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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS  
DOUG LITTLE - CHAIRMAN  
BOB STUMP  
BOB BURNS  
TOM FORESE  
ANDY TOBIN

Arizona Corporation Commission

**DOCKETED**

OCT 31 2015

DOCKETED BY *R.A.*

IN THE MATTER OF THE APPLICATION OF  
TUCSON ELECTRIC POWER COMPANY FOR  
APPROVAL OF ITS 2016 RENEWABLE  
ENERGY STANDARD IMPLEMENTATION  
PLAN.

DOCKET NO. E-01933A-15-0239

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  
THE PROPERTIES OF TUCSON ELECTRIC  
POWER COMPANY DEVOTED TO ITS  
OPERATIONS THROUGHOUT THE STATE OF  
ARIZONA AND FOR RELATED APPROVALS.

DOCKET NO. E-01933A-15-0322

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2015 OCT 31 P 4:27

**INITIAL POST-HEARING BRIEF  
OF TUCSON ELECTRIC POWER COMPANY**

**OCTOBER 31, 2016**

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1     **I. Introduction.**

2             Tucson Electric Power Company (“TEP” or “Company”) requests that the Commission  
3 approve the revenue requirement Settlement Agreement in this case. The Settlement Agreement  
4 is fair and reasonable, is supported by a broad coalition of parties with diverse interests, was  
5 negotiated in an open and transparent process, and is in the public interest. The Settlement  
6 Agreement’s revenue requirement is only 65% of TEP’s original request, representing \$44  
7 million of concessions by TEP. The proposed return on equity (“ROE”) of 9.75% is reasonable,  
8 supported by the record and consistent with the average ROEs recently awarded in rate cases in  
9 other jurisdictions.

10            The key rate design issue in this case is the mismatch between fixed costs and volumetric  
11 rates. Most of TEP’s costs are fixed—these are the costs of owning and operating generating  
12 plants, transmission lines, distribution poles and wires, transformers, and the like. However, the  
13 vast majority of these fixed costs are recovered in volumetric per kilowatt hour (“kWh”) charges.  
14 Billed kWh continues to decline due to conservation, energy efficiency (“EE”) programs and  
15 distributed generation (“DG”) requirements. As billed kWh declines, TEP is left with  
16 unrecovered fixed costs.

17            Importantly, falling kWh sales do not mean customers are relying less on the system.  
18 Overall system demand (kW) and billed kWh are very different things. TEP’s system must be  
19 capable of meeting its customers’ peak demand—and TEP’s peak demand has increased even as  
20 billed kWh have fallen. For example, solar DG customers whose monthly bills show no billed  
21 kWh actually rely on the system constantly. DG customers need TEP to provide power as solar  
22 photovoltaic (“PV”) production wanes during the late afternoon demand peak, for power at night  
23 and when solar PV production is low. DG customers also rely on TEP’s system to deliver the  
24 power they “sell” to the system, and for voltage support, frequency regulation and other ancillary  
25 services. Therefore, customers with low or zero billed kWh still rely on TEP’s system, yet they  
26 are paying little or nothing towards the fixed costs of that system.

27

1           TEP has several proposals to partially address the mismatch between fixed costs and  
2 volumetric rates. Critically, TEP has proposed updating the Lost Fixed Cost Recovery  
3 (“LFCR”) mechanism. This mechanism is supposed to help the Company recover the lost  
4 revenues intended to cover fixed costs, when those revenues are lost due to Commission Energy  
5 Efficiency (“EE”) and DG programs. However, because the current LFCR only recovers 41% of  
6 these lost fixed cost revenues, the LFCR does not adequately fix the problem of revenues lost  
7 due to DG and EE programs. As suggested in the Commission’s decoupling Policy Statement,  
8 the Commission should hold TEP harmless from the financial impact of these Commission  
9 mandates. However, the current LFCR is unable to recover *even half* of the lost fixed-cost  
10 revenues because generation costs are excluded and half of demand charges are excluded. These  
11 exclusions are unsound; modifying the LFCR to fully recover the lost fixed-cost revenues due to  
12 Commission-mandated DG and EE programs is reasonable and should be approved.

13           In addition, TEP proposes moderate increases to the monthly basic service charge for  
14 residential customers. The basic service charge would increase to \$15 for customers on standard  
15 two part rates, and \$12 for customers on the time-of-use (“TOU”) and three-part rate options.  
16 TEP incurs approximately \$87 per month in fixed costs to serve the average residential customer,  
17 so a \$15 fixed basic service charge is a reasonable and gradual step. A \$15 charge for standard  
18 two part rates only represents 17% of the total fixed costs TEP incurs and still leaves \$72 a  
19 month, or 83% of fixed costs, to be recovered through volumetric charges. This proposal is cost-  
20 based and closely tracks the rate design recently approved by the Commission for UNS Electric.

21           Further, TEP proposes reducing the current four volumetric rate tiers for residential  
22 customers to two tiers. Customers find volumetric rate tiers confusing, and the tiers aggravate  
23 the fixed cost recovery problem by shifting too much revenue on the highest, most volatile usage  
24 tier. Again, TEP’s proposal is consistent with the rate design recently approved by the  
25 Commission for UNS Electric.

