

NEW APPLICATION



0000106583

BEFORE THE ARIZONA CORPORATION COMMISSION

2002 MAY 10 P 4:11

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

AZ CORP COMMISSION
DOCUMENT CONTROL

E-01933A-02-0345

IN THE MATTER OF THE APPLICATION OF) Docket No. _____
TUCSON ELECTRIC POWER COMPANY FOR)
APPROVAL OF NEW PARTIAL)
REQUIREMENTS SERVICE TARIFFS;)
MODIFICATION OF EXISTING PARTIAL) TUCSON ELECTRIC POWER
REQUIREMENTS SERVICE TARIFF 101; AND) COMPANY'S APPLICATION
ELIMINATION OF QUALIFYING FACILITY)
TARIFFS.)

Tucson Electric Power Company ("TEP"), through undersigned counsel, hereby applies to the Arizona Corporation Commission ("Commission") for an order:

- 1. Approving new Partial Requirements Service Tariffs ("PRS");
- 2. Modifying existing PRS-101; and
- 3. Eliminating existing Qualifying Facility Tariffs ("QF") 102, 103, 104, 105, 106, 107 and 108.

In support hereof, TEP states as follows:

I. INTRODUCTION.

TEP believes that the time has come to modify its tariffs to offer a range of PRS for qualifying customers. Experience has shown that often QF tariffs do not meet the needs of customers who utilize distributed generation ("DG"). QF tariffs were designed and approved under the bundled pricing paradigm during the era of the regulated-monopoly utility industry. With the advent of unbundled pricing resulting from the deregulation of electric generation, new terms, conditions and pricing for DG customers is necessary, including those who would be eligible for service under QF tariffs, who are similarly situated to non-qualifying self-generation

1 customers from an electric utility service perspective. TEP, therefore, is recommending the new
2 PRS and the modified existing PRS-101 as replacements for its QF tariffs.

3 **II. APPROVAL OF NEW PARTIAL REQUIREMENTS SERVICE TARIFFS.**

4 TEP is requesting approval of the following new PRS tariffs:

- 5 1. PRS-10 for General Service (up to 200kW);
- 6 2. PRS-13 for Large General Service (200 kW – 2,999 kW); and
- 7 3. PRS-14 for Large Light & Power Service (3,000 kW or greater)
- 8 (collectively the “new PRS tariffs”).

9 A copy of the new PRS tariffs is attached hereto as Exhibit 1; and by this reference
10 incorporated herein.

11 The new PRS tariffs will apply to any non-residential customer with DG requiring partial
12 requirements services, under either a standard offer or direct access service arrangement. The
13 new PRS tariffs provide for direct access customers to obtain backup or standby and
14 supplemental generation services from a competitive electric service provider, while acquiring
15 distribution and transmission services for delivery from TEP.¹ Pursuant to the new PRS tariffs,
16 the backup or standby service will apply during times of maintenance and forced outages of DG
17 units. Supplemental service will be utilized during times when the customer’s DG is not able to
18 meet its full load requirements.

19 The new PRS tariffs have been designed to replace the QF tariffs and to provide backup,
20 standby or supplemental service to customers utilizing *any* type of DG. Presently, the QF tariffs
21 do not apply to self-generating customers who are not “qualified facilities” under The Public
22 Utility Regulatory Policies Act of 1978 (“PURPA”). The new PRS tariffs also reflect the input
23 from participants in the Commission-sponsored DG Working Groups that PRS tariffs be
24 designed to recover only those costs actually incurred by TEP to provide partial requirement
25 service.

26 _____
27 ¹ If the DG customer chooses to be a standard offer customer, TEP will provide back up,
maintenance, and supplemental power under the provisions of the new PRS, with a market-based
generation charge.

1 The new PRS tariffs are in the public interest because they broaden the scope of those
2 customers who will be eligible for service under partial requirement tariffs, allow direct access
3 for DG, provide for "peak-shaving" due to on-peak and off-peak market energy price signals, and
4 allow PRS customers to remain eligible for TEP's GreenWatts program.

5 **III. APPROVAL OF THE MODIFICATION OF TARIFF PRS-101.**

6 The current PRS-101 tariff became effective for QFs on January 30, 1982 and the net
7 metering option for photovoltaic ("PV") systems of 5 kW or less has been in effect since
8 November 1, 2000. It presently is offered to any QF customer with certified capacity of 100 kW
9 or less which generates other than firm power. This includes customers using renewables and
10 cogeneration as well as small power producers. TEP proposes that PRS-101 be modified so that
11 it will only be available to any customer with certified capacity of 100 kW or less generating
12 through the use of renewable energy resources. A copy of the proposed modified PRS-101 is
13 attached hereto as Exhibit 2; and by this reference incorporated herein. TEP believes that in a
14 competitive generation market TEP should not be required to purchase excess energy from a
15 customer with DG. However, TEP believes that this modification will be an incentive for those
16 customers who generate electricity through the use of renewable energy resources. TEP will
17 purchase excess energy from non-renewable DG on a case-by-case basis under special contract.

18 **IV. APPROVAL OF THE ELIMINATION OF QF TARIFFS.**

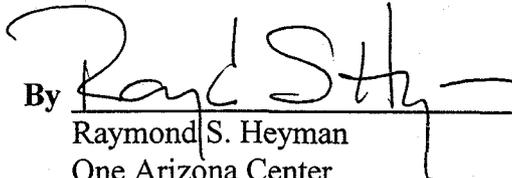
19 TEP's QF tariffs 102, and 103 became effective on January 30, 1982 and QF tariffs 104,
20 105 and 106 became effective on March 16, 1989. QF tariffs 104 and 105 were modified during
21 TEP's 1995 rate case reflecting increases in avoided costs. With this exception and some
22 editorial changes to the tariff format, these tariffs have not been modified since initial approval.
23 Tariffs 107 and 108 are for self-generation greater than 3 MW and were approved as part of
24 TEP's 1999 Stranded Cost Settlement agreement. PRS-14 is broader in scope and provides
25 consistent terms, conditions and pricing for similarly situated customers. However, TEP's
26 customers have shown little interest in receiving service pursuant to the QF tariffs. By way of
27 example, TEP does not currently have any QF tariff customers, except for 30 PV customers

ROSHKA HEYMAN & DEWULF, PLC
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

1 currently using PRS-101, of which 20 customers participate in the net bill method and 10
2 customers participate in the net metering method. The QF tariffs were developed at a time when
3 the Arizona electric industry was not subject to deregulation or competition. The new PRS
4 tariffs and the modified PRS-101 are designed to be an improvement of the QF tariffs, and to
5 better match the changing electric utility industry. As stated, the new PRS tariffs are broader in
6 scope and are designed to recover only those costs actually incurred by TEP to provide partial
7 requirements service. Consequently, TEP requests that in connection with the approval of the
8 new PRS tariffs and the modification of the PRS-101 tariff, the Commission eliminate TEP's QF
9 tariffs.

