retail kilowatt-hour (kWh) sales fell 1.9 percent compared with the same period last year due to the struggling economy. The reduction in TEP's second quarter retail sales actually represented a significant improvement over the 4.8 percent year-over-year decrease in the utility's first quarter sales.

"With half of the year behind us and TEP's retail energy sales lagging 3.3 percent behind last year's levels, we're revising our expectations and narrowing our 2009 guidance range to \$2.55 - \$2.70 per diluted share," said Paul Bonavia, Chairman, President and CEO of UniSource Energy. "Although we're beginning to see signs that economic conditions may be stabilizing, the high end of our previous earnings guidance is likely to remain out of reach.

To mitigate the impact of lower sales, the company is taking steps to reduce O&M expenses, Bonavia said. "We're finding ways to cut costs without compromising safety, reliable service for our customers or the long-term health of our company," he said.



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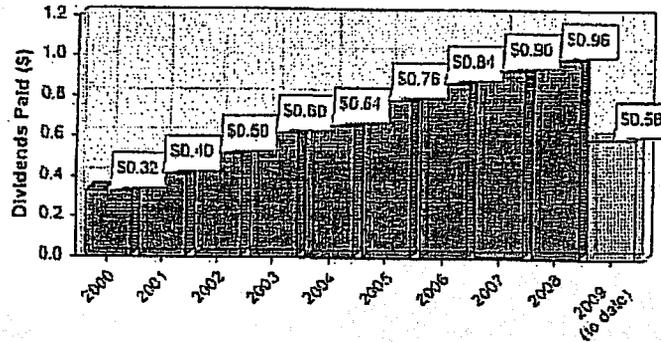
## Investor Relations

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- [Investment Calculator](#)
- [Dividend History](#)
- [Analyst Coverage](#)

### Dividend History

#### Annual Dividends Issued



#### Most Recent Dividend

Enter number of shares:  × 0.29 =

Dividend Value:

#### Historical Dividends Issued

Declared	Ex-Date	Record	Payable	Amount	Type
May 7, 2009	May 18, 2009	May 20, 2009	Jun 15, 2009	0.29	U.S. Currency
Feb 13, 2009	Feb 20, 2009	Feb 24, 2009	Mar 9, 2009	0.29	U.S. Currency
<b>Total dividends paid in 2009:</b>				<b>0.5800</b>	
Dec 5, 2008	Dec 12, 2008	Dec 18, 2008	Dec 28, 2008	0.24	U.S. Currency
Aug 15, 2008	Aug 21, 2008	Aug 25, 2008	Sep 5, 2008	0.24	U.S. Currency
May 1, 2008	May 9, 2008	May 13, 2008	May 27, 2008	0.24	U.S. Currency
Feb 27, 2008	Mar 6, 2008	Mar 10, 2008	Mar 21, 2008	0.24	U.S. Currency
<b>Total dividends paid in 2008:</b>				<b>0.9600</b>	
Dec 7, 2007	Dec 14, 2007	Dec 18, 2007	Dec 28, 2007	0.225	U.S. Currency
Sep 4, 2007	Sep 13, 2007	Sep 17, 2007	Sep 28, 2007	0.225	U.S. Currency
May 11, 2007	May 21, 2007	May 23, 2007	Jun 15, 2007	0.225	U.S. Currency
Feb 8, 2007	Feb 15, 2007	Feb 20, 2007	Mar 14, 2007	0.225	U.S. Currency
<b>Total dividends paid in 2007:</b>				<b>0.9000</b>	
Dec 1, 2006	Dec 8, 2006	Dec 12, 2006	Dec 27, 2006	0.21	U.S. Currency
Sep 14, 2006	Sep 21, 2006	Sep 25, 2006	Oct 10, 2006	0.21	U.S. Currency
May 5, 2006	May 15, 2006	May 17, 2006	Jun 9, 2006	0.21	U.S. Currency
Feb 10, 2006	Feb 18, 2006	Feb 21, 2006	Mar 15, 2006	0.21	U.S. Currency
<b>Total dividends paid in 2006:</b>				<b>0.8400</b>	
Dec 2, 2005	Dec 9, 2005	Dec 13, 2005	Dec 27, 2005	0.19	U.S. Currency
Sep 9, 2005	Sep 18, 2005	Sep 20, 2005	Oct 3, 2005	0.19	U.S. Currency