



BEFORE THE ARIZONA CORPORATION COMMISSION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

KRISTIN K. MAYES
Chairman

GARY PIERCE
Commissioner

PAUL NEWMAN
Commissioner

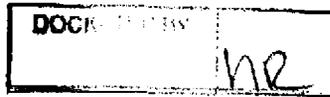
SANDRA D. KENNEDY
Commissioner

BOB STUMP
Commissioner

Arizona Corporation Commission

DOCKETED

MAY 17 2010



IN THE MATTER OF THE APPLICATION
OF TUCSON ELECTRIC POWER
COMPANY FOR APPROVAL OF A
FUNDING MECHANISM FOR UTILITY-
OWNED RENEWABLE ENERGY
PROJECTS

DOCKET NO. E-01933A-09-0340

DECISION NO. 71702

ORDER

Open Meeting
May 13, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP" or "Company") is engaged in providing electric service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On July 1, 2009, TEP filed for Commission approval of its 2010 Renewable Energy Standard and Tariff ("REST") Implementation Plan. As part of its application, TEP sought Commission approval of a number of purchased power contracts and renewable energy projects.

3. In Decision No. 71465 (January 26, 2010), the Commission approved an amended REST Implementation Plan, but did not act on TEP's request for pre-approval of a number of contracts and projects.

4. At the January 12 and 13, 2010 Open Meeting, there was discussion regarding how to finance renewable energy projects which would be owned by TEP. TEP's initial proposal in

1 this proceeding would have recovered the costs of an expansion of its Springerville photovoltaic
2 facility as well as construction of the Tucson Airport tracker project through a one-time pass-
3 through of costs through the REST adjustor mechanism.

4 5. TEP has previously reported in this proceeding that the Springerville project would
5 cost \$7.3 million and the Tucson Airport tracker project would cost \$6.7 million. The Commission
6 rejected this approach and asked the Company to present one or more alternative funding options.

7 6. The Springerville project includes two expansions of the Company's photovoltaic
8 system at the Springerville Generating Station. Currently, TEP has approximately 4.6 MW of
9 photovoltaic generation at the Springerville facility. One part of TEP's proposal includes the
10 installation of four blocks of thin film modules providing 1 MW at a cost of \$4 million. Another
11 portion of the project also includes the installation of six blocks of crystalline panels providing
12 0.81 MW at a cost of \$3.3 million. TEP has indicated that these buildouts of the Springerville
13 system could be accomplished relatively quickly, probably by the end of 2010.

14 7. The Tucson Airport project is a 1.6 MW single-axis solar tracker that was planned
15 to be part of a wider project called the TEP Storage Project. The 1.6 MW single-axis tracker
16 would be located at the Tucson International Airport and would be designed and constructed by
17 SOLON Corporation. The project would use 350 or 375 watt photovoltaic panels, with 384
18 modules per array, with 11 or 12 arrays used depending on the wattage of the panels used. The
19 cost of the single-axis tracker would be approximately \$6.7 million. TEP initially proposed this
20 project as part of a larger project that would include a storage component if American Recovery
21 and Reinvestment Act ("ARRA") funds were acquired for that portion. TEP did not receive
22 ARRA funds and at this time will not pursue the storage component, but could at a later time. TEP
23 has indicated to Staff that the single-axis tracker project could be constructed under a very short
24 time frame, probably by the end of 2010.

25 8. On February 26, 2010, TEP filed a document in this proceeding, requesting
26 Commission approval of a funding mechanism whereby annual costs are recovered through the
27 REST adjustor mechanism until such time as the costs are included in TEP's rate base in its next
28 general rate proceeding.

9. Specifically, TEP requests approval of inclusion of certain costs in the REST adjustor mechanism to cover return on investment, depreciation, property taxes, and operations and maintenance costs beginning in 2011 as part of TEP's 2011 REST plan. TEP estimates those costs would be \$1.76 million in 2011, \$1.66 million in 2012, and \$1.59 million in 2013, and similar costs in following years if no rate case occurs. TEP is not seeking revision of its 2010 REST adjustor rate or caps to recover any of these costs in 2010. The numbers below are based on a 20-year amortization, assuming the first year is 2011. The table below breaks out the cost components of these annual numbers.

Springerville Expansion	2011	2012	2013
Return on Investment	\$500,082	\$447,413	\$386,574
Book Depreciation	\$358,716	\$358,716	\$358,716
Property Tax Expense	\$0	\$0	\$17,341
Operations and Maintenance	\$25,000	\$25,750	\$26,523
Total Springerville Cost	\$883,798	\$831,880	\$789,153
Airport Project			
Return on Investment	\$494,936	\$442,810	\$382,596
Book Depreciation	\$355,025	\$355,025	\$355,025
Property Tax Expense	\$0	\$0	\$34,194
Operations and Maintenance	\$25,000	\$25,750	\$26,523
Total Airport Project	\$874,961	\$823,585	\$798,338
Total TEP			
Return on Investment	\$995,018	\$890,223	\$769,170
Book Depreciation	\$713,741	\$713,741	\$713,741
Property Tax Expense	\$0	\$0	\$51,535
Operations and Maintenance	\$50,000	\$51,500	\$53,045
Total Annual Cost	\$1,758,759	\$1,655,464	\$1,587,491

10. By comparison, the following tables show the costs if they were amortized over a 3-year or 5-year period for recovery through the REST adjustor mechanism.