10
11 RESPECTFULLY SUBMITTED this 10th day of May, 2002.

12 **ROSHKA HEYMAN & DEWULF, PLC**

13
14 By 

15 Raymond S. Heyman
16 One Arizona Center
17 400 E. Van Buren Street, Suite 800
18 Phoenix, Arizona 85004

19 Attorneys for Tucson Electric Power Company

20 **ORIGINAL and 10 COPIES** of the foregoing
21 filed May 10, 2002, with:

22 Docket Control
23 ARIZONA CORPORATION COMMISSION
24 1200 West Washington Street
25 Phoenix, Arizona 85007
26
27

ROSHKA HEYMAN & DEWULF, PLC
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

COPIES of the foregoing hand-delivered
May 10, 2002, to:

Chairman William A. Mundell
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Commissioner Jim Irvin
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Commissioner Marc Spitzer
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

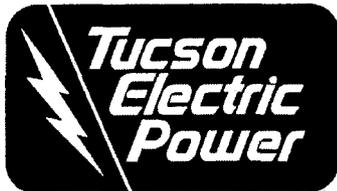
Lyn A. Farmer, Esq.
Chief ALJ, Hearing Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Christopher Kempley, Esq.
Chief Counsel, Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Ernest Johnson
Director, Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007



1



Pricing Plan PRS-10 Partial Requirements Service Less Than 200 kW

A UniSource Energy Company

AVAILABILITY

This Pricing Plan is available in all territory served by the Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served and when all applicable provisions described herein have been met.

APPLICABILITY

This Pricing Plan is applicable to any non-residential customer requiring partial requirements services, including backup energy, standby capacity, maintenance energy, or supplemental energy and capacity, in addition to regular electric requirements obtained from any service other than the Company. This Pricing Plan is applicable to customers with an aggregate partial requirements service load less than 200 kW. This Pricing Plan is not applicable to resale service or where on-site generation is used only during a utility outage.

CHARACTER OF SERVICE

The service shall be single- or three-phase, 60 Hertz, at one standard nominal voltage as mutually agreed and subject to availability at the point of delivery. Primary metering may be used by mutual agreement between the Company and the Customer.

BUNDLED PRICES

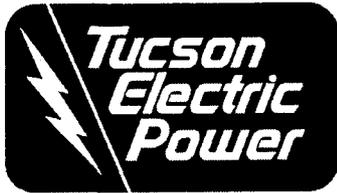
The total monthly bill will be the sum of the delivery charges plus the market-based generation charges.

Delivery Charges – monthly

	<u>Summer Billing Months</u> (May – October)	<u>Winter Billing Months</u> (November – April)
<u>Backup/Standby Service</u>		
Customer Charge	\$ 124.90	\$ 124.90
Standby Demand Charge per kW	\$ 8.34	\$ 8.34
Backup Energy Charge per kWh	\$ 0.032612	\$ 0.024602
<u>Supplemental Service</u>		
Demand Charge per kW	\$ 4.17	\$ 4.17
Energy Charge per kWh	\$ 0.068778	\$ 0.051885

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: PRS-10
Effective: Preliminary
Page No.: 1 of 5



Pricing Plan PRS-10
Partial Requirements Service Less Than 200 kW

A UniSource Energy Company

Market-based Generation Charges

Generation-related charges will be billed at a monthly market-based price dependent upon time of day. The price will be based upon a modified Market Generation Credit mechanism plus an additional procurement charge of 10% of the total generation-related charges. See Schedule MGC-2 for details.

Power Factor Adjustment

The above rate is subject to a discount or a charge of 1.3 cents per kW of billing demand for each 1% the average monthly power factor is above or below 90% lagging to a maximum discount of 13.0 cents per kW of billing demand per month.

Three-phase Service

An additional monthly charge of \$7.43 shall apply to customers receiving three-phase service.

Arizona Independent Scheduling Administrator (AISA) Charge

A charge of \$0.00004473 per kWh shall, subject to Federal Energy Regulatory Commission authorization, be applied for costs associated with the implementation of the AISA in Arizona. Direct access customers will be billed the AISA charge by their scheduling coordinator.

Minimum Bill

The Minimum Bill for Backup/Standby Service is equal to the sum of the greater of the Minimum Contract Demand or the Backup/Standby Service Billing Demand times the Standby Demand Charge per kW plus the Backup/Standby Service Customer Charge per month.

The Minimum Bill for Supplemental Service is equal to the sum of the Minimum Bill for Backup/Standby Service plus the greater of the Minimum Contract Demand or the Supplemental Service Billing Demand times the Supplemental Demand Charge per kW.

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: PRS-10
Effective: Preliminary
Page No.: 2 of 5



Pricing Plan PRS-10 Partial Requirements Service Less Than 200 kW

A UniSource Energy Company

TERMS AND CONDITIONS

1. Service Requirements

This Pricing Plan consists of rates charged for two general types of service--Backup/Standby Service and Supplemental Service. The use of Backup/Standby Service occurs when the Customer's total generating resources covered under PRS-10 are unavailable, such as during forced generator outages (when the Customer's generator is not operational) and unforced or planned outages (when the Customer's generator requires maintenance). The use of Supplemental Service occurs when the Customer requires power in addition to that generated by the Customer to meet the Customer's total energy requirements.

The Customer may elect to take Backup/Standby service only, or Supplemental Service in addition to Backup/Standby service. However, when the Customer's Partial Requirements Usage Percentage (PRUP) in any given billing period exceeds 5%, the Customer's Energy Charge per kWh under Backup/Standby Service will be converted to the Energy Charge per kWh under Supplemental Service for all kilowatt-hours in excess of 5% for the billing period.

The PRUP is calculated as follows:

$$PRUP = \frac{\text{Backup Energy Purchased under Backup/Standby Service}}{\text{Billing Demand for Backup/Standby Service} \times \text{Hours in Billing Period}}$$

2. Contract

The Customer shall contract for a Term and a Minimum Contract Demand (for either Backup/Standby and Supplemental Service as applicable) and shall conform to all applicable interconnection requirements as mandated either by government or by the Company.