26           TEP also supports a revenue allocation that reduces the subsidies paid by commercial and  
27 industrial customers. TEP supports a greater reduction in these subsidies than Staff or RUCO,

1 but less than proposed by some commercial and industrial customers who are parties to this  
2 proceeding. TEP's proposal is a reasonable middle ground and is in the public interest.

3 Upset with the high subsidy they are paying, some commercial and industrial customers  
4 have proposed various schemes to benefit themselves at the expense of other customers, such as  
5 the "buy-through" program, franchise agreement, and Purchased Power and Fuel Adjustment  
6 Clause ("PPFAC") "risk sharing" proposals. These proposals shift costs away from cost causers  
7 and are unduly risky. The "buy-through" and franchise proposals also raise serious legal issues.  
8 Rather than embracing these special deals, the more reasonable approach is to continue to  
9 improve revenue allocation based on the actual Class Cost of Service Study ("CCOSS") in a  
10 manner which meaningfully reduces the subsidies paid by commercial and industrial customers.

11 **II. The Settlement Agreement on revenue requirement is reasonable, broadly**  
12 **supported, and is in the public interest.**

13 The Settlement Agreement on revenue requirement issues is the product of an open,  
14 transparent and inclusive process and is supported by diverse interests.<sup>1</sup> The Settlement  
15 Agreement balances the interests of a variety of stakeholders. In addition to TEP and  
16 Commission Staff, the Settlement Agreement was signed by parties representing residential  
17 customers (Residential Utility Consumer Office, "RUCO"), large industrial customers  
18 (Arizonans for Electric Choice and Competition, "AECC" and Freeport Minerals Corporation,  
19 "Freeport"), large commercial customers (The Kroger Company, Wal-Mart Stores, Inc. and  
20 Sam's West), investors (Arizona Investment Council, "AIC"), and environmental advocacy  
21 groups (Sierra Club and Western Resource Advocates, "WRA").<sup>2</sup> The signatories all agree that  
22 the terms of the Settlement Agreement are "just, reasonable, fair and in the public interest" and  
23 that the Settlement Agreement balances the interests of both TEP and its customers.<sup>3</sup>

24 The Settlement Agreement includes fair and reasonable terms, including:  
25

26 <sup>1</sup> Ex. TEP-6 (Hutchens Settlement) at 5.

27 <sup>2</sup> Ex. TEP-3 (Settlement Agreement), page 1; Ex. TEP-6 (Hutchens Settlement) at 5-6.

<sup>3</sup> Ex. TEP-3 (Settlement Agreement) §§ 1.5, 1.6.

- a non-fuel base rate increase of \$81.5 million,<sup>4</sup> of which \$15.2 million was contingent upon TEP completing the purchase of the remaining 50.5% interest in Springerville Unit 1 (“SGS Unit 1”) not owned by TEP. (That contingency has been met and TEP now owns all of SGS Unit 1);<sup>5</sup>
- an original cost rate base of approximately \$2.05 billion;<sup>6</sup>
- the adoption of TEP’s test year capital structure of 49.97% long-term debt and 50.03% common equity;<sup>7</sup> and
- a ROE of 9.75% and an embedded cost of long-term debt of 4.32% (resulting in a weighted average cost of capital of 7.04%).<sup>8</sup>

The increase in non-fuel revenues agreed to in the Settlement Agreement reflects approximately 65% of the amount TEP requested in its Application. The Company made significant revenue requirement concessions totaling more than \$44 million, as shown in the table below:<sup>9</sup>

\$ in Millions	Initial Position	Settlement Agreement	Change
Non-Fuel Base Rate Increase	\$109.50	\$66.30	-\$43.20
Treatment of Non-Fuel O&M Related to 50.5% of SGS Unit 1:			
PPFAC Recovery	\$16.30	\$0.00	-\$16.30
Non-Fuel Base Rates	\$0.00	\$15.20	\$15.20
<b>Total</b>	<b>\$125.80</b>	<b>\$81.50</b>	<b>-\$44.30</b>

Only two parties oppose the Settlement Agreement. First, SWEEP wants to have \$23 million in energy efficiency program funding be recovered through base rates, rather than

<sup>4</sup> Ex. TEP-3 (Settlement Agreement) § 2.1.

<sup>5</sup> See Ex. TEP-3 (Settlement Agreement) §2.4; Notice of Filing regarding completion of SGS Unit 1 acquisition, docketed September 26, 2016.

<sup>6</sup> Ex. TEP-3 (Settlement Agreement) §2.5.

<sup>7</sup> Ex. TEP-3 (Settlement Agreement) §3.1.

<sup>8</sup> Ex. TEP-3 (Settlement Agreement) §3.2.

<sup>9</sup> Ex. TEP-6 (Hutchens Settlement) at 3.

1 through TEP's Demand-Side Management ("DSM") surcharge. Second, the Department of  
2 Defense ("DOD") does not support the cost of capital and capital structure adopted by the  
3 Settlement Agreement. However, neither position is well-founded or justifies rejection or  
4 modification of the Settlement Agreement.

