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IRMAN STUMP'S PROPOSED AMENDMENT NO. 1

DATE PREPARED: December 16, 2014

COMPANY: Tucson Electric Power Company AGENCY: **RECEIVED**

DOCKET NO(S). E-01933A-14-0248 OPEN MEETING DATE: December 18 and 19, 2014

2014 DEC 16 P 2:15

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

ORIGINAL

On page 17, line 8, **INSERT** the following findings of fact:

62. The Commission has received comments in opposition to TEP's proposed utility-owned residential distributed generation program. Most of these objections allege that TEP's program is at odds with the fair value provision of the Arizona Constitution. Some commenters also complain that TEP should not be permitted to own residential distributed generation assets.

63. TEP does not need our permission to acquire generation assets. Typically, public service corporations decide what type of generation assets to acquire for their resource portfolios. They then build and/or acquire those assets, and the Commission evaluates the prudence of those decisions in subsequent rate cases.

64. Nor does TEP generally need our permission to negotiate arrangements for the placement of its generation facilities. TEP is not required to seek our approval of the terms and conditions that it negotiates in order to acquire the real property upon which to place its various generation assets. Although such arrangements will be subject to our prudence review in a rate case, and although the siting statutes may apply in some instances, TEP's real property acquisitions—whether through purchase or lease—are generally not subject to our pre-approval.

65. Nor does this case present any constitutional impediments. Currently, the fair value of TEP's utility-owned residential distributed generation assets is zero, because the program has not yet begun, and there are no program assets. We therefore conclude that the fair value impact of TEP's proposal is *de minimis* at this time.

66. Furthermore, TEP has not asked for—and we will not make—a prudence determination in this case. We will determine whether TEP may recover these costs in rates in TEP's next rate case.

67. We would also note that the proposed size of this pilot program makes it extremely unlikely that there would ever be significant fair value impacts associated with it. We have authorized up to \$10 million in future pilot program expenditures; however, TEP's fair value rate base is over \$2.2 billion. The pilot program would be capped at six hundred

THIS AMENDMENT:		Arizona Corporation Commission DOCKETED	
		DEC 16 2014	
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<input type="checkbox"/> Failed	<input type="checkbox"/> Not Offered <input type="checkbox"/> Withdrawn		

CHAIRMAN STUMP'S PROPOSED AMENDMENT NO. 1

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COMPANY: Tucson Electric Power Company AGENDA ITEM NO. 9

DOCKET NO(S). E-01933A-14-0248 OPEN MEETING DATE: December 18 and 19, 2014

participants, while TEP has over 400,000 customers. Even if TEP were to expend the full \$10 million, and even if the program were to reach the participation cap, the fair value impact would still be *de minimis* due to the size of the program in comparison to the scope of TEP's overall operations.

68. Finally, the revenue impact of the program is also *de minimis*. The pilot program tariff that TEP proposes is designed to describe the parameters of the program, but it is not designed to generate additional revenue. Instead, it is intended to maintain the participating customers' rates at approximately their current levels as a means of compensating them for the use of their roofs. In other words, what might otherwise be structured as a separate and distinct lease payment (by TEP to participating customers) for the use of rooftop space is instead flowed through to the bill as an offset to rates. Although this offset is part of TEP's cost of service, TEP is not seeking rate recovery of it at this time.

69. We recognize the rapidly evolving environment in which TEP—as well as all electric distribution companies—must now operate. The onset of distributed generation has significantly impacted the electric distribution function, and we think it likely that the pace of technology necessarily requires electric distribution utilities to make creative adaptations to their business models.

70. Because we recognize that TEP has offered this proposal as a means of responding to these ongoing challenges, we will approve TEP's proposal as a pilot program in the form of a special contract tariff, subject to the following parameters:

- a) The pilot program will be capped at six hundred participants.
- b) TEP is required to include a "regulatory out" clause in its special contracts under this program to ensure that customers understand that their rates are subject to be changed by the Commission and that the program is subject to cancellation. Specifically, TEP shall include in each special contract for this program a provision that informs the participant that the Commission has the authority to modify the fixed rate and that, if the Commission modifies the

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program or the rate for existing participants, those participants may opt out of the program at no cost or penalty to the participant.

c) If a program participant sells his home, the program participant must pay a cost-based exit fee to terminate his participation in the program in the event that the homebuyer elects not to participate in the program. However, if the homebuyer elects to participate in the program, he may assume the seller's position in the existing special contract, and the seller will not be required to pay an exit fee. TEP's special contracts will include provisions that clearly and specifically set forth these requirements.

d) TEP shall be required to provide a cost/benefit analysis of the program and to report fully on all aspects of the program.

e) TEP shall be required to submit this program to the Commission for evaluation in its next rate case.

71. Our approval of this proposal as a pilot program, subject to the above specific parameters, is an attempt to balance the various competing considerations that rapid technological change has produced at this time.

On page 18, line 7, **INSERT** the following after "hereby is approved":

"; however, this approval is neither a determination of prudence nor a determination of rate base treatment for ratemaking purposes in a future rate case"

On page 19, line 3, **INSERT** the following after "continues to exist.":

"This discussion shall include a cost/benefit analysis and shall fully report on all aspects of the program."

RENUMBER TO CONFORM, ADD APPROPRIATE ORDERING PARAGRAPHS, AND MAKE ALL OTHER CONFORMING CHANGES.

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_____ Failed	_____ Not Offered	_____ Withdrawn