3. Direct Assignment of Interconnection Costs

Prior to construction, the Customer will advance to the Company the total amount of the estimated interconnection construction costs directly related to distribution and transmission service. For each of the first five years of metered use up to the amount of the advance, the Company will refund to the Customer 40% of the annual revenue received based on the unbundled charges under this tariff that are associated with the facilities installed (e.g. revenue from the distribution secondary charge for 13.8 kV facilities). The refund, without interest, will be made one month after each full year of service.

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: PRS-10
Effective: Preliminary
Page No.: 3 of 5



Pricing Plan PRS-10
Partial Requirements Service Less Than 200 kW

A UniSource Energy Company

The Customer will furnish, install, and maintain incremental non-distribution system or non-transmission system equipment at his expense. The equipment must meet the standards of the Company's Electric Service Requirements.

Direct Assignment of Incremental Interconnection Costs

In the event that either the fifteen (15) minute demand in the billing month or the maximum fifteen (15) minute demand in the preceding 23 billing months exceeds the Maximum Contract Demand and the Company must expand facilities to meet the additional load, the Customer shall pay for the cost of the incremental facilities.

4. Billing Demand

Backup/Standby Service and Supplemental Service have separate demand charges. For both services, the Billing Demand in any month is the greater of (i) the maximum fifteen (15) minute demand in that month or (ii) the maximum fifteen (15) minute demand in the preceding 23 billing months, or (iii) the Minimum Contract Demand as set forth by mutual agreement. The Minimum Contract Demand for Backup/Standby Service shall be based on the measured kW output of each generating unit at the time of the start-up test.

5. Additional Equipment

Service under this Pricing Plan shall require the appropriate interval metering equipment to allow identification of accurate inbound load flows from the Company. This equipment shall require a dedicated telephone line that is to be installed and maintained by the Customer.

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: PRS-10
Effective: Preliminary
Page No.: 4 of 5



**Pricing Plan PRS-10
Partial Requirements Service Less Than 200 kW**

A UniSource Energy Company

ADDITIONAL NOTES

1. There shall be a \$13.50 charge for the initial establishment of each new service for each customer. There shall be a \$13.50 charge for the re-establishment of each service for each customer.
2. The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where consistent with this Pricing Plan.
3. To the charges computed under the above Pricing Plan, including any adjustments, shall be added the applicable proportionate part of any taxes, governmental impositions, or ACC-mandated assessments which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder.
4. Energy Imbalance service is currently charged pursuant to the Company's Open Access Transmission Tariff, which is subject to change pursuant to AISA protocols. A loss factor adjustment (5.4%) shall be made for Transmission and Ancillary Services.

RELATED SCHEDULES

- Schedule MGC-2 – Market Generation Credit (MGC) Calculation for Partial Requirements Services
- Environmental Portfolio Surcharge – Rider No. 6
- Tucson Electric Power Company – Rules and Regulations

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: PRS-10
Effective: Preliminary
Page No.: 5 of 5



**Pricing Plan PRS-13
Partial Requirements Service
From 200 kW to Less Than 3,000 kW**

A UniSource Energy Company

AVAILABILITY

This Pricing Plan is available in all territory served by the Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served and when all applicable provisions described herein have been met.

APPLICABILITY

This Pricing Plan is applicable to any non-residential customer requiring partial requirements services, including backup energy, standby capacity, maintenance energy, or supplemental energy and capacity, in addition to regular electric requirements obtained from any service other than the Company. This Pricing Plan is applicable to customers with an aggregate partial requirements service load from 200 kW to less than 3,000 kW. This Pricing Plan is not applicable to resale service or where on-site generation is used only during a utility outage.

CHARACTER OF SERVICE

The service shall be single- or three-phase, 60 Hertz, at one standard nominal voltage as mutually agreed and subject to availability at the point of delivery. Primary metering may be used by mutual agreement between the Company and the Customer.

BUNDLED PRICES

The total monthly bill will be the sum of the delivery charges plus the market-based generation charges.

Delivery Charges – monthly

	<u>Summer Billing Months</u> (May – October)	<u>Winter Billing Months</u> (November – April)
<u>Backup/Standby Service</u>		
Customer Charge	\$ 1,675.88	\$ 1,675.88
Standby Demand Charge per kW	\$ 4.47	\$ 4.47
Backup Energy Charge per kWh	\$ 0.010458	\$ 0.008557
<u>Supplemental Service</u>		
Demand Charge per kW	\$ 1.97	\$ 1.97
Energy Charge per kWh	\$ 0.052290	\$ 0.042783

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/JDC
District: Entire Electric Service Area

Tariff No.: PRS-13
Effective: Preliminary
Page No.: Page 1 of 5



**Pricing Plan PRS-13
Partial Requirements Service
From 200 kW to Less Than 3,000 kW**

A UniSource Energy Company

Market-based Generation Charges

Generation-related charges will be billed at a monthly market-based price dependent upon time of day. The price will be based upon a modified Market Generation Credit mechanism plus an additional procurement charge of 10% of the total generation-related charges. See Schedule MGC-2 for details.

Power Factor Adjustment

The above rate is subject to a discount or a charge of 1.3 cents per kW of billing demand for each 1% the average monthly power factor is above or below 90% lagging to a maximum discount of 13.0 cents per kW of billing demand per month.

Three-phase Service

An additional monthly charge of \$7.43 shall apply to customers receiving three-phase service.

Arizona Independent Scheduling Administrator (AISA) Charge

A charge of \$0.00004473 per kWh shall, subject to Federal Energy Regulatory Commission authorization, be applied for costs associated with the implementation of the AISA in Arizona. Direct access customers will be billed the AISA charge by their scheduling coordinator.

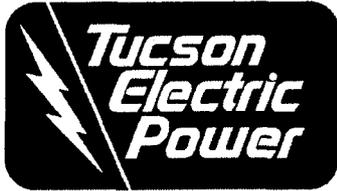
Minimum Bill

The Minimum Bill for Backup/Standby Service is equal to the sum of the greater of the Minimum Contract Demand or the Backup/Standby Service Billing Demand times the Standby Demand Charge per kW plus the Backup/Standby Service Customer Charge per month.

The Minimum Bill for Supplemental Service is equal to the sum of the Minimum Bill for Backup/Standby Service plus the greater of the Minimum Contract Demand or the Supplemental Service Billing Demand times the Supplemental Demand Charge per kW.