5 **A. The Settlement Agreement revenue requirement is reasonable.**

6 TEP's current rates reflect costs and investments from 2011—the end of the test year in  
7 TEP's last rate case. Since the end of 2011, TEP has invested approximately \$1.3 billion in its  
8 utility system.<sup>10</sup> The rate base adopted in the Settlement Agreement reflects, among other things:

- 9 • the acquisition of a 75% interest in Gila River Unit 3, a highly efficient combined  
10 cycle natural gas-fired power plant;
- 11 • the purchase of certain interests in Springerville Generating Station Unit 1 ("SGS  
12 Unit 1"), a reliable, low cost base-load resource—but not including the  
13 Company's recent purchase of the remaining 50.5% interest in SGS Unit 1;
- 14 • investments in cost-effective utility-scale solar generation; and
- 15 • necessary and prudent investments to maintain a safe and reliable transmission  
16 and distribution system and to support the addition of approximately 10,000 new  
17 customers.<sup>11</sup>

18 The financial impact of these investments and related costs have been exacerbated by a  
19 nearly 3% decrease in retail sales since 2011.<sup>12</sup> While kWh energy sales have declined over that  
20 period, TEP's peak system load has increased nearly 3% over the last two years, and peak load  
21 for 2016 was 4% higher than 2015.<sup>13</sup> Thus, while kWh sales have decreased, customer demand  
22 and costs have increased. As a result, lower sales levels have hindered TEP's ability to recover  
23 its costs necessary to serve customers, because a majority of its fixed costs are recovered through  
24 volumetric rates.<sup>14</sup>

25 <sup>10</sup> Ex. TEP-6 (Hutchens Settlement) at 1.

26 <sup>11</sup> Ex. TEP-6 (Hutchens Settlement) at 1-2.

27 <sup>12</sup> Ex. TEP-6 (Hutchens Settlement) at 2.

<sup>13</sup> Ex. TEP-6 (Hutchens Settlement) at 2; Ex TEP-19 (Gray Rebuttal) at 9:19-22).

<sup>14</sup> Ex. TEP-6 (Hutchens Settlement) at 2.

1           The Settlement Agreement also provides momentum to the Company's generation  
2 diversification strategy.<sup>15</sup> Specifically, the Settlement Agreement provides for: (1) the recovery  
3 of non-fuel operating costs related to the Company's acquisition of 50.5% of SGS Unit 1; and (2)  
4 a reduction in the book value and depreciation lives related to TEP's existing coal generation  
5 assets.<sup>16</sup> The modification to the depreciation reserves and rates for San Juan Generating Station  
6 ("San Juan") Unit 1 means that TEP's investment in San Juan should be almost fully depreciated  
7 by 2022 when the current coal supply agreement and participation agreement at San Juan  
8 expires.<sup>17</sup> This, combined with additional SGS Unit 1 generating capacity, provides TEP much  
9 more flexibility with respect to its resource portfolio after 2022.<sup>18</sup> This also allows TEP to exit  
10 San Juan, should the Company elect to do so, without large cost impacts on customers.<sup>19</sup>

11           Moreover, the acquisition of the remaining interests in SGS Unit 1 and its treatment  
12 under the rate case ensures that TEP's customers will continue to benefit from a reliable, low  
13 cost base load resource that utilizes TEP's existing bulk transmission assets and supports a  
14 significant portion of the Company's ancillary service requirements.<sup>20</sup> TEP's retail customers  
15 will realize these benefits now even though the investment in this 50.5% interest in SGS Unit 1  
16 will not be placed into rate base until TEP's next rate case.

17           The Settlement Agreement revenue requirement will also help maintain or improve  
18 TEP's current investment-grade credit ratings of A3 from Moody's Investor Services and BBB+  
19 from Standard & Poor's.<sup>21</sup> Other credit-supportive aspects of the Settlement Agreement include:  
20 (1) an authorized ROE that is comparable to the recent ROEs approved for other vertically  
21 integrated investor-owned utilities; (2) a capital structure that reflects the significant  
22 improvement in equity made by TEP since its last rate case and since the acquisition of UNS  
23

24 <sup>15</sup> Ex. TEP-6 (Hutchens Settlement) at 5.

25 <sup>16</sup> Ex. TEP-6 (Hutchens Settlement) at 5.

26 <sup>17</sup> Tr. (Hutchens) at 370-71.

27 <sup>18</sup> Tr. (Hutchens) at 371; see Ex. TEP-25 (Sheehan Rebuttal) at 8.

<sup>19</sup> Tr. (Hutchens) at 371-72.

<sup>20</sup> See Ex. TEP-25 (Sheehan Rebuttal) at 6-8.

<sup>21</sup> Ex. TEP-6 (Hutchens Settlement) at 4.

1 Energy by Fortis; and (3) the recovery of non-fuel operating and maintenance costs related to the  
2 recent purchase of the remaining 50.5% of SGS Unit 1.<sup>22</sup>

3 **B. The elements underlying the revenue requirement reflect significant**  
4 **compromise, are reasonable and are in the public interest.**

5 The Settlement Agreement reflects significant reductions to the initial revenue  
6 requirement in TEP's Rate Application. The Signatories have provided a detailed spreadsheet  
7 showing the agreed-upon changes to TEP's initial position.<sup>23</sup> The \$81,500,000 non-fuel base  
8 rate increase over adjusted test year non-fuel retail revenues includes adjustments made to the  
9 cost of capital, rate base and operating expenses, which are discussed in more detail below.

