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**Tucson Electric Power Company**

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Tucson, Arizona 85702

AZ CORP COMMISSION  
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June 1, 2010

Arizona Corporation Commission

**DOCKETED**

JUN - 1 2010

Chairman Kristin K. Mayes  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

DOCKETED BY 

RE: NOTICE OF INQUIRY REGARDING A POTENTIAL ARIZONA FEED-IN TARIFF  
FOR RENEWABLE ENERGY PRODUCTION - DOCKET NO. E-00000J-09-0505

Dear Chairman Mayes:

As a follow up to a discussion and request during Commission's recent Feed In Tariff workshop, I am providing you with information concerning Tucson Electric Power Company's ("TEP") Request For Proposal ("RFP") process.

TEP recently completed a successful RFP process for solar facilities that generated 144 submissions from 58 different companies. The bids included every major solar technology currently available, including fixed and tracking photovoltaic systems, multiple concentrating photovoltaic technologies, and several concentrating solar thermal technologies (with and without storage systems). The various bids ranged in size from 1 MW up to 70 MW. From these bids, TEP selected 9 proposals for a total of 107 MW of renewable generation and, entered into Purchased Power Agreements. On May 24, 2010, TEP filed an application with the Commission requesting approval of these projects in Docket No. E-01933A-10-0213.

In its RFP process, TEP has standardized many of the elements in utility-scale renewable RFPs. Historically, utilities would issue an open-ended RFP for renewable energy projects. Participants or bidders would submit wildly varying proposals because elements such as project size, location, siting costs, interconnection, contract length and terms were left to their discretion. TEP's process is now designed to: (i) generate uniform RFP responses, which allows TEP to better compare the proposals and (ii) facilitate the subsequent development of the Power Purchase Agreements ("PPAs") for winning bids.

Key aspects of our RFP process include:

1. **Pre-bid identification of preferred project locations.**

Prior to issuing the RFP, TEP identified appropriate locations known as "preferred sites." Developers were encouraged to bid their projects as if they were going to build on a preferred site. For example, several months prior to the release of TEP's 2009 RFP, TEP worked with Pima County, the City of Tucson, the Tucson Water Department, and the University of Arizona Science and Technology Park to identify multiple appropriate sites in and around the City of

Tucson. These sites were selected based on several factors, including: proximity to TEP's distribution system, the condition of the parcel (whether or not it was previously disturbed), the state of the site's vegetation, potential habitat mitigation issues, potential cultural and historical resource value, and the site's relative "best use" scenario. This process resulted in the identification of ten City of Tucson landfill sites, five Pima County sites, and several potential sites on Tucson Water Department lands.

**2. Exclusion of land cost from proposals.**

TEP requested that the cost of land be excluded from the proposals with the understanding that it would later be added to the PPA price once a project was selected and after TEP negotiated a lease rate with the landowner. This requirement built upon the pre-bid site identification and eliminated a significant variable in comparing proposals.

**3. Exclusion of interconnection costs from proposals.**

TEP instructed developers to exclude interconnection costs from their proposals. Excluding this cost from bids improved the Company's ability to compare and evaluate the bids. As a result, developers did not include a "worst cost scenario" projection in their bid and the Company was able to compare bids on the per MWh price of the project alone, which will result in a lower cost for consumers. This exclusion also was based on the understanding that actual interconnection costs would be determined after project and site selection, with the PPA price adjusted accordingly to ensure the developer was appropriately compensated for actual interconnection costs.

**4. Use of a standardized PPA.**

TEP developed a standardized PPA based on past negotiations and contracts for use in connection with its RFP, thereby drastically reducing negotiation times and related project delay.

Using this process, TEP's recent 2009 Solar RFP, for example, resulted in easily comparable bids. Each bid was evaluated on the project's levelized cost of energy, value of the displaced energy and capacity, location, bidder's credit and risk analysis. Other intangible attributes such as water consumption and project completion viability were also evaluated. Final project selections were based on the project's ability to deliver the most cost-effective renewable power to meet TEP's non-distributed generation requirement. PPAs for the selected projects were then readily prepared and executed.

TEP's revised RFP process has benefitted all of those involved in the development of renewable projects and has furthered the Company's goal of increasing its renewable generation portfolio. Specifically, the Company has observed the following benefits from its RFP process:

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1. reduced PPA costs by removing the guesswork of determining land and interconnection costs, and subsequently using only actual costs;
2. eliminated Extra High Voltage transmission constraints and losses due to smart siting of smaller sized projects (centrally locating them within the local distribution system);
3. reduced PPA costs by utilizing local sites, which have lower interconnection costs;
4. lowered land costs and minimized environmental impacts by focusing on previously disturbed and limited use lands such as landfills, mine and quarry sites, and fallowed farm lands;
5. provided a revenue stream for local governments (through lease payments); and
6. increased participation in the RFP process by eliminating developer risk in calculating land and interconnection costs.

I hope this information has helped provide a better understanding of TEP's RFP process. If you have questions or would like additional information, please let me know.

Respectfully,



David G. Hutchens

DGH:mi

Attachment

cc: Docket Control – Original and 13 copies  
Commissioner Gary Pierce  
Commissioner Sandra Kennedy  
Commissioner Paul Newman  
Commissioner Bob Stump  
Lyn A. Farmer, Hearing Division  
Janice M. Alward, Legal Division  
Steve Olea, Utilities Division