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: PRS-13
Effective: Preliminary
Page No.: Page 2 of 5



**Pricing Plan PRS-13
Partial Requirements Service
From 200 kW to Less Than 3,000 kW**

A UniSource Energy Company

TERMS AND CONDITIONS

1. Service Requirements

This Pricing Plan consists of rates charged for two general types of service--Backup/Standby Service and Supplemental Service. The use of Backup/Standby Service occurs when the Customer's total generating resources covered under PRS-13 are unavailable, such as during forced generator outages (when the Customer's generator is not operational) and unforced or planned outages (when the Customer's generator requires maintenance). The use of Supplemental Service occurs when the Customer requires power in addition to that generated by the Customer to meet the Customer's total energy requirements.

The Customer may elect to take Backup/Standby service only, or Supplemental Service in addition to Backup/Standby service. However, when the Customer's Partial Requirements Usage Percentage (PRUP) in any given billing period exceeds 5%, the Customer's Energy Charge per kWh under Backup/Standby Service will be converted to the Energy Charge per kWh under Supplemental Service for all kilowatt-hours in excess of 5% for the billing period.

The PRUP is calculated as follows:

$$PRUP = \frac{\text{Backup Energy Purchased under Backup/Standby Service}}{\text{Billing Demand for Backup/Standby Service} \times \text{Hours in Billing Period}}$$

2. Contract

The Customer shall contract for a Term and a Minimum Contract Demand (for either Backup/Standby and Supplemental Service as applicable) and shall conform to all applicable interconnection requirements as mandated either by government or by the Company.

3. Direct Assignment of Interconnection Costs

Prior to construction, the Customer will advance to the Company the total amount of the estimated interconnection construction costs directly related to distribution and transmission service. For each of the first five years of metered use up to the amount of the advance, the Company will refund to the Customer 40% of the annual revenue received based on the unbundled charges under this tariff that are associated with the facilities installed (e.g. revenue from the distribution secondary charge for 13.8 kV facilities). The refund, without interest, will be made one month after each full year of service.

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: PRS-13
Effective: Preliminary
Page No.: Page 3 of 5



**Pricing Plan PRS-13
Partial Requirements Service
From 200 kW to Less Than 3,000 kW**

A UniSource Energy Company

The Customer will furnish, install, and maintain incremental non-distribution system or non-transmission system equipment at his expense. The equipment must meet the standards of the Company's Electric Service Requirements.

Direct Assignment of Incremental Interconnection Costs

In the event that either the fifteen (15) minute demand in the billing month or the maximum fifteen (15) minute demand in the preceding 23 billing months exceeds the Maximum Contract Demand and the Company must expand facilities to meet the additional load, the Customer shall pay for the cost of the incremental facilities.

4. Billing Demand

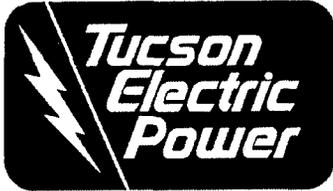
Backup/Standby Service and Supplemental Service have separate demand charges. For both services, the Billing Demand in any month is the greater of (i) the maximum fifteen (15) minute demand in that month or (ii) the maximum fifteen (15) minute demand in the preceding 23 billing months, or (iii) the Minimum Contract Demand as set forth by mutual agreement. The Minimum Contract Demand for Backup/Standby Service shall be based on the measured kW output of each generating unit at the time of the start-up test.

5. Additional Equipment

Service under this Pricing Plan shall require the appropriate interval metering equipment to allow identification of accurate inbound load flows from the Company. This equipment shall require a dedicated telephone line that is to be installed and maintained by the Customer.

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: PRS-13
Effective: Preliminary
Page No.: Page 4 of 5



**Pricing Plan PRS-13
Partial Requirements Service
From 200 kW to Less Than 3,000 kW**

A UniSource Energy Company

ADDITIONAL NOTES

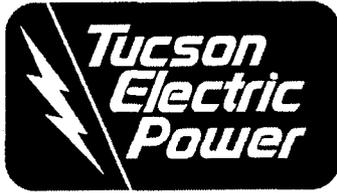
1. There shall be a \$13.50 charge for the initial establishment of each new service for each customer. There shall be a \$13.50 charge for the re-establishment of each service for each customer.
2. The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where consistent with this Pricing Plan.
3. To the charges computed under the above Pricing Plan, including any adjustments, shall be added the applicable proportionate part of any taxes, governmental impositions, or ACC-mandated assessments which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder.
4. Energy Imbalance service is currently charged pursuant to the Company's Open Access Transmission Tariff, which is subject to change pursuant to AISA protocols. A loss factor adjustment (5.4%) shall be made for Transmission and Ancillary Services.

RELATED SCHEDULES

- Schedule MGC-2 – Market Generation Credit (MGC) Calculation for Partial Requirements Services
- Environmental Portfolio Surcharge – Rider No. 6
- Tucson Electric Power Company – Rules and Regulations

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: PRS-13
Effective: Preliminary
Page No.: Page 5 of 5



**Pricing Plan PRS-14
Partial Requirements Service
3,000 kW and Greater**

A UniSource Energy Company

AVAILABILITY

This Pricing Plan is available in all territory served by the Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the premises served and when all applicable provisions described herein have been met.

APPLICABILITY

This Pricing Plan is applicable to any non-residential customer requiring partial requirements services, including backup energy, standby capacity, maintenance energy, or supplemental energy and capacity, in addition to regular electric requirements obtained from any service other than the Company. This Pricing Plan is applicable to customers with an aggregate partial requirements service load of 3,000 kW and higher. This Pricing Plan is not applicable to resale service or where on-site generation is used only during a utility outage.

CHARACTER OF SERVICE

The service shall be three-phase, 60 Hertz, and shall be supplied directly from any 46,000 volt or higher voltage system through distribution facilities used exclusively to serve PRS-14 customers at a delivery voltage of not less than 2,400/4,160 volts and delivered at a single point of delivery unless otherwise specified in the contract.

BUNDLED PRICES

The total monthly bill will be the sum of delivery charges plus the market-based generation charges.

Delivery Charges – monthly

	<u>Summer Billing Months</u> (May – October)	<u>Winter Billing Months</u> (November – April)
<u>Backup/Standby Service</u>		
Standby Demand Charge per kW	\$ 4.48	\$ 4.48
Backup Energy Charge per kWh	\$ 0.004761	\$ 0.003896
<u>Supplemental Service</u>		
Demand Charge per kW	\$ 2.00	\$ 2.00
Energy Charge per kWh	\$ 0.031743	\$ 0.025972

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: PRS-14
Effective: Preliminary
Page No.: Page 1 of 5



**Pricing Plan PRS-14
Partial Requirements Service
3,000 kW and Greater**

A UniSource Energy Company

Market-based Generation Charges

Generation-related charges will be billed at a monthly market-based price dependent upon time of day. The price will be based upon a modified Market Generation Credit mechanism plus an additional procurement charge of 10% of the total generation-related charges. See Schedule MGC-2 for details.