10 **1. Cost of Capital.**

11 The Signatories agreed upon the following cost of capital elements in the Settlement  
12 Agreement: (1) the adoption of TEP's test year capital structure of 49.97% long-term debt and  
13 50.03% common equity; (2) an ROE reduction to 9.75% (from the Company's initial request of  
14 10.35%) and an embedded cost of long-term debt of 4.32% (resulting in a weighted average cost  
15 of capital of 7.04%); and (3) the return on the fair value increment of rate base reduced from the  
16 requested 1.42% to 1.00% (resulting in a fair value rate of return on fair value rate base of  
17 5.34%). The impact of these elements was to reduce the Company's requested non-fuel revenue  
18 increase by approximately \$15.5 million.

19 Only the DOD has disputed the cost of capital as set forth in the Settlement Agreement.  
20 However, the Settlement Agreement ROE, fair value rate of return ("FVROR") and capital  
21 structure are appropriate and reasonable compromises. First, the 9.75% ROE is well in line with  
22 the ROEs that have been recently approved for other vertically-integrated utilities.<sup>24</sup> Indeed,  
23 even DOD witness Gorman's proxy companies had recently approved ROEs ranging from  
24 10.3% to 9.3%, with an average of 9.73%.<sup>25</sup> A 9.75% ROE for TEP is also appropriate when  
25

26 <sup>22</sup> Ex. TEP-6 (Hutchens Settlement) at 4.

27 <sup>23</sup> Ex. TEP-3 (Settlement Agreement), Attachment A.

<sup>24</sup> See Ex. TEP-12 (Bulkley Rejoinder) at 4-5; Tr. (Gorman) at 828.

<sup>25</sup> See Ex. DOD-4 (Gorman Surrebuttal), Exhibit MPG-24.

1 compared to the 9.5% granted for UNS Electric because TEP has a much larger generation fleet  
2 that includes a significant amount of coal-fired generation and its inherent risk associated with  
3 increased environmental regulation.<sup>26</sup> DOD did not account for the increased risk related to the  
4 size and nature of TEP's generation fleet.<sup>27</sup> Further, DOD witness Gorman did not consider the  
5 increased risk of rapid DG deployment in TEP's service area.<sup>28</sup> Nor did he specifically consider  
6 the rate design or revenue decoupling mechanisms specific to TEP.<sup>29</sup>

7         Second, regarding TEP's capital structure, DOD opposes the capital structure adopted in  
8 the Settlement Agreement because the redemption of certain bonds did not occur until several  
9 weeks after the test year.<sup>30</sup> However, TEP had legally committed to redeem the debt during the  
10 test year and the redemption process and timing were under way (and nearly completed) at the  
11 end of the test year.<sup>31</sup> This Commission has regularly considered adjustments for known and  
12 measurable changes to the test year capital structure. The capital structure here is not based on a  
13 transaction that "may" or "may not" occur, as DOD witness Gorman asserts, but is based, in fact,  
14 on redemptions that have occurred and are measurable.

15         Finally, the 1.0% return on the fair value increment of rate base included in the  
16 Settlement Agreement is well supported by the record and is consistent with prior Commission  
17 approaches to the fair value increment. In her rebuttal, TEP witness Bulkley had calculated the  
18 return on the fair value increment to be 1.07%.<sup>32</sup> Staff witness Parcell also had calculated the  
19 fair value increment (the real risk-free rate) to be as high as 1.42%.<sup>33</sup> Given the record, the 1.0%  
20 compromise on the fair value increment is reasonable.

21  
22  
23  
24 <sup>26</sup> See Ex. TEP-12 (Bulkley Rejoinder) at 5; Tr. (Hutchens) at 368.

25 <sup>27</sup> See Tr. (Gorman) at 831.

26 <sup>28</sup> Tr. (Gorman) at 831-32.

27 <sup>29</sup> Tr. (Gorman) at 832-33.

<sup>30</sup> See Ex. TEP-12 (Bulkley Rejoinder) at 9;

<sup>31</sup> See Ex. TEP-12 (Bulkley Rejoinder) at 9; Ex. TEP-9 (Grant Rebuttal) at 7-9.

<sup>32</sup> Tr. (Bulkley) at 262, 266.

<sup>33</sup> See Ex. TEP-11 (Bulkley) at 43-45.

1                                   **2.       Rate Base Adjustments.**

2           The Settlement Agreement includes several adjustments to rate base, some of which were  
3 initially proposed in the Company's rebuttal filing and some of which were further agreed to in  
4 settlement. Under the Settlement Agreement, the total reduction in the Company's requested  
5 Original Cost Rate Base ("OCRB") is \$59.5 million. No party has challenged the OCRB,  
6 although EFCA has asserted that \$16,000 for rooftop solar systems should not be included in the  
7 \$2 billion OCRB.

8           Some of the more substantial reductions to rate base in the Settlement Agreement are:

- 9           • an agreement to reduce Post Test Year Plant by moving back the in-service cut-  
10           off date from December 31, 2016 to June 30, 2016, thus excluding investments  
11           made before the end of the test year, but not in service as of June 30;
- 12           • the rolling forward of accumulated amortization, from the test year forward to  
13           December 31, 2016, on the Company's investment in leasehold improvements  
14           associated with the 50.5% share of SGS Unit 1;
- 15           • the permanent \$5 million reduction of the book value of the TEP Headquarters  
16           building; and
- 17           • a reduction of the utility plant allocated to retail customers based on long-term  
18           wholesale contract demands.<sup>34</sup>

19           The actual impacts of these adjustments on rate base are set forth in Attachment A to the  
20 Settlement Agreement.

