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BEFORE THE ARIZONA CORPORATION COMMISSION

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2010 FEB 25 P 3:42
AZ CORP COMMISSION
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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01933A-09-0340
TUCSON ELECTRIC POWER COMPANY FOR)
APPROVAL OF ITS RENEWABLE ENERGY) **SUPPLEMENTAL INFORMATION**
STANDARD AND TARIFF IMPLEMENTATION) **REQUESTED BY COMMISSION**
PLAN.)
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Tucson Electric Power Company ("TEP" or "Company"), through undersigned counsel, hereby submits an amended renewable project funding plan as requested by the Arizona Corporation Commission ("Commission") pursuant to Decision No. 71465 (January 26, 2010) regarding the Company's 2010 Renewable Energy Standard & Tariff ("REST") Implementation Plan ("Plan").

I. BACKGROUND.

On July 1, 2009, TEP filed its application for approval of its 2010 REST Plan. On September 18, 2009, TEP amended its application to request approval of a number of items, including the funding of two projects: (1) the 1.8 megawatts ("MW") Springerville Solar Expansion; and (2) the 1.6 MW single-tracker axis array located at the Tucson Airport, collectively "the Projects". TEP estimated that the cost of the Projects would be \$14 million and it requested that those costs be recovered and funded entirely through the 2010 REST surcharge. At the January 13, 2010 Open Meeting, the Commission discussed TEP's 2010 REST Plan. During that

1 discussion, the Commission requested that TEP provide an alternative method of financing the
2 Projects other than solely through the 2010 REST surcharge.

3 **II. TEP'S OWNERSHIP PROPOSAL.**

4 In this filing, TEP proposes to own the Projects. TEP ownership of renewable projects will
5 provide many benefits to the Company's customers. For example, TEP ownership of renewable
6 resources is a cost-effective way for the Company to meet the requirements of the REST as the
7 utilization of investment tax credits and accelerated tax depreciation will reduce the revenue
8 requirements associated with the Projects. TEP ownership increases the viability of developing
9 renewable projects in Arizona and the reliability of the system as renewable generation will be
10 placed where it will benefit the system the most. Further, TEP ownership of the Projects will
11 reduce its reliance on purchase power agreements from third party renewable developers and help
12 ensure that its renewable portfolio is properly balanced. Thus, TEP ownership of the Projects is
13 beneficial as it enhances the policy objectives of the REST in a manner that will produce more
14 reliable and cost effective renewable energy to our consumers.

15 TEP requests that the costs of the Projects, including income taxes, depreciation, property
16 taxes, and operating and maintenance expenses, be recovered through the 2011 REST recovery
17 mechanism until the Projects are included in rate base. Additionally TEP requests that the
18 financing costs and return on investment using the Company's currently authorized weighted cost
19 of capital also be recovered through the REST recovery mechanism until the Projects are included
20 in rate base. This proposal is virtually the same as the one that Commission Staff ("Staff")
21 recommended in Arizona Public Service Company's Application for Approval of Its Sun Program
22 (Docket No. E-01345A-09-0338). There, Staff "recommend[ed] that the Commission find that the
23 allocation of RES funding for the return, income taxes, depreciation, property taxes, and O&M
24 expenses... until the Company's next rate case... [was] appropriate and reasonable."

1 **III. ANNUAL BUDGET.**

2 TEP is not requesting additional funding for the Projects in its 2010 REST budget. TEP is
 3 only requesting approval of the Projects and the recovery mechanism mentioned above; both are
 4 necessary to commence construction. The estimated costs of the Projects are listed below in Table
 5 1, and TEP will request recovery of those costs in its 2011 REST Implementation Plan.

6 **Table 1 – Revenue Requirement for TEP’s Solar Projects**

	Year 1	Year 2	Year 3
1.8MW Springerville Project			
Return on Investment	\$ 500,082	\$ 447,413	\$ 386,574
Book depreciation	\$ 358,716	\$ 358,716	\$ 358,716
Property tax expense	\$ -	\$ -	\$ 17,341
O & M	\$ 25,000	\$ 25,750	\$ 26,523
Revenue Requirement	\$ 883,798	\$ 831,880	\$ 789,153
1.6MW Solon Airport Project			
Return on Investment	\$ 494,936	\$ 442,810	\$ 382,596
Book depreciation	\$ 355,025	\$ 355,025	\$ 355,025
Property tax expense	\$ -	\$ -	\$ 34,194
O & M	\$ 25,000	\$ 25,750	\$ 26,523
Revenue Requirement	\$ 874,961	\$ 823,585	\$ 798,338
TEP projects Summary			
Return on Investment	\$ 995,018	\$ 890,223	\$ 769,170
Book depreciation	\$ 713,741	\$ 713,741	\$ 713,741
Property tax expense	\$ -	\$ -	\$ 51,535
O & M	\$ 50,000	\$ 51,500	\$ 53,045
Total Revenue Requirement	\$ 1,758,759	\$ 1,655,464	\$ 1,587,491

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 22 As Table 1 shows, the estimated annual cost of the Projects to be recovered from the REST
 23 over the next three years is \$1.6 million.
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1 **IV. CONCLUSION**

2 TEP requests approval of the Projects and the associated recovery mechanism. Allowing
3 TEP ownership of the Projects will enable the Company to install renewable projects quickly,
4 enhance the viability of renewable projects in Arizona, help balance TEP's renewable portfolio in
5 a manner that is in the public interest and will result in just and reasonable rates. TEP's proposal
6 is virtually the same as the one already recommended by Staff, and provides an appropriate,
7 alternative method of funding renewable projects. For all the stated reasons, TEP requests
8 approval of the Projects and the recovery mechanism as both are necessary for the Company to
9 move forward with these renewable projects and both are in the public interest.

10 RESPECTFULLY SUBMITTED this 26th day of February 2010.

11 TUCSON ELECTRIC POWER COMPANY

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1 Original and 13 copies of the foregoing
2 filed this 26th day of February 2010 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 Copy of the foregoing hand-delivered/mailed
8 this 26th day of February 2010 to:

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