Power Factor Adjustment

The above rate is subject to a discount or a charge of 1.3 cents per kW of billing demand for each 1% the average monthly power factor is above or below 90% lagging to a maximum discount of 13.0 cents per kW of billing demand per month.

Arizona Independent Scheduling Administrator (AISA) Charge

A charge of \$0.00004473 per kWh shall, subject to Federal Energy Regulatory Commission authorization, be applied for costs associated with the implementation of the AISA in Arizona. Direct access customers will be billed the AISA charge by their scheduling coordinator.

Minimum Bill

The Minimum Bill for Backup/Standby Service is equal to the sum of the greater of the Minimum Contract Demand or the Backup/Standby Service Billing Demand times the Standby Demand Charge per kW plus the Backup/Standby Service Customer Charge per month.

The Minimum Bill for Supplemental Service is equal to the sum of the Minimum Bill for Backup/Standby Service plus the greater of the Minimum Contract Demand or the Supplemental Service Billing Demand times the Supplemental Demand Charge per kW.

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: PRS-14
Effective: Preliminary
Page No.: Page 2 of 5



**Pricing Plan PRS-14
Partial Requirements Service
3,000 kW and Greater**

A UniSource Energy Company

TERMS AND CONDITIONS

1. Service Requirements

This Pricing Plan consists of rates charged for two general types of service--Backup/Standby Service and Supplemental Service. The use of Backup/Standby Service occurs when the Customer's total generating resources covered under PRS-14 are unavailable, such as during forced generator outages (when the Customer's generator is not operational) and unforced or planned outages (when the Customer's generator requires maintenance). The use of Supplemental Service occurs when the Customer requires power in addition to that generated by the Customer to meet the Customer's total energy requirements.

The Customer may elect to take Backup/Standby service only, or Supplemental Service in addition to Backup/Standby service. However, when the Customer's Partial Requirements Usage Percentage (PRUP) in any given billing period exceeds 5%, the Customer's Energy Charge per kWh under Backup/Standby Service will be converted to the Energy Charge per kWh under Supplemental Service for all kilowatt-hours in excess of 5% for the billing period.

The PRUP is calculated as follows:

$$PRUP = \frac{\text{Backup Energy Purchased under Backup/Standby Service}}{\text{Billing Demand for Backup/Standby Service} \times \text{Hours in Billing Period}}$$

2. Contract

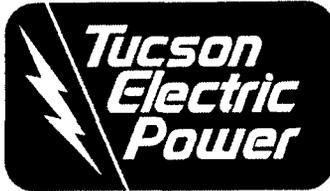
The Customer shall contract for a Term, a Minimum Contract Demand (for either Backup/Standby and Supplemental Service as applicable), a Maximum Contract Demand (for either Backup/Standby and Supplemental Service as applicable), and shall conform to all applicable interconnection requirements as mandated either by government or by the Company.

3. Direct Assignment of Interconnection Costs

Prior to construction, the Customer will advance to the Company the total amount of the estimated interconnection construction costs directly related to distribution and transmission service. For each of the first five years of metered use up to the amount of the advance, the Company will refund to the Customer 40% of the annual revenue received based on the unbundled charges under this tariff that are associated with the facilities installed (e.g. revenue from the distribution secondary charge for 13.8 kV facilities). The refund, without interest, will be made one month after each full year of service.

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: PRS-14
Effective: Preliminary
Page No.: Page 3 of 5



**Pricing Plan PRS-14
Partial Requirements Service
3,000 kW and Greater**

A UniSource Energy Company

The Customer will furnish, install, and maintain incremental non-distribution system or non-transmission system equipment at his expense. The equipment must meet the standards of the Company's Electric Service Requirements.

Direct Assignment of Incremental Interconnection Costs

In the event that either the fifteen (15) minute demand in the billing month or the maximum fifteen (15) minute demand in the preceding 23 billing months exceeds the Maximum Contract Demand and the Company must expand facilities to meet the additional load, the Customer shall pay for the cost of the incremental facilities.

4. Billing Demand

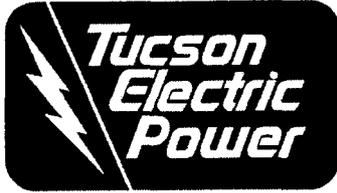
Backup/Standby Service and Supplemental Service have separate demand charges. For both services, the Billing Demand in any month is the greater of (i) the maximum fifteen (15) minute demand in that month or (ii) the maximum fifteen (15) minute demand in the preceding 23 billing months, or (iii) the Minimum Contract Demand as set forth by mutual agreement. The Minimum Contract Demand for Backup/Standby Service shall be based on the measured kW output of each generating unit at the time of the start-up test.

5. Additional Equipment

Service under this Pricing Plan shall require the appropriate interval metering equipment to allow identification of accurate inbound load flows from the Company. This equipment shall require a dedicated telephone line that is to be installed and maintained by the Customer.

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: PRS-14
Effective: Preliminary
Page No.: Page 4 of 5



**Pricing Plan PRS-14
Partial Requirements Service
3,000 kW and Greater**

A UniSource Energy Company

ADDITIONAL NOTES

1. The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where consistent with this Pricing Plan.
2. To the charges computed under the above Pricing Plan, including any adjustments, shall be added the applicable proportionate part of any taxes, governmental impositions, or ACC-mandated assessments which are or may in the future be assessed on the basis of gross revenues of the Company and/or the price or revenue from the electric energy or service sold and/or the volume of energy generated or purchased for sale and/or sold hereunder.
3. Energy Imbalance service is currently charged pursuant to the Company's Open Access Transmission Tariff, which is subject to change pursuant to AISA protocols. A loss factor adjustment (5.4%) shall be made for Transmission and Ancillary Services.