21                                   **3.       Operating Expense Adjustments.**

22           Between the adjustments proposed in the Company's rebuttal filing and additional  
23 adjustments agreed to during settlement process, TEP's pro forma operating expenses have been  
24 reduced by \$22.6 million over its initial request.<sup>35</sup> The more significant adjustments include:

25

26

27 <sup>34</sup> See Ex. TEP-3 (Settlement Agreement), Attachment A.

<sup>35</sup> Ex. TEP-23 (Dukes Settlement) at 3.

- 1 • The agreement to normalize generation overhaul and outage expenses based upon
- 2 the most recent six years of actual data;
- 3 • Excluding the wage and payroll tax increase associated with anticipated 2017
- 4 non-union wage increases;
- 5 • The recovery of only 50% of the normalized cost associated with the Company's
- 6 Short Term Incentive compensation plan;
- 7 • A \$1 million cap on the recovery of rate case expense amortized over four years;
- 8 • The removal of expenses associated with the Company's Long Term Incentive
- 9 compensation plan;
- 10 • A reduction of \$1.1 million in test year legal costs; and
- 11 • Conforming changes to depreciation and income tax expenses associated with
- 12 agreed upon depreciation rate and rate base changes.<sup>36</sup>

13 The impact of these operating expense adjustments are set forth in Attachment A to the  
14 Settlement Agreement.

15 The Settlement Agreement also adopted the depreciation rates contained in TEP's  
16 Rebuttal Testimony, with further modifications to the depreciation for San Juan Unit 1 and  
17 depreciation rates for distribution plant.<sup>37</sup> The additional depreciation modifications regarding  
18 San Juan Unit 1 and distribution plant are as follows: (1) the rates for San Juan Unit 1 were  
19 adjusted to reflect a depreciable life of TEP's total investment of six years (through the year  
20 2022), (2) \$90 million of distribution excess reserves are to be transferred to San Juan Unit 1,  
21 and (3) depreciation rates on distribution plant were adjusted to offset the changes described in  
22 (1) and (2) above. This approach also is consistent with TEP's previous rate order, Decision No.  
23 73912 (June 27, 2013) ("2013 TEP Rate Order"). In the 2013 TEP Rate Order, the Commission  
24 acknowledged the reasonableness of applying excess depreciation reserves to offset the effects of  
25 early production plant retirements (that could otherwise cause a large rate impact).<sup>38</sup> Utilizing

26 <sup>36</sup> Ex. TEP-23 (Dukes Settlement) at 3-4.  
27 <sup>37</sup> Ex. TEP-23 (Dukes Settlement) at 4; see Ex. TEP-3 (Settlement Agreement), § 4.1.  
<sup>38</sup> Ex. TEP-23 (Dukes Settlement) at 6.

1 excess distribution depreciation reserves will mitigate the rate impact of the San Juan Unit 1  
2 accelerated depreciation resulting from shortening the life to six years.<sup>39</sup> Given the uncertainty  
3 surrounding TEP's continued operation of San Juan Unit 1 after the expiration of the current  
4 Fuel Supply Agreement and Plant Participation Agreement in 2022, it is reasonable to shorten its  
5 expected useful life as it relates to TEP's participation to 2022.<sup>40</sup>

6 The depreciation rates resulting from the Settlement Agreement are attached to the  
7 Settlement Testimony of TEP witness Dukes.<sup>41</sup>

8 **C. Energy efficiency program costs should not be included in base rates.**

9 SWEEP proposes to add \$23 million to base rates to fund a large portion of the  
10 Company's energy efficiency programs.<sup>42</sup> TEP believes that costs incurred to meet the EE  
11 Standard should continue to be recovered through the DSM surcharge, as is current practice.<sup>43</sup>  
12 This increases transparency to customers about the energy efficiency costs they are paying,  
13 which would be lost if a significant portion of those costs were lumped into base rates.<sup>44</sup> This  
14 position is also consistent with the Commission's recent decision in the UNS Electric rate case  
15 rejecting a similar SWEEP proposal.<sup>45</sup> Any deviation from this practice should be considered a  
16 policy decision for the Commission.

17 **III. The revenue allocation among customer classes should reflect a significant**  
18 **movement towards actual cost of service.**

19 One of TEP's goals in this rate case is to move the revenue recovery from each class  
20 closer to its actual cost of service. This will begin to reduce the interclass subsidies. In the  
21 interest of gradualism, the Company did not propose a revenue allocation that moved to  
22 complete class parity under the CCOSS. However, as the revenue requirement was reduced and  
23

24 <sup>39</sup> Ex. TEP-23 (Dukes Settlement) at 6.

25 <sup>40</sup> Ex. TEP-23 (Dukes Settlement) at 6.

26 <sup>41</sup> Ex. TEP-23 (Dukes Settlement), Ex. DJD-S-1.

27 <sup>42</sup> Ex. SWEEP-1 (Schlegel Direct) at 8; Ex. SWEEP-2 (Schlegel Rebuttal) at 2.

<sup>43</sup> Ex. TEP-34 (Smith Rebuttal) at 18.

<sup>44</sup> Ex. TEP-34 (Smith Rebuttal) at 18.

<sup>45</sup> Decision No. 75697 (August 18, 2016) at 13.

