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Tucson Electric Power  
88 East Broadway Blvd., P.O. Box 711  
Tucson, Arizona 85702

ORIGINAL

April 15, 2014

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

Re: Notice of Filing – Tucson Electric Power Company’s 2014 Cost Containment Report  
Decision No. 71256, Docket Nos. E-01933A-05-0650, E-01933A-07-0402

Pursuant to Decision No. 71256 (September 3, 2009), Tucson Electric Power Company hereby files its annual 2014 Cost Containment Report as required by Decision No. 59594 (March 29, 1996).

If you have questions or comments please contact me at (520) 884-3680.

Best regards,

Jessica Bryne  
Regulatory Services

Arizona Corporation Commission

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APR 15 2014

DOCKETED BY

Enclosures: Cost Containment Report

cc: Compliance Section, ACC

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ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

# **COST CONTAINMENT REPORT**

## **TUCSON ELECTRIC POWER COMPANY 2013 COST CONTAINMENT REPORT**

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The following is a summary of Tucson Electric Power Company's ("TEP" or "Company") cost containment efforts and quantified savings for 2013. A table outlining TEP's estimated savings of \$13.8 million for new or ongoing initiatives since 2012 is attached as Exhibit A. Additionally, the Company continues to experience actual to budget savings due to constraining new/replacement hires and travel and training in 2013 amounting to \$6.5 million, which is also included in Exhibit A.

### **Contract Renegotiation / Supply Chain Management**

The Company implemented a supply chain sourcing effort in 2009 that continues to reduce costs for items such as equipment, poles, wires, transformers, pond liners, boilers and motors, saving over \$10 million in 2013. Most of the savings were the result of a few large capital projects, which occurred in 2013 as well as \$580,000 of technology savings due to contract renegotiations with Oracle. In 2013, TEP continued to experience savings of \$196,000 for a modified coal sales agreement. Additional small renegotiations for better rates from vendors amounted to further savings of \$135,000. These efforts resulted in a total savings of \$10.4 million for 2013.

### **Administrative Support Savings/Revenue Enhancements**

The IRS confirmed that up-front incentive payments are deductible as paid for tax purposes resulting in 2013 interest expense savings of \$831,000. Increased margins on new retail sales from customers amounted to \$494,000. Additionally, TEP resolved a dispute over the state taxation of electricity consumed by TEP facilities, resulting in savings of \$300,000. A total of \$1.7 million of savings or revenue enhancements from the administrative area was realized.

### **Generation Expenses**

In 2013, the Springerville Generating Station implemented a predictive maintenance program and saved a combined \$1.4 million in O&M and capital. Additionally, the Generation area changed how crane work is performed and scheduled it to utilize internal resources when possible resulting in an additional \$258,000 of savings. Total Generation savings for 2013 were \$1.7 million.

### **2013 Actual to Budget Savings**

TEP instituted company-wide hiring restrictions for 2009 and continued with a robust approval process through 2013. This process saved TEP approximately \$6.4 million compared to budget in 2013.

Travel and training expenses company-wide in 2013 were minimized to achieve a savings of \$96,000 compared to budget.

# **EXHIBIT A**

Estimated Savings

Area	Initiative	Explanation of Initiative	Estimated Savings
<b>Cost Reductions/ Revenue Enhancements since 2012</b>			
<b>Contract Renegotiation:</b>			
Contract Renegotiation/ Supply Chain Mgmt	Savings through Bidding Process (Capital and O&M)	A "Documented Calculated Savings" formula is used by the Procurement & Contracts department to estimate the dollars saved when the competitive bidding process is used to purchase goods and/or services. Capital projects accounted for approximately 70% of the quantified savings.	\$10.1M
Contract Renegotiation/ Supply Chain Mgmt	Border States Cost Containment	Allowed contractors to pick up DG product from supplier reducing inventory and manpower. Negotiated free transportation for moving inventory between UES and TEP facilities. Evaluated Receipts Settlement (ERS) process reducing A/P time matching invoices. Buyback and product substitution to a new, lower-cost manufacturer.	\$48K
Contract Renegotiation/ Supply Chain Mgmt	Coal Moisture Credit	The coal sales agreement was modified to credit Springville O&M for increased moisture content in the coal	\$196K
Contract Renegotiation/ Supply Chain Mgmt	General Liability Premium	The General Liability self-insured retention was increased to \$2 million, thereby, reducing the premium substantially. Premium in 2013 was \$1.2M and would have been \$1.236M due to premium increases.	\$36K
Contract Renegotiation/ Supply Chain Mgmt	Procurement Card Rebate	Negotiate better rebate 70 basis points on \$5M spend starting in June 2012.	\$50K
<b>Administrative Support:</b>			
Adm Support Savings	Property tax expense	Negotiated reduced property tax values for San Juan Unit 2 resulting in lower property tax expenses.	\$66K
Adm Support Savings	Sales tax assessment appeal	Resolved dispute with the state over taxation of electricity consumed by TEP facilities.	\$300K
Adm Support Savings	Interest Expense Reduction	Received private letter ruling from IRS confirming that up-front incentive payments are deductible as paid for tax purposes. Ruling resulted in interest expense savings.	\$831K
Adm Support Savings	SEC Reporting	Switched vendors for SEC reporting	\$25K
Adm Support Savings	Revenue Enhancement	Margin on new retail sales due to the efforts with customers such as Involta, FMI and Ina Road generators.	\$494K
<b>Generation:</b>			
Generation Savings	Crane Utilization	Change in methodology on how crane work is performed, minimizing the amount of work outsourced by improved scheduling and resource management to perform the work internally.	\$258K
Generation Savings	SGS Predictive Maintenance (Capital and O&M)	The Springville Generating Station implemented a predictive maintenance program and saved \$1.4M in 2013.	\$1.4M
<b>2013 Actual to Budget Savings:</b>			
Employee and Other Compensation	Hiring Restrictions	Hiring restrictions requiring Sr. VP approval for any new hires resulted in continued savings.	\$6.4M
Discretionary Savings	Travel & Training	Economic conditions forced reductions in many areas; this amount represents the dollars unspent (given up) by departments company-wide for 2013.	\$96K