RELATED SCHEDULES

- Schedule MGC-2 – Market Generation Credit (MGC) Calculation for Partial Requirements Services
- Environmental Portfolio Surcharge – Rider No. 6
- Tucson Electric Power Company – Rules and Regulations

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: PRS-14
Effective: Preliminary
Page No.: Page 5 of 5



Schedule MGC-2 Market Generation Credit (MGC) Calculation For Partial Requirements Services

A UniSource Energy Company

Introduction

The purpose of the Market Generation Credit (MGC) for Partial Requirements Services is to establish a price at which TEP's partial requirements customers will purchase backup/standby and supplemental energy under Rates PRS-10, PRS-13, and PRS-14. The Market Generation Credit for Partial Requirements Services is consistent with the MGC methodology per TEP's Settlement Agreement, Section 2.1(d), as amended MM DD, 2002:

The monthly MGC amount shall be calculated in advance and stated as both an on-peak value and an off-peak value. The monthly on-peak MGC component shall be equal to the Market Price multiplied by one plus the appropriate line loss (including unaccounted for energy ("UFE")) amount. The Market Price shall be equal to the Platts Long-Term Forward Assessment for Palo Verde futures price, except when adjusted for the variable cost of TEP's must-run generation. The Market Price shall be determined fifteen (15) days prior to each calendar month using the average of the most recent three (3) business days of Platts Long-Term Forward Assessment for Palo Verde settlement prices. The off-peak MGC component shall be determined in the same manner as the on-peak component, except that the Platts Long-Term Forward Assessment for Palo Verde futures price will be adjusted by the ratio of off-peak to on-peak hourly prices from the Dow Jones Palo Verde Index of the same month from the preceding year.

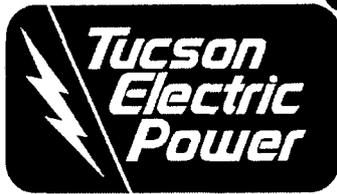
Calculations

The Customer will be charged adjusted on-peak MGC multiplied by kWh consumption for On-peak hours, and adjusted off-peak MGC multiplied by kWh consumption for Off-peak hours. Three steps are outlined below for the calculation of the MGC. None of the steps are excludable for any customer type. Acronyms are defined in the Glossary at the end of this document.

1. Calculating the on-peak MGC

Fifteen (15) days prior to each calendar estimation month, the futures prices for the three (3) most recent business days are used. The simple average (or arithmetic mean) is calculated for these three days for the estimation month.

$$MGC_{ON,i} = \frac{\sum (PLATTS)_i}{3} \quad (\text{Equation 1})$$



Schedule MGC-2
Market Generation Credit (MGC) Calculation
For Partial Requirements Services

A UniSource Energy Company

The calculation is illustrated in the table below.

Futures Prices per MWh	Apr 2002
3/13/2002	\$25.80
3/14/2002	\$26.90
3/15/2002	\$27.75
Average	\$26.82

2. Calculating the off-peak MGC

The off-peak MGC is determined by multiplying the on-peak MGC value by the off-peak price weighting factor (WEIGHT). The WEIGHT is equal to the simple average of all off-peak prices from the Dow Jones Palo Verde Index in the same month of the previous year, divided by the simple average of all on-peak prices from the Dow Jones Palo Verde Index in the same month of the previous year. Off-peak, on-peak and holiday hours are defined by NERC in the estimation month.

$$MGC_{OFF,i} = MGC_{ON,i} * WEIGHT_i \quad (\text{Equation 2})$$

where

$$WEIGHT_i = \frac{DJPVI_{OFF,i}}{DJPVI_{ON,i}} \quad (\text{Equation 3})$$

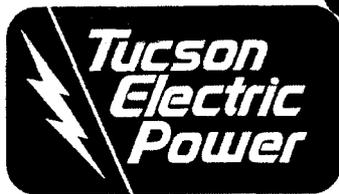
3. Loss-adjusting the MGC

The on-peak MGC and the off-peak MGC must be adjusted for line losses. The appropriate line loss adjustment factor (LLAF) for the large industrial customer class is 1.0515; for all other customer classes, the appropriate factor is 1.0919.

$$MGC_{LOSS-ON,i} = MGC_{ON,i} * LLAF \quad (\text{Equation 4})$$

$$MGC_{LOSS-OFF,i} = MGC_{OFF,i} * LLAF \quad (\text{Equation 5})$$

This calculation produces the final value for the on-peak and off-peak Market Generation Credits.



Schedule MGC-2 Market Generation Credit (MGC) Calculation For Partial Requirements Services

A UniSource Energy Company

GLOSSARY

DJPVI_{OFF}	Simple average of hourly off-peak prices on the Dow Jones Palo Verde Index.
DJPVI_{ON}	Simple average of hourly on-peak prices on the Dow Jones Palo Verde Index.
Dow Jones Palo Verde Index	Daily calculation of actual hourly firm on-peak and firm off-peak weighted average prices for electricity traded at Palo Verde, Arizona switchyard.
LLAF	Line-loss adjustment factor.
MGC	Market Generation Credit.
MGC_{OFF}	MGC _{ON} weighted by the ratio of off-peak to on-peak daily prices on the Dow Jones Palo Verde Index.
MGC_{ON}	Average of the Platts prices on days appropriate for the calculation of the MGC.
MGC_{LOSS-ON}	MGC _{ON} adjusted for line losses (including unaccounted for energy) on TEP's generation and energy delivery systems.
MGC_{LOSS-OFF}	MGC _{OFF} adjusted for line losses (including unaccounted for energy) on TEP's generation and energy delivery systems.
NERC	North American Electric Reliability Council. A voluntary not-for-profit organization established to promote bulk electric system reliability and security. Membership include investor-owned utilities; federal power agencies; rural electric cooperatives; state, municipal and provincial utilities; independent power producers; power marketers; and end-use customers.
Off-Peak Hours	Number of total monthly off-peak hours as defined by NERC. Off-peak hours are hour ending 0100 – hour ending 0600 and hour ending 2300 – hour ending 2400, Monday through Saturday, Pacific Prevailing Time (PPT). All Sunday hours are considered off-peak. PPT is defined as the current clock time in the Pacific time zone.
On-Peak Hours	Number of total monthly on-peak hours as defined by NERC. On-peak hours are hour ending 0700 – hour ending 2200 Monday through Saturday, Pacific Prevailing Time (PPT). PPT is defined as the current clock time in the Pacific time zone.

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: MGC-2
Effective: Preliminary
Page No.: 3 of 4



Schedule MGC-2 Market Generation Credit (MGC) Calculation For Partial Requirements Services

A UniSource Energy Company

PLATTS	A McGraw-Hill publication that provides an independent daily evaluation of on-peak forward market prices of electricity at the Palo Verde, Arizona switchyard.
Stranded Costs	The difference between revenues under competition and the costs of providing service, including the inherited fixed costs from the previous regulated market.
TEP	Tucson Electric Power Company, a subsidiary of UniSource Energy Corp.
TEP Settlement Agreement	An agreement between TEP, the Arizona Residential Utility Consumer Office, members of the Arizonans for Electric Choice and Competition, and Arizona Community Action Association regarding TEP's implementation of retail electric competition, implementation of unbundled tariffs, and recovery of stranded costs.
WEIGHT	Ratio of off-peak to on-peak hourly prices on the Dow Jones Palo Verde Index.