1 as the other parties expressed their positions on revenue allocation (particularly Staff), TEP's  
2 proposed revenue allocation evolved.<sup>46</sup> In reaching its final proposal, TEP has accepted much of  
3 the structure of Staff's proposed revenue allocations, particularly Staff's desire not to have a rate  
4 decrease for any rate class.<sup>47</sup> TEP continues to believe that less revenue should be allocated to  
5 the very large customer classes (Large Power Service and 138kV classes).<sup>48</sup>

6 Although all parties appear to seek to reduce the inequitable allocation of costs and the  
7 related subsidies of the residential class by the non-residential classes, they also have a different  
8 view of how quickly to shift revenue recovery to the residential class. The larger customer  
9 intervenors continue to press for more revenue to be allocated to the residential class (and less to  
10 them) than proposed by the Company. Staff suggests that moving halfway to actual cost of  
11 service is appropriate in this case with a possible movement to actual cost of service in the next  
12 rate case.<sup>49</sup> However, in the next rate case the jump to parity may require a larger revenue  
13 allocation shift than is proposed by Staff in this case. TEP believes that its revenue allocation  
14 proposal makes parity in the next rate case more attainable.

15 Ultimately, the revenue allocation is a policy decision for the Commission. It must  
16 decide what level of cross-subsidization is appropriate and how quickly it would like to move  
17 towards a more equitable allocation of costs. TEP believes that it has set forth a reasonable  
18 request that the Commission should adopt. The Company's proposed revenue allocation is set  
19 forth in **Attachment 1**.<sup>50</sup>

20 **IV. The LFCR should be modified to allow TEP to recover more of its fixed costs.**

21 **A. TEP's inability to recovery its fixed costs is aggravated by the restrictions on**  
22 **the LFCR.**

23 Electric utilities, including TEP, have considerable fixed costs—the costs of owning and  
24 operating generation plants, transmission lines, local distribution facilities and other vital assets.

25 <sup>46</sup> See Ex. TEP-31 (Jones Rebuttal) at 11-12; Ex. TEP-32 (Jones Rejoinder) at 4-5.

26 <sup>47</sup> See Ex. TEP-31 (Jones Rebuttal) at 11; Ex. TEP-32 (Jones Rejoinder) at 4.

27 <sup>48</sup> Ex. TEP-32 (Jones Rejoinder) at 4.

<sup>49</sup> See Tr. (Solganick) at 2402.

<sup>50</sup> See also Ex. UNSE-32 (Jones Rejoinder), Exhibit CAJ-RJ-1 (Schedules H-1 and H-2).

1 These assets have long service lives, so their costs do not vary with periodic changes in customer  
2 use. Yet the vast majority of these costs are recovered in variable, not fixed, charges. TEP  
3 recovers 80% of its fixed costs through volumetric energy charges (per kWh charges).<sup>51</sup> TEP is  
4 experiencing falling kWh sales. As TEP's President, David Hutchens explained, "[s]ince 2012,  
5 cumulative sales reductions attributable to energy efficiency and distributed generation reached  
6 nearly 1,000,000 MWh, which equates to about 11% of TEP's test year sales."<sup>52</sup> In addition,  
7 residential use per customer has also fallen about 7.5% from 2011 to the end of the test year  
8 (June 30, 2015).<sup>53</sup> The combination of a heavy reliance on kWh charges to recover fixed costs,  
9 and falling kWh sales results in persistent and significant unrecovered fixed costs.

10 Some—but not all—of the falling kWh sales are due to the Commission's mandatory  
11 energy efficiency and distributed generation programs. These programs are required by  
12 Commission rules, and they are intended to, and do, result in lower kWh use. As a direct  
13 consequence, these programs also increase the amount of TEP's unrecovered fixed costs.

14 To address this problem, the Commission approved the LFCR in TEP's last rate case.  
15 The LFCR is a partial decoupling mechanism that is strictly limited to lost fixed cost revenues  
16 caused by the Commission-mandated energy efficiency and distributed generation programs.  
17 Because TEP's current LFCR was then a new concept, and was incorporated into the Company's  
18 last rate case settlement agreement, the initial version of the LFCR excluded generation costs and  
19 50% of non-generation demand charges. These restrictions have severely hampered the LFCR—  
20 it recovers only 41% of the lost fixed-cost revenues caused by energy efficiency and distributed  
21 generation requirements, leaving nearly 60% of these lost fixed costs unrecovered.<sup>54</sup>

22 Moreover, at the time of the previous TEP rate settlement in 2013, the levels of lost  
23 revenues resulting from EE and DG were considerably less than today and the limited LFCR was  
24 a tolerable compromise in settlement. The prior settlement agreement did not contemplate that

25 <sup>51</sup> Ex. TEP-4 (Hutchens Direct) at page 13, lines 7-9.

26 <sup>52</sup> Ex. TEP-4 (Hutchens Direct) at page 7, lines 15 to 17.

27 <sup>53</sup> Ex. TEP-4 (Hutchens Direct) at page 10, line 25 to page 11, line 1.

<sup>54</sup> Ex. TEP-7 (Hutchens Rebuttal) at 4:11-12; Ex. TEP-32 (Jones Rejoinder) at 7:2-6; see also Tr.  
at 1089:23 to 1090:1 (Higgins)(accepting 41% figure).

