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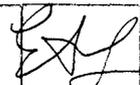
Commissioner Susan Bitter Smith
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007-2927

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

SEP 16 2014

RE: Emerging Technologies Docket No. E-00000J-13-0375

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Dear Commissioner Bitter Smith:

Thank you for your invitation to comment on the potential advantages and disadvantages that an Energy Imbalance Market ("EIM") might create for Tucson Electric Power ("TEP") and other electric utilities in Arizona.

As you know, EIMs are intended to aggregate variable generation and load over many balancing authorities ("BAs"), thereby reducing the total amount of required reserves. An EIM also seeks to allow participants to use the lowest cost generation in the market to balance loads and generation across many BAs. For these reasons, EIMs have been identified as a way to manage the increase of real-time imbalances on the grid due to the growing use of variable renewable resources.

A properly designed EIM has the potential to mitigate these imbalances automatically and economically, allowing for reductions in costs for participating utilities and facilitating the addition of new renewable resources on the grid. But such potential benefits must outweigh the cost of establishing and operating an EIM and the many uncertainties associated with adopting this new market model.

The Southwest Variable Energy Resource Initiative ("SVERI"), a group that includes TEP, Arizona Public Service, Salt River Project and other regional utilities, has reviewed the early cost/benefit studies that some Western entities have cited in their advocacy for an EIM. SVERI recognizes the potential that EIMs could lead to increased efficiency by creating benefits for energy buyers and sellers alike by improving the management of real-time imbalances. The group also has identified potential disadvantages, including pricing and operational details of these emerging markets that may need further refinement. It also is worth noting that EIMs do not relieve BAs of their obligation to comply with grid reliability requirements. Participating utilities remain obliged to secure enough resources to satisfy customers' peak energy demands, thereby mitigating potential savings.

As a relatively small utility, TEP is not prepared to assume a leadership position in embracing EIMs ahead of our larger regional peers. We will continue to work with SVERI and others to address the impact of intermittent renewable resources while evaluating NV Energy's and PacifiCorp's upcoming experience with the California Independent System Operator's extension of an EIM for the region. TEP will consider participating in an EIM when their proven benefits for our customers outweigh any remaining risks or concerns regarding this developing market model. In the meantime, TEP will continue to secure its own reserves to ensure that our growing reliance on renewable resources does not compromise the reliability of our service.

Sincerely,


Philip J. Dion

cc: Docket Control