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Tucson Electric Power Company



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AT CORP. SEC. DIV.
DOCKET CONTROL

June 10, 2010

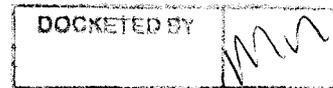
Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

RE: Docket No. E-00000J-10-0202

JUN 15 2010

Dear Mr. Olea:



Tucson Electric Power ("TEP" or "the Company") recently became aware of a letter from Pima County to the Arizona Corporation Commission ("Commission") dated May 20, 2010 regarding Aggregated Net Metering ("ANM"). This letter provides important corrections to unfortunate inaccuracies contained in Pima County's letter. Copies of this letter are being filed with Docket Control and provided to interested parties, including Pima County.¹

At the May 13, 2010, Open Meeting, the Commission indicated that it would be conducting a workshop regarding ANM. TEP supports a workshop to address the many issues related to ANM. Like any other workshop, this one should be open and transparent to ensure, at a minimum, that (i) all interested customers and affected parties have meaningful notice and opportunity to participate; and (ii) all relevant factors, including but not limited to the economic impact of ANM on TEP and its customers be considered. TEP looks forward to fully discussing ANM-related issues with all interested parties in the workshop. However, in order to correct the errors that have been circulated by Pima County, the Company submits the following:

1. Pima County's ANM proposal is discriminatory and restrictive.

Pima County's ANM proposal is contrary to the public interest because it would unlawfully discriminate among TEP customers. The inconsistency of Pima County's argument underscores the selective nature of its proposal. On the one hand, Pima County states that ANM should not be restricted to government entities, while on the other hand, it believes that only "certain" customers, namely, those who participate in large scale renewable generation, have multiple meters and have a sufficiently large load, would qualify for ANM. TEP believes that any ANM proposal considered by the Commission should be in the public interest, non discriminatory and otherwise comply with all relevant legal and regulatory requirements.

¹ In a separate letter, TEP has asked Pima County to provide the Company with copies of any future communications directed to the Commission or TEP's customers regarding ANM.

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2. Pima County misstates the allocation of ANM related costs.

Pima County has grossly misstated the amount and allocation of costs in order to support its assertion that its ANM proposal will reduce costs. Pima County compounds its error by asserting that its phantom cost savings would be passed on to TEP's customers, by virtue of reduced Pima County taxes.

Pima County fails to disclose that under its ANM proposal, it is the only entity that is intended to realize a cost reduction. In reality any "cost savings" that Pima County would claim would be absorbed by TEP's other customers. Thus, all other TEP customers would subsidize Pima County. Pima County cannot represent that any perceived cost savings would, in fact, be passed on to (i) its taxpayers; or (ii) TEP's other customers. Pima County cannot commit that any reduction in costs will result in a lowering of taxes. And, while some of TEP's customers reside in Pima County, not all of them pay taxes to Pima County. Further, not everyone in Pima County is a customer of TEP.

Pima County also fails to address the significant legal issues involved in changing the current regulatory paradigm to accommodate ANM. Changes in TEP's revenue requirement, cost recovery and rate design will involve (i) changes to the Net Metering Rules and Renewable Energy Standard and Tariff ("REST") rules; and (ii) a rate case. Pima County completely ignores TEP's Commission ordered rate case moratorium.

3. Pima County misrepresents renewable project pricing and recovery.

Pima County has completely missed the boat with its various assertions regarding TEP's renewable project pricing and recovery.

For example, Pima County fails to recognize important distinctions between utility scale renewable projects funded by the utility or third party developers (who sell power to the utility) and large scale renewable projects funded through the Distributed Generation ("DG") portion of the REST Rules. This is a fatal flaw and further undermines the credibility of Pima County's analysis and proposal.

Also, Pima County claims that its 1 MW Roger Road PV Facility will save it \$1.5 million over the 20 year PPA period.² However, Pima County fails to disclose that in order to achieve this level of savings, TEP's other customers would have to pay an estimated \$5.6 million in REST charges (the cost of paying the County \$0.15/kWh for Renewable Energy Credits ("REC") over that same time period). In addition, TEP's customers would have to pay an additional \$0.055/kWh, or \$2.1 million over the 20 year period, for the non-fuel fixed costs no longer paid for by the County under the net metering rules.³ This amounts to a total cost to TEP's customers of \$0.205 per REC. In summary, contrary to the analysis provided in the letter, TEP's customers would have to pay \$7.7 million in order for Pima County to realize its "savings" of \$1.5 million.

Moreover, Pima County fails to consider that, assuming a large DG project has the ability to gain the same economies of scale as a utility scale project, and that its assumption of \$0.13/kWh for a 20 year

² See Recommended Opinion and Order in Docket No. E-20729A-10-0086. Note that Commission Staff's analysis found the savings to be approximately \$30,000 over the same time period.

³ These costs will be recovered from TEP's other customers as determined in its next rate case. No escalation to the non-fuel rate is assumed over the time period, although the County assumes a 4.7% annual rate increase in its savings estimate.

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term is correct, the result is the same – the project would be uneconomical and other customer classes would subsidize Pima County. By way of illustration, if Pima County entered into a Purchase Power Agreement with a fixed price of \$0.13/kWh for 20 years for an ANM project, Pima County would need a \$0.045/kWh REC payment from TEP for all energy purchased under that PPA in order to keep its rates at the same level they are today (\$0.085/kWh under rate schedule PS-40). This \$0.045/kWh would be recovered through the REST surcharge which is funded by TEP's customers. In addition, Pima County would no longer be paying the \$0.055/kWh non-fuel fixed costs associated with rate PS-40 for each kWh produced by the facility which would then be recovered from TEP's other customers. In total, TEP's other customers would be paying a total of \$0.10/kWh for each kWh produced by Pima County's ANM facility.

If TEP were to enter into the identical 20 year PPA at a cost of \$0.13/kWh under the utility procured portion of the REST, the recovery is defined quite differently. Using an estimated \$0.068/kWh for a levelized 20 year Market Cost of Comparable Conventional Generation ("MCCCG"),⁴ TEP would recover the above MCCCG portion (\$0.062/kWh) of the PPA from all customers through the REST surcharge as prescribed in the REST rules. In this case, all customers would pay \$0.062/kWh for the energy produced by the facility. Consequently, when properly analyzed, it is clear that Pima County's proposal would not only require other TEP customer classes to subsidize it, but at a rate that is uneconomical, unjust and unreasonable. In other words, cast in its proper light, the inescapable conclusion is that Pima County's analysis is unreliable and its proposal contrary to the public interest. Certainly, these issues can be further addressed in the ANM workshop.

TEP looks forward to participating in the ANM workshop. TEP invites Pima County and any other interested party to join it in an open and transparent forum where the ANM issues can be competently and fully vetted.

If you have any questions, please do not hesitate to contact me.

Sincerely,



Philip J. Dion

cc: Arizona Corporation Commissioners
Ms. Janice Alward, Esq.
Ms. Jodi Jerich, Director Residential Utility Consumer Office
Mr. C. Webb Crocket, Esq.
Mr. C.H. Huckleberry, County Administrator of Pima County
Mr. Terry Finefrock, Chief Contracts & Procurement Manager of Pima County

⁴ The MCCCG is based on recent estimates.