3-Year Amortization

Total TEP	2011	2012	2013	2014	2015	2016
Return on Investment	\$995,018	\$733,181	\$408,482	\$150,726	\$90,477	\$30,228
Book Depreciation	\$4,758,274	\$4,758,274	\$4,758,274	\$0	\$0	\$0
Property Tax Expense	\$0	\$0	\$45,481	\$44,164	\$42,753	\$0
Operations and Maintenance	\$50,000	\$51,500	\$53,045	\$0	\$0	\$0
Total Annual Cost	\$5,803,291	\$5,542,955	\$5,265,282	\$194,890	\$133,230	\$30,228

1 5-Year Amortization

2 Total TEP	2011	2012	2013	2014	2015	2016
3 Return on Investment	\$995,018	\$796,118	\$534,355	\$339,535	\$184,882	\$30,228
4 Book Depreciation	\$2,854,964	\$2,854,964	\$2,854,964	\$2,854,964	\$2,854,964	\$0
5 Property Tax Expense	\$0	\$0	\$45,481	\$44,164	\$42,753	\$0
6 Operations and Maintenance	\$50,000	\$51,500	\$53,045	\$54,636	\$56,275	\$0
7 Total Annual Cost	\$3,899,982	\$3,702,582	\$3,487,845	\$3,293,300	\$3,138,874	\$30,228

8
9 11. TEP claims that this funding mechanism is necessary for TEP to pursue renewable
10 energy projects with Company ownership. TEP asserts the benefits of Company ownership
11 include: cost-effectiveness, increased viability of developing renewable energy resources in
12 Arizona, increased reliability of TEP's system, reduced reliance on purchased power agreements,
13 and balancing of its renewable portfolio.

14 12. In Decision No. 71502 (March 17, 2010), the Commission approved funding
15 provisions for the Arizona Public Service Company ("APS") AZ Sun Program that closely parallel
16 the requested funding mechanism.

17 13. There are several differences between the APS AZ Sun Program and the TEP
18 request. One difference between the TEP request here and the APS program is that the APS
19 program was a multi-year plan whereas TEP only addresses two current projects. The other
20 difference is that APS' cost recovery is specifically provided for in the settlement agreement in
21 APS' most recent general rate proceeding in Decision No. 71448 (December 30, 2009). There is
22 no such specific authorization for TEP regarding recovery of costs requested in this proceeding by
23 the Company.

24 14. Staff believes that the language creating the REST adjustor mechanism for TEP can
25 reasonably be read as either allowing or not allowing these costs to be passed through the
26 Company's REST adjustor mechanism. TEP has indicated to Staff that it is of critical importance
27 in moving forward with Company-owned projects to address how the costs of such projects are
28 recovered.

1 15. Staff believes that TEP's proposal to pass these costs through the REST adjustor
2 mechanism is reasonable and is consistent with the Commission's treatment of similar costs for the
3 APS AZ Sun Program. As the Commission found in regard to the APS AZ Sun Program, Staff
4 believes that it is unclear whether utility-owned renewable energy will prove to be less expensive
5 than renewable energy produced by nonutility-owned projects. Construction of these TEP projects
6 will provide further opportunity to compare utility-owned and nonutility-owned projects.

7 16. Staff has previously recommended that the Commission make findings that these
8 projects meet the REST rules requirements, that they are an appropriate part of TEP's energy
9 portfolio, and that prudency issues would be addressed at a later date. These recommendations
10 will be before the Commission at the March 31 and April 1, 2010 Open Meeting.

11 17. While the Commission believes that utility ownership of renewable energy projects
12 can be beneficial to both the Company and its customers, we are also mindful of the benefits that
13 accrue from renewable energy produced by independent power providers. The Commission
14 recognizes that independently produced and locally sited solar generation has the potential to ease
15 *transmission bottlenecks on a utility's system, thereby lowering costs for ratepayers associated*
16 *with incremental new generation and distribution infrastructure.* Providing an opportunity for
17 independent power providers to assist utilities in meeting the RES also brings an element of
18 competition to the RES programs and could leverage private capital in a way that lowers the cost
19 of renewable energy over time. It is today unclear whether utility-owned solar will ultimately
20 prove less expensive than solar produced by independent power providers, and by pairing utility-
21 owned solar projects with projects provided by developers, the Commission will be able to
22 compare the costs of these projects on a levelized cost of energy basis.