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: MGC-2
Effective: Preliminary
Page No.: 4 of 4

2



Pricing Plan PRS-101 Power Purchase from Renewable Energy Resources

AVAILABILITY

Available throughout Company's entire electric service area to any Customer with certified capacity of 100 kW or less generating through the use of renewable energy resources.

PRICE

For all energy billed which is supplied by the Customer to the Company, the price shall be the Company's Market Generation Credit (MGC) as specified in Schedule MGC-1.

CONDITIONS OF PURCHASE

- 1) The Customer shall be responsible for all interconnection costs unless otherwise indicated by the Company. In addition, Customer shall conform to all applicable interconnection requirements as mandated either by government or by the Company.
- 2) The Customer shall operate its electric generating equipment in accordance with Company rules, regulations, and service requirements.
- 3) The Customer shall, at its option, operate in one of the following two system configurations:
 - a) Parallel Mode – The Customer's self-generation facilities first supply its own electric requirements with any excess power being sold to the Company at the MGC. The Company shall sell power to the Customer as required by the Customer under the Company's applicable Pricing Plan.
 - b) Simultaneous Buy/Sell Mode – The Customer's total generation output is sold directly to the Company and the Customer's total electric requirements are met by sales from the Company. Billing for purchases and sales shall be calculated, at the Customer's option, in either of three methods:
 - i) Net bill method: The kWh sold to the Company shall be subtracted from the kWh purchased from Company. If the kWh calculation is net positive, the Company will sell the net kWh to the Customer under the applicable Pricing Plan. If the kWh calculation is net negative, the Company will purchase the net kWh from the Customer at the MGC.
 - ii) Separate bill method: All purchases and sales shall be treated separately with revenues from sales to the Customer calculated under the applicable Pricing Plan, and the purchase of power from the Customer at the MGC.
 - iii) Net metering method: Applicable only where the Customer has a single solar to electricity conversion system of AC electrical peak capability of 5 kW or less and meets all qualifications. The kWh sold to



Pricing Plan PRS-101
Power Purchase from Renewable Energy Resources

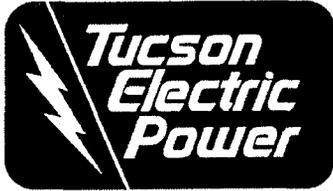
the Company shall be subtracted from the kWh purchased from the Company. If the kWh calculation is net positive, the Company will sell the net kWh to the Customer under the applicable Pricing Plan. If the kWh calculation is net negative, Company will carry the kWh forward and credit the net kWh of the next billing cycle. All negative kWh credits will be zeroed out annually after the January billing cycle.

Separate Qualifications for Net Metering

- (a) Service under this method shall be limited to 500 kWp (p=peak) aggregate Customer per calendar year.
 - (b) Installed solar to electricity conversion system shall meet IEEE-929 standard, local, and National Electrical Code requirements.
 - (c) Installation shall be complete six months from pre-installation approval; thereafter, Customer must re-apply.
- 4) The applicable Pricing Plan shall apply for all energy billed which is supplied by the Company to the Customer.
 - 5) The Company may require a written contract and a minimum term of contract.
 - 6) This Pricing Plan is not applicable for Customers with certified renewable generating capacity of over 100 kW. However, for such capacity the Company shall enter into individual agreements.
 - 7) The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this Pricing Plan.

RELATED SCHEDULES

- Schedule MGC-1– Market Generation Credit (MGC) Calculation
- Tucson Electric Power Company – Rules and Regulations



Schedule MGC-1 Tucson Electric Power Company Market Generation Credit (MGC) Calculation

A UniSource Energy Company

Introduction

There are two purposes of the Market Generation Credit (MGC). The first purpose is to establish a price to which TEP's energy customers can compare to the prices of competitors. The second purpose is to enable the calculation of the variable or "floating" component of TEP's stranded cost recovery. Shown below are the terms of the MGC methodology per TEP's Settlement Agreement, Section 2.1(d), as amended MM DD, 2002:

The monthly MGC amount shall be calculated in advance and stated as both an on-peak value and an off-peak value. The monthly on-peak MGC component shall be equal to the Market Price multiplied by one plus the appropriate line loss (including unaccounted for energy ("UFE")) amount. The Market Price shall be equal to the Platts Long-Term Forward Assessment for Palo Verde futures price, except when adjusted for the variable cost of TEP's must-run generation. The Market Price shall be determined thirty (30) days prior to each calendar month using the average of the most recent three (3) business days of Platts Long-Term Forward Assessment for Palo Verde settlement prices. The off-peak MGC component shall be determined in the same manner as the on-peak component, except that the Platts Long-Term Forward Assessment for Palo Verde futures price will be adjusted by the ratio of off-peak to on-peak hourly prices from the Dow Jones Palo Verde Index of the same month from the preceding year. The MGC shall be equal to the hours-weighted average of the on-peak and off-peak pricing components and shall reflect the cost of serving a one hundred percent (100%) load factor customer.

To reflect the cost of serving a 100% load factor customer, the actual MGC used for billing calculations will be a loss adjusted average price that is weighted by the ratio of on-peak and off-peak hours. This process is illustrated in equations 4 and 5 below and will be posted to TEP's website <http://partners.tucsonelectric.com> thirty (30) days prior to each calendar month. This composite price will be credited to all energy consumption, regardless of the time period in which it is consumed.

Calculations

Five steps are outlined below for the calculation of the MGC. None of the steps are excludable for any customer type. Acronyms are defined in the Glossary at the end of this document.

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: MGC-1
Effective: Preliminary Revision No. 1
Page No.: 1 of 5



Schedule MGC-1
Tucson Electric Power Company
Market Generation Credit (MGC) Calculation

A UniSource Energy Company

1. Calculating the on-peak MGC

For the calendar estimation month, the Platts Long-Term Forward Assessment for Palo Verde futures prices for the 30th, 31st, and 32nd business days prior to the start of the new month are used. The simple average (or arithmetic mean) is calculated for these three (3) days for the estimation month (see Equation 1).

$$MGC_{ON,i} = \frac{\sum (PLATTS)_i}{3} \quad \text{(Equation 1)}$$

The calculation is illustrated in the table below.

