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Tucson Electric Power  
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Tucson, Arizona 85702

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AZ CORP COMMISSION  
DOCKET CONTROL

April 12, 2016

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

Re: Notice of Filing – Tucson Electric Power Company's 2016 Cost Containment Report <sup>05-0650</sup>  
Decision No. 71256, Docket Nos. E-01933A-07-0402, E-01933A-07-0402  
(Consolidated)

Pursuant to Decision No. 71256 (September 3, 2009), Tucson Electric Power Company hereby files its annual 2016 Cost Containment Report and as originally required by Decision No. 59594 (March 29, 1996).

If you have any questions, please do not hesitate to contact me at (520) 884-3680.

Sincerely,

Melissa Morales  
Regulatory Services

Enclosures: Cost Containment Report

Arizona Corporation Commission  
DOCKETED

APR 14 2016

cc: Compliance Section, ACC

DOCKETED BY *KL*

The following is a summary of Tucson Electric Power's ("TEP" or "Company") cost containment efforts and quantified savings for 2015. A table outlining TEP's estimated savings of \$16.3 million for 2015 initiatives is attached as Exhibit A. Since 2012, TEP's last rate case test year, the Company identified estimated cost savings of approximately \$60 million.

### **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 an estimated \$8.7 million in 2015. In addition to these efforts, the Company was able to recognize a \$0.1 million rebate in 2015 as a result of a procurement card contract renegotiated in 2013.

### **Energy Delivery**

Continued installation of AMR meters reduced meter reading contractor costs and contributed to savings of approximately \$0.7 million in 2015.

### **Corporate Environmental Services**

The Corporate Environmental Services department is focused on investment recovery efforts as part of the decommissioning of projects. This effort included selling oil for a total cost recovery of \$0.1 million in 2015.

### **Accounts Payable**

Accounts Payable implemented (i) an automated data entry project using ECM's Captiva software to read invoices (OCR) and (ii) ECM's APX software to validate data that feeds into the Company's Oracle system. These process improvements resulted in the reduction of two full time positions resulting in estimated savings of approximately \$0.1 million annually.

### **IT Project Management**

Key initiatives included the implementation of various IT projects and upgrades to the Customer Care and Billing system, an automated crew callout project and various other projects, resulting in estimated savings of approximately \$0.2 million.

### **Administrative Support Savings**

A property tax appeal related to the San Juan Generating Station led to a value reduction which resulted in savings of \$0.7 million. Additionally, there was a \$0.9 million gas tax refund for Luna Generating Station.

### **Other Cost Containment Efforts**

TEP continues to highly scrutinize any requests for new employee positions prior to approval. We estimate the level of savings to be approximately \$3 million.

Travel and training costs are also subject to thorough review prior to approval, resulting in estimated cost savings of approximately \$1.7 million.

Exhibit A

Area	Initiative	Dept Contact	Explanation of Initiative
<b>Cost Reductions/ Revenue Enhancements since 2014:</b>			
<b>Contract Renegotiation</b>			
Contract Renegotiation / Supply Chain Mgmt	Savings through Bidding Process (Capital and O&M)	Matt Pulsifer	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. \$5.3M of this was capital related and \$3.3M was O&M.
Contract Renegotiation / Supply Chain Mgmt	Procurement Card Rebate	Teens Schug	2015 Rebate \$1.04k for Procard initiative started in 2013
Energy Delivery	AMR Project		Install Smart Meters - savings on labor for meter readers
Corporate Environmental Services	Investment Recovery	Monette Greer	Corporate Environmental Services has captured investment recovery efforts as part of decommissioning projects.
Accounts Payable	APX Implementation	Katherine Hon	The project automated data entry for invoices using new technology. We implemented ECM's Captiva capture software to read the invoices (OCR) and their APX software to validate data and pass it to Oracle. Eliminated 2 FTEs.
IT Project Management	Various IT projects	Wendy Lakatos	Implementation of various IT projects/upgrades such as Customer Care & Billing upgrades/updates and ARCOS project which automated crew callout.
Adm Support Savings	Gas Tax Refund	Jay Radmacher	Luna Natural Gas Tax Refund
Adm Support Savings	Property tax expense	Jay Radmacher	San Juan Property Tax Appeal (\$29,770,931 value reduction x 2.2478% tax rate = \$669,191)
<b>2015 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.
Discretionary Expenses	Travel & Training		This amount represents the dollars unspent by departments company-wide for 2015.