1 the LFCR structure was permanent and precedential such that it could not be modified to address  
2 changes in circumstances and to better reflect the intent of the Commission's Decoupling  
3 Policy.<sup>55</sup>

4 Today, the problem is significant and only growing worse as Commission-mandated  
5 energy efficiency and distributed generation expand. In 2014, these restrictions meant that the  
6 LFCR failed to recover \$13 million in lost fixed cost revenues due to energy efficiency and  
7 distributed generation.<sup>56</sup> In 2015, this under-recovery grew to \$19.6 million, and it will grow to  
8 an estimated \$25.7 million in 2016.<sup>57</sup> As TEP's Treasurer Mr. Grant explained, with falling  
9 kWh sales, "it is becoming increasingly important from a credit rating perspective" to ensure that  
10 more of TEP's fixed costs are actually recovered.<sup>58</sup>

11 These restrictions should be removed so that the LFCR can achieve its purpose of  
12 recovering the lost fixed cost revenues caused by complying with Commission mandates. As Mr.  
13 Yaquinto testified, "[i]t seems only fair that the company be allowed full recovery of these  
14 prudent costs that are mandated by the Commission."<sup>59</sup>

15 **B. Previous Commission statements support eliminating these restrictions.**

16 The Commission has emphasized that decoupling mechanisms are essential to allowing  
17 utilities a reasonable opportunity to earn the return authorized by the Commission. Indeed, the  
18 Commission has a formal policy statement on decoupling mechanisms, the "Final ACC Policy  
19 Statement Regarding Utility Disincentives to Energy Efficiency and Decoupled Rate Structures",  
20 TEP Exhibit 42. In this Policy Statement, the Commission clearly explained the problem: "sales  
21 erosion may impact recovery of fixed costs and investment returns" and "[t]o the degree to  
22 which utility fixed costs are recovered from volumetric sales, a lost revenue and profit erosion  
23

24  
25 <sup>55</sup> Final ACC Policy Statement Regarding Utility Disincentives to Energy Efficiency and  
Decoupled Rate Structures, TEP Exhibit 42.

26 <sup>56</sup> Ex. TEP-32 (Jones Rejoinder) at page 8, Table 1.

27 <sup>57</sup> Ex. TEP32 (Jones Rejoinder) at page 8, Table 1.

<sup>58</sup> Ex. TEP-9 (Grant Rebuttal) at 4:10-14.

<sup>59</sup> Tr. (Yaquinto) at 1065:5-7.

1 effect exists....”<sup>60</sup> A decoupling mechanism “removes the linkage between sales and utility  
2 revenues and/or profits” thus allowing promotion and expansion of programs that have public  
3 benefits but reduce kWh sales causing “sales erosion and under-recovery of fixed costs.”<sup>61</sup> The  
4 Commission concluded that “[r]evenue decoupling may offer significant advantages... as it  
5 establishes better certainty of utility recovery of authorized fixed costs and better aligns utility  
6 and customer interests.”<sup>62</sup> The Commission declared that “[s]ome form of decoupling or  
7 alternative for addressing financial disincentives must be adopted in order to encourage and  
8 enable aggressive use of demand side management programs and the achievement of Arizona’s  
9 Electric and Gas Energy Efficiency Standards, which will benefit ratepayers and minimize utility  
10 costs.”<sup>63</sup> Thus, the Commission has recognized that its regulatory mandates in this area cause  
11 “sales erosion” and adversely impact fixed cost recovery, and it has endorsed revenue decoupling  
12 mechanisms as the way to address this problem.

13 The Commission expanded on these thoughts in TEP’s most recent rate order,  
14 specifically noting that reduced kWh sales prevents TEP from recovering authorized costs or  
15 meeting its authorized rate of return:

16 Because most of TEP’s revenue requirement is recovered through  
17 volumetric charges, the Commission recognizes that by complying with  
18 the EEE Rules’ mandate to reduce energy sales, without a way to recover  
19 the fixed costs that would otherwise have been recovered through kWh  
sales, **TEP would not be given a reasonable opportunity to recover its  
authorized revenue requirement.**<sup>64</sup>

20 The Commission also found that “[i]t would not be reasonable to adopt the EE/DSM programs  
21 and require TEP to meet kWh sales savings without also approving a mechanism that would  
22 **allow TEP to recover the fixed costs associated with the lost kWh sales.**”<sup>65</sup>

23  
24  
25 <sup>60</sup> Ex. TEP-42 (Policy Statement) at page 2.

26 <sup>61</sup> Ex. TEP-42 (Policy Statement) at page 3.

27 <sup>62</sup> Ex. TEP-42 (Policy Statement) at page 30, Policy Statement No. 3.

<sup>63</sup> Ex. TEP-42 (Policy Statement) at page 30, Policy Statement No. 3.

<sup>64</sup> Decision No. 73912 (June 27, 2013) at page 64, lines 13-18 (emphasis added).

<sup>65</sup> Decision No. 73912 (June 27, 2013) at page 65, lines 9-11 (emphasis added).

1 Applying this reasoning here, it is clear that these Commission mandates are causing  
2 lower kWh sales, so TEP should be allowed “to recover the fixed costs associated with this lost  
3 kWh sales.” The fixed costs excluded from the LFCR—generation costs and 50% of non-  
4 generation demand charges—are fixed costs; when these fixed costs go unrecovered due to  
5 regulatory mandates imposed by this Commission they should be included in the LFCR.

