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AZ CORPORATION COMMISSION
DOCKET CONTROL

April 1, 2011

Arizona Corporation Commission

DOCKETED

APR - 1 2011

Janice K. Brewer
Governor

Jodi A. Jerich
Director
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Commissioner Paul Newman
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

DOCKETED BY [Signature]

Re: Fixed CTC and Tucson Electric Power's Last Rate Case – E-01933A-07-0402 and E-01933A-05-0650

Dear Commissioner Newman:

You have asked me to brief you on RUCO's position in TEP's last rate case, and in particular, to the Fixed CTC True-up revenues. In Decision No. 70628, the Commission approved a Settlement Agreement ("Settlement") resolving the majority of the issues raised in TEP's last rate application. RUCO was not a signatory to the Settlement. In short, it was RUCO's contention that the Settlement provided for a rate increase¹ that was too great compared to the benefits the ratepayers would receive.

One of the issues that was not resolved in the Settlement concerned the disposition of the Fixed CTC True-up revenues². It was agreed by the settling parties that their respective positions on the Fixed CTC True-up revenues would be presented at the hearing of the matter.

As you are already aware, the Fixed CTC was an accounting mechanism that allowed TEP to recover its stranded costs associated with retail electric competition. The intent of the Fixed CTC was to allow TEP to amortize \$450 million of generation plant stranded costs between 1999 and the end of 2008 rather than incur the entire write-off in a single year.³ Under the terms of TEP's 1999 Settlement Agreement, the Fixed CTC was set to terminate December 31, 2008 or when the Company recovered \$450 million of stranded costs, whichever was earlier.⁴ The Company recovered \$450

¹ The Settlement's provided for slightly over \$109 million a year greater than what RUCO was recommending. Decision #70628 at 31.

² See section XV of the Settlement.

³ Decision #70628 at 34.

⁴ Decision No, 62103 at 5

Commissioner Paul Newman
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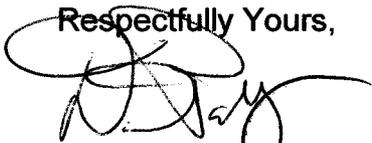
million of its stranded costs by May 2008, but the Commission, in Decision No. 69568,⁵ decided to continue the Fixed CTC charge until such time as the Commission ordered otherwise.⁶ Staff had estimated the amount of the Fixed CTC revenues collected for the period of May 2008 through December 2008 (the relevant time period in question at the time) at \$67.9 million. The outstanding issue, at the time, was the appropriate manner in which to true-up the over collection (hence the term Fixed CTC True-up revenues).

The stake holder's position at hearing should not come as a surprise. TEP argued that the Company should retain the True-up revenues.⁷ Staff recommended the True-up revenues should be credited against TEP's PPFAC.⁸ DOD recommended that the True-up revenues belonged to the ratepayers and RUCO argued the same. AECC recommended that 50% of the True-up revenues should be credited to the ratepayers and that the Company retain the remainder.⁹ AIC recommended that TEP retain the True-up revenues.¹⁰

The Commission ultimately decided that the Fixed CTC True-up revenues should be credited in their entirety to the ratepayers by means of a credit to the PPFAC.¹¹

I hope that this letter is helpful in your efforts to gain an understanding of the Fixed CTC and how the Commission dealt with it. If I can be of any further assistance, please do not hesitate to ask.

Respectfully Yours,



Daniel Pozefsky
Chief Counsel
RUCO

cc: Docket Control

⁵ Decision No. 69568 was docketed on May 21, 2007.

⁶ Decision No. 69568 at 16, 21 which also provided that the True-up revenue that accrued would be refunded or credited in a way to be determined in TEP's rate case.

⁷ Decision #70628 at 34.

⁸ Decision No. 70628 at 33.

⁹ Id.

¹⁰ Id. at 35.

¹¹ Id.