23 18. Therefore, we believe that TEP should be required to develop a plan for
24 Commission consideration to procure at least 3.4 Megawatts of solar from independent power
25 providers, in addition to the 3.4 Megawatts that are being approved in this Order. Additionally, we
26 believe that because the 3.4 Megawatts would be procured generation, the costs associated with the
27 3.4 Megawatts would be eligible for recovery through the Company's Purchased Power and Fuel
28 ...

1 Adjustment Clause. The Company should make a proposal for the 3.4 Megawatts as part of its
2 2011 REST Implementation Plan.

3 19. Staff has recommended that the Commission find that recovery of REST funding
4 through the REST adjustor mechanism for the return on investment, depreciation, property taxes,
5 and O&M expenses related to the Springerville Expansion and Tucson Airport projects, until the
6 Company's next rate case, is appropriate and reasonable.

7 20. Staff has further recommended that the reasonableness and prudence of those costs
8 be examined during the Company's next rate case and that any costs determined not to be
9 reasonable and prudent be refunded by the Company.

10 CONCLUSIONS OF LAW

11 1. TEP is an Arizona public service corporation within the meaning of Article XV,
12 Section 2, of the Arizona Constitution.

13 2. The Commission has jurisdiction over TEP and over the subject matter of the
14 application.

15 3. The Commission, having reviewed the application and Staff's Memorandum dated
16 March 30, 2010, concludes that it is in the public interest to approve the funding mechanism, as
17 discussed herein.

18 ORDER

19 IT IS THEREFORE ORDERED that recovery of REST funding through the REST adjustor
20 mechanism beginning in 2011, for the return on investment, depreciation, property taxes, and
21 O&M expenses related to the Springerville Expansion and Tucson Airport projects, until the
22 Company's next rate case, is appropriate and reasonable.

23 IT IS FURTHER ORDERED that the reasonableness and prudence of those costs be
24 examined during the Company's next rate case and that any costs determined not to be reasonable
25 and prudent be refunded by the Company.

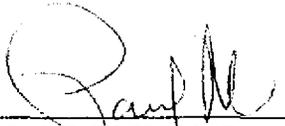
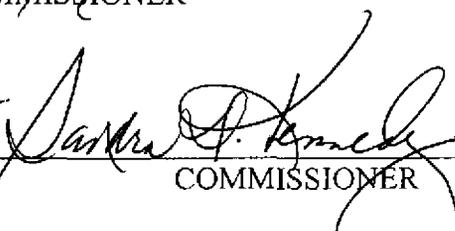
26 ...
27 ...
28 ...

1 IT IS FURTHER ORDERED that Tucson Electric Power Company shall develop proposal
 2 to procure at least 3.4 Megawatts of solar from independent power providers and file the proposals
 3 as part of the Company's 2011 REST Implementation Plan.

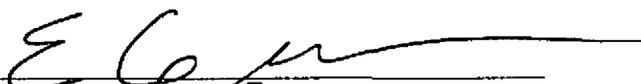
4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

 CHAIRMAN	 COMMISSIONER	
 COMMISSIONER	 COMMISSIONER	 COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
 Executive Director of the Arizona Corporation Commission,
 have hereunto, set my hand and caused the official seal of
 this Commission to be affixed at the Capitol, in the City of
 Phoenix, this 17th day of MAY, 2010.


 ERNEST G. JOHNSON
 EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:RGG:lh\RM

1 SERVICE LIST FOR: Tucson Electric Power Company
2 DOCKET NO. E-01933A-09-0340

3 Mr. Scott Wakefield
4 201 North Central Avenue, Suite 3300
5 Phoenix, Arizona 85004-1052
6 Mr. Daniel Haws
7 OSJA, ATTN: ATZS-JAD
8 USA Intelligence Center and Ft. Huachuca
9 Ft. Huachuca, Arizona 85613-6000

Ms. Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

8 Mr. Peter Nyce
9 U.S. Legal Services Agency
10 901 North Stuart Street - 713
11 Arlington, Virginia 22203-1837

11 Mr. Dan Neidlinger
12 Neidlinger & Associates
13 3020 North 17th Drive
14 Phoenix, Arizona 85015

14 Mr. Michael Patten
15 Roshka, DeWulf & Patten, LLC
16 One Arizona Center
17 400 East Van Buren Street - 800
18 Phoenix Arizona 85004

17 Mr. C. Webb Crockett
18 3003 North Central Avenue -- 2600
19 Phoenix, Arizona 85012-2913

20 Mr. Philip Dion
21 Tucson Electric Power Company
22 One South Church Avenue, Suite 200
23 Tucson, Arizona 85701-1623

23 Mr. Steven M. Olea
24 Director, Utilities Division
25 Arizona Corporation Commission
26 1200 West Washington Street
27 Phoenix, Arizona 85007

26
27
28