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**BEFORE THE ARIZONA CORPORATIC**

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IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS 2010 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN AND DISTRIBUTED ENERGY ADMINSITRATIVE PLAN AND REQUEST FOR RESET OF RENEWABLE ENERGY ADJUSTOR

DOCKET NO. E-01933A-10-0266

**NOTICE OF**

**COMPLIANCE FILING**

Tucson Electric Power Company ("TEP" or the "Company"), through undersigned counsel, hereby submits the attached report on including information on REST surcharge offsets in customer bills, in compliance with Decision No. 72033.

RESPECTFULLY SUBMITTED this 16th day of February 2011.

TUCSON ELECTRIC POWER COMPANY

By ____________________

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# ATTACHMENT

**TUCSON ELECTRIC POWER COMPANY**

**Report on REST Surcharge Offsets**
**in Compliance with Commission Decision No. 72033**

**February 16, 2011**

**Executive Summary**

On November 23, 2011, the Arizona Corporation Commission ("ACC' or "Commission") approved Tucson Electric Power Company's ("TEP") 2011 Renewable Energy Implementation Plan (Decision No. 72033). In Decision No. 72033, the Commission indicated the TEP customer bills "should reflect the fuel (both in-state and out of state), transmission, reduced emissions and over savings which offset the REST surcharge." The Commission then ordered TEP to submit a report that addresses the following information: 1. What costs would be included as REST surcharge offsets; 2. How would TEP calculate such savings; and 3. How would this information be presented on customer bills.

TEP would include energy related costs, capacity related costs and environmental costs in calculating the estimated savings that offset the REST surcharge. Those calculations would be facilitated by – and part of -- the preparation of TEP's Integrated Resource Plan under the Commission's recently revised Integrated Resource Planning ("IRP") rules. Given the complexities of determining the estimated cost savings, customer bills would identify the potential offset savings resulting from the REST surcharge and provide a website address that would provide more detailed information on the estimated REST surcharge offset. TEP is also investigating whether customer bills could reflect a suitably accurate estimated average savings (based on a customer class) on a per kWh basis that would offset the REST per kWh surcharge.

**Discussion**

**I. What costs would be included as REST surcharge offsets?**

In quantifying the potential net benefits associated with renewable resources, TEP would consider the following cost and environmental variables in its evaluations of renewable resource integration.

**Energy Based Costs**
- Fuel and Purchase Power Costs
- System Losses
- Ancillary Service Costs
- Environmental Compliance Costs

**Capacity Based Costs**

- Generation, Transmission and Distribution Capital Costs
- Generating Plant Overhaul Costs
- Plant Operations and Maintenance Costs
- Gas Transportation Costs
- Market-Based Capacity Charges
- Transmission Wheeling Costs
- Ancillary Service Costs
- System Integration and Reliability Costs

**Environmental Impacts**

- CO2 Emissions
- NOx Emissions
- SO2 Emissions
- Particulate Emissions
- Mercury Emissions
- Coal Ash
- Water Consumption

There may be additional elements that arise that could be included in the calculation. The IRP process will facilitate a fulsome analysis of appropriate costs. Moreover, appropriate environmental elements may be affected by ongoing Commission workshops.

## II. How would TEP calculate Offset Savings?

TEP would rely on the IRP process to capture both the qualitative and quantitative net benefits associated with renewable resource integration. Through the IRP process, scenario analysis could be done to better quantify the longer-term avoided costs, including the risk mitigation value associated with future uncertainties.

After calculating estimated offset savings, TEP also would endeavor to estimate average per kWh savings on a customer class basis. This determination could provide a better comparison of offset savings versus the per kWh REST surcharge. However, given the potential long-term avoided costs and other variables, it may be difficult to calculate a reasonably accurate per kWh savings (on a customer class basis) that could be compared to the REST surcharge in place in a given year.

## III. How would TEP present Offset Savings information on customer bills?

Due to the complexities of the calculations and the length of description required to explain the cost savings, there is insufficient room on the existing customer bills to present this information in full. TEP would provide a footnote to the REST surcharge line of the bill to address offset savings. In that footnote, TEP would provide a statement indicating that the REST surcharge is potentially offset by other savings resulting from the use of renewable resources and would indentify a website to provide more detailed information on the offset savings.

TEP is continuing to investigate whether it will be able to present an estimated per kWh savings for a particular customer class basis. However, because the cost savings are both qualitative and quantitative, and captures implied savings in future periods, it will be difficult to develop a direct relation when compared to the annual REST surcharge on a per kilo-watt per hour basis. As a result, an estimated per kWh savings may result in misinformation or confusion regarding actual Offset Savings.