EXCEPTION

OPEN MEETING AGENDA ITEM

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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.

DOCKET NO. E-01933A-12-0291

EXCEPTIONS TO PROPOSED ORDER REGARDING INTERRUPTIBLE TARIFF

ORIGINAL

Tucson Electric Power Company ("TEP"), through undersigned counsel, hereby submits its exceptions to the proposed order regarding its proposed Rider R-12 Interruptible Service tariff ("Interruptible Tariff"). Although Staff has recommended several modifications to the Tariff, TEP objects only to Staff's proposal to recover the costs of the interruptible resource through TEP's Demand Side Management ("DSM") surcharge rather than through TEP's Purchased Power and Fuel Adjustment Clause ("PPFAC"). Because the Interruptible Tariff will reduce the amount of purchased power needed by TEP, TEP believes the costs associated with the Interruptible Tariff are more appropriately recovered through the PPFAC. TEP has provided proposed amendment language in Attachment 1.

Background

As part of the Settlement Agreement approved in TEP's last rate case, TEP was required to file an interruptible service tariff. Under the Interruptible Tariff, TEP has the sole discretion to interrupt electric service to a customer that has agreed to take interruptible service. The Interruptible Tariff requires the customer to invest in "all necessary communication, relay and breaker equipment" necessary for TEP to provide notice to the customer and to remotely interrupt service to the customer. The customer cannot refuse the interruption, although the Interruptible

Tariff limits the number and duration of interruptions for the customer.[1] In exchange for agreeing to take interruptible service, the customer receives credits related to the amount of load it has agreed can be interrupted. As a result, TEP is able to interrupt load to save on purchased power costs in times of high system demand. These interruptions reduce purchased power costs that are passed through the PPFAC. The price for reducing these purchased power costs are the credits paid to customers who have agreed to have their load interrupted.

Specific Exceptions

TEP strongly believes that the costs of the Interruptible Tariff that allow TEP to reduce purchased power costs should be recovered through the PPFAC. Although Staff states that it understands TEP's reasoning, it recommends recovering the costs through the DSM surcharge tied to the Company's Energy Efficiency Implementation Plan ("EE Plan"). Staff's proposal creates several problems.

First, the Interruptible Tariff will require TEP to offer the interruptible service unless and until the Commission suspends or eliminates the tariff. It will not be contingent on getting an EE Plan and related DSM surcharge approved. Historically, EE Plans and related DSM surcharges have not been considered or approved in a routine manner. Presently, the Commission is reviewing the Energy Efficiency Rules for possible amendment and future EE Plans have effectively been put on hold. Both circumstances created significant uncertainty about the timing of future Commission approval of DSM surcharges. On the other hand, the PPFAC rate is considered and approved pursuant to a detailed Plan of Administration that provides much more certainty as to process and timing. As a result, the PPFAC process provides more appropriate timing between when the Interruptible Tariff costs are incurred and when they are recovered.

Second, the certainty provided through PPFAC recovery is important to customers interested in taking service under the Interruptible Tariff. Customers that chose to take interruptible service must make significant investment in control systems, facility upgrades and

[1] This is different from a voluntary demand response program, under which a customer controls whether or not to reduce its load.

communications facilities in order to allow TEP to interrupt their service. Customers may also invest in backup generation to provide basic electrical needs, such as security monitoring. However, if the recovery of the Interruptible Tariff costs are delayed or deferred due the EE Plan/DSM surcharge process, TEP may seek suspension or elimination of the Interruptible Tariff, thus stranding the customer's investment. Recovering the Interruptible Tariff's costs through the PPFAC process eliminates this concern and facilitates implementation of the Interruptible Tariff.[2]

Finally, TEP's approach of recovering the Interruptible Tariff Costs through the PPFAC does not impact the Interruptible Tariff costs passed on to customers and better matches those costs to the purchased power costs being saved.

Conclusion

TEP requests that the Commission amend the proposed order as set forth in the attached amendment language.

RESPECTFULLY SUBMITTED this 14th day of July, 2014.

TUCSON ELECTRIC POWER COMPANY

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[2] TEP would note that AECC and Freeport-McMoran – who represent the large commercial and industrial customers that may take advantage of the Interruptible Tariff -- did not raise any concern about recovering the Interruptible Tariff costs through the PPFAC.

Original and 13 copies of the foregoing
filed this 14th day of July 2014 with:

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Attachment-1

Attachment 1

Proposed Amendment Language

At Page 7, Line 6, **DELETE** the sentence beginning with "As collected amounts amortize" and **INSERT** "However, we believe that the PPFAC is the appropriate recovery mechanism of the costs of the Interruptible Credits and that those costs should be treated as a cost of purchased capacity and recorded in FERC Account 555."

At page 9, Line 12, **REPLACE** "DSM Surcharge" with "Purchased Power and Fuel Adjustment Clause."