Futures Prices per MWh	Apr-2002
3/1/2002	\$25.50
2/28/2002	\$25.50
2/27/2002	\$24.75
Average	\$25.25

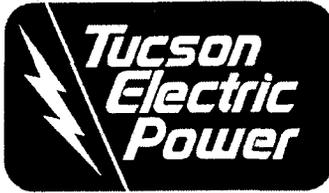
2. Calculating the off-peak MGC

The off-peak MGC is determined by multiplying the on-peak MGC value by the off-peak price weighting factor (WEIGHT). The WEIGHT is equal to the simple average of all off-peak prices from the Dow Jones Palo Verde Index in the same month of the previous year, divided by the simple average of all on-peak prices from the Dow Jones Palo Verde Index in the same month of the previous year. Off-peak, on-peak and holiday hours are defined by NERC in the estimation month.

$$MGC_{OFF,i} = MGC_{ON,i} * WEIGHT_i \quad \text{(Equation 2)}$$

where

$$WEIGHT_i = \frac{DJPVI_{OFF,i}}{DJPVI_{ON,i}} \quad \text{(Equation 3)}$$



Schedule MGC-1
Tucson Electric Power Company
Market Generation Credit (MGC) Calculation

A UniSource Energy Company

3. Weighting the MGC for hours in the month

The on-peak and off-peak MGCs are combined to form an average MGC by computing a weighted average of the two time periods. This is done by multiplying the on-peak MGC by the percentage of on-peak hours in the same month of the previous year and then adding the product of the off-peak MGC and the percentage of off-peak hours in the same month of the previous year. Off-peak, on-peak and holiday hours are defined by NERC in the estimation month.

$$MGC_{WEIGHT,i} = MGC_{ON,i} * \left(\frac{ONHOURS}{ONHOURS + OFFHOURS} \right) + MGC_{OFF,i} * \left(\frac{OFFHOURS}{ONHOURS + OFFHOURS} \right)$$

(Equation 4)

4. Loss-adjusting the MGC

The average MGC must be adjusted for line losses. The appropriate line loss adjustment factor (LLAF) for a large industrial customer is 1.0515. For all other customers, the appropriate factor is 1.0919.

$$MGC_{LOSS,i} = MGC_{WEIGHT,i} * LLAF$$

(Equation 5)

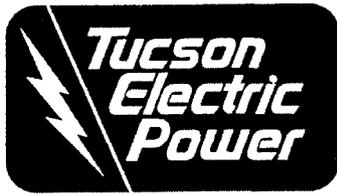
5. Adjusting the MGC for variable must-run

The MGC will be adjusted for variable must-run as defined in TEP's Stranded Cost Settlement Agreement and AISA protocols. Fifteen (15) days prior to each month, TEP forecasts a ratio of its variable must-run generation to retail system demand for the following month. The MGC is determined by adding the product of MGC_{LOSS} and one minus the ratio of variable must-run generation to total retail system demand to the product of \$15/MWh and the variable must-run ratio.

$$MGC_i = [MGC_{LOSS,i} * (1 - VMR_i)] + (\$15 * VMR_i)$$

(Equation 6)

This calculation produces the final value for the Market Generation Credit.



Schedule MGC-1 Tucson Electric Power Company Market Generation Credit (MGC) Calculation

A UniSource Energy Company

GLOSSARY

DJPVI_{OFF}	Simple average of hourly off-peak prices on the Dow Jones Palo Verde Index.
DJPVI_{ON}	Simple average of hourly on-peak prices on the Dow Jones Palo Verde Index.
Dow Jones Palo Verde Index	Daily calculation of actual hourly firm on-peak and firm off-peak weighted average prices for electricity traded at Palo Verde, Arizona switchyard.
AISA	Arizona Independent Scheduling Administrator, a temporary entity, independent of transmission-owning organizations, intended to facilitate nondiscriminatory retail direct access using the transmission system in Arizona. Required by the Arizona Corporation Commission Retail Electric Competition Rules.
LLAF	Line-loss adjustment factor.
MGC	Market Generation Credit.
MGC_{OFF}	MGC _{ON} weighted by the ratio of off-peak to on-peak hourly prices on the Dow Jones Palo Verde Index.
MGC_{ON}	Average of the Platts prices on days appropriate for the calculation of the MGC.
MGC_{LOSS}	MGC _{WEIGHT} adjusted for line losses (including unaccounted for energy) on TEP's generation and energy delivery systems.
MGC_{WEIGHT}	A weighted average of MGC _{ON} and MGC _{OFF} by ONHOURS and OFFHOURS.
Must-run Generation	The cost associated with the running of local generating units needed to maintain distribution system reliability and to meet load requirements in times of congestion on certain portions of the interconnected grid.
NERC	North American Electric Reliability Council. A voluntary not-for-profit organization established to promote bulk electric system reliability and security. Membership includes: investor-owned utilities; federal power agencies; rural electric cooperatives; state, municipal and provincial utilities; independent power producers; power marketers; and end-use customers.

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: MGC-1
Effective: Preliminary Revision No. 1
Page No.: 4 of 5



Schedule MGC-1

Tucson Electric Power Company

Market Generation Credit (MGC) Calculation

A UniSource Energy Company

OFFHOURS	Number of total monthly off-peak hours as defined by NERC. Off-peak hours are hour ending 0100 – hour ending 0600 and hour ending 2300 – hour ending 2400, Monday through Saturday, Pacific Prevailing Time (PPT). All Sunday hours are considered off-peak. PPT is defined as the current clock time in the Pacific time zone.
ONHOURS	Number of total monthly on-peak hours as defined by NERC. On-peak hours are hour ending 0700 – hour ending 2200 Monday through Saturday, Pacific Prevailing Time (PPT). PPT is defined as the current clock time in the Pacific time zone.
PLATTS	A McGraw-Hill publication that provides an independent daily evaluation of on-peak forward market prices of electricity at the Palo Verde, Arizona switchyard.
Stranded Costs	The difference between revenues under competition and the costs of providing service, including the inherited fixed costs from the previous regulated market.
TEP	Tucson Electric Power Company, a subsidiary of UniSource Energy Corp.
TEP Settlement Agreement	An agreement between TEP, the Arizona Residential Utility Consumer Office, members of the Arizonans for Electric Choice and Competition, and Arizona Community Action Association regarding TEP's implementation of retail electric competition, implementation of unbundled tariffs, and recovery of stranded costs.
VMR	Ratio of variable must-run generation (MW) to total retail system demand (MW) in TEP's service territory.
WEIGHT	Ratio of off-peak to on-peak hourly prices on the Dow Jones Palo Verde Index.

Filed By: Steven J. Glaser
Title: Senior Vice President and COO/UDC
District: Entire Electric Service Area

Tariff No.: MGC-1
Effective: Preliminary Revision No. 1
Page No.: 5 of 5