6 Similarly, in the UNS Electric rate order earlier this year, the Commission noted that  
7 “[w]hen fixed costs are partially recovered from the volumetric energy charge and sales of  
8 energy declines, a utility may be unable to recover all of its fixed costs.”<sup>66</sup> The Commission also  
9 explained that the LFCR is intended to “collect the lost fixed cost revenues associated with  
10 Commission-mandated programs such as Energy Efficiency and DG.”<sup>67</sup> The problem is that the  
11 LFCR doesn’t do that; the current version excludes almost 60% of these lost fixed cost revenues.  
12 Mr. Hutchens quoted this language and explained that the current LFCR does not meet that  
13 standard, “[b]ecause TEP’s current LFCR excludes recovery of lost revenue associated with a  
14 portion of distribution costs and all generation costs, the mechanism does not adequately address  
15 the impact of energy sales lost to DG and EE programs.”<sup>68</sup>

16 **C. Fixed generation costs should be included in the LFCR.**

17 Fixed generation costs should be included in the LFCR. Generation plant typically has a  
18 long useful life,<sup>69</sup> so the non-fuel costs are largely fixed. As with other fixed costs, these costs  
19 are also primarily recovered in volumetric charges, resulting in unrecovered fixed costs. As Mr.  
20 Hutchens testified, there “is no reasonable basis for excluding generation costs from the LFCR as  
21 they constitute a large portion of the fixed costs incurred to meet retail customer demand.”<sup>70</sup>

22 Staff has expressed a concern that TEP could sell any excess generation. But short-term  
23 generation sales are already accounted for in the PPFAC, and long-term generation sales are  
24 accounted for in the jurisdictional allocation. In addition, in practical terms, “it is simply not the

25 <sup>66</sup> Decision No. 75697 (August 18, 2016) at page 122, lines 14-15.

26 <sup>67</sup> Decision No. 75697 (August 18, 2016) at page 126, lines 9-11.

27 <sup>68</sup> Ex. TEP-7 (Hutchens Rejoinder) at 3:20-24.

<sup>69</sup> Ex. TEP-9 (Grant Rebuttal) at 5:9-10.

<sup>70</sup> Ex. TEP-5 (Hutchens Rebuttal) at 18:201-21.

1 case” that TEP can make up these lost generation costs with wholesale sales, as Mr. Grant  
2 explains in his testimony.<sup>71</sup> This is because long-term sales are hard to come by in the current  
3 market<sup>72</sup>, and come with pricing “well below TEP’s fully embedded cost of generation” (i.e. they  
4 will not cover the fixed costs).<sup>73</sup> Moreover, any long-term sales would reduce the generation  
5 resources dedicated to TEP’s customers and would impact TEP’s integrated resource plans and  
6 future cost of power supply.<sup>74</sup>

7 Further, some generation is “fixed must run” or “reliability must run” (“RMR”)  
8 generation that cannot be resold. As Mr. Jones explained, must run generation is a “separate  
9 distribution related service provided by generation facilities”.<sup>75</sup> RMR generation is needed to  
10 maintain the integrity of the distribution system. For example, the California Energy  
11 Commission defines RMR generation as generation “that is needed to ensure system reliability.  
12 This includes generation:

- 13 • Required to meet the reliability criteria for interconnected systems operation.
- 14 • Needed to meet load (demand) in constrained areas.
- 15 • Needed to provide voltage or security support of the ISO or of a local area.”<sup>76</sup>

16 By definition then, must run generation will not be available for long-term off-system sales.  
17 Staff’s witness Mr. Solganick admits that he does not know whether these units can be  
18 dispatched for off-system sales.<sup>77</sup> The must run units benefit all customers and their fixed costs  
19 should be fully recovered.

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23 <sup>71</sup> Ex. TEP-5 (Grant Rebuttal) at 5:14-27

24 <sup>72</sup> Ex. TEP-39 (Robey Rejoinder) at 10:21-25 (“The wholesale power market in the Southwest is  
25 currently very depressed, due in large part to low natural gas prices and weak customer demand in  
the region.”)

26 <sup>73</sup> Ex. TEP-5 (Grant Rebuttal) at 5:20-21.

27 <sup>74</sup> Ex. TEP-9 (Grant Rebuttal) at 5:22-24.

<sup>75</sup> Ex. TEP-30 (Jones Direct) at 77:25-26.

<sup>76</sup> <http://www.energy.ca.gov/glossary/glossary-r.html> (visited October 19, 2016).

<sup>77</sup> Tr. (Solganick) at 2481.

1           **D.     The remaining demand charges should also be included in the LFCR.**

2           In addition to excluding fixed generation costs, the LFCR also excludes 50% of non-  
3 generation demand charges. This is especially problematic because demand charges are  
4 designed to only recover fixed costs, so 100% of each reduction results in lost fixed cost  
5 revenues. The 50% exclusion is simply an arbitrary cost disallowance. The exclusion of both  
6 generation and half of the remaining demand acts like a one-two punch. TEP witness Jones  
7 provides an example of how this works. If the demand charge is \$18 per kW, and \$8 is for  
8 generation, that leaves \$10, and 50% of that is \$5. Under this example, “[f]or every unit of  
9 demand the customer avoids due to DG or EE, the Company initially loses \$18 of fixed costs  
10 recovery, but is only able to recover \$5, or 28%”.<sup>78</sup>

11           **E.     The 1% annual cap on the LFCR should be increased to 2%.**

12           The LFCR currently has a 1% annual year-over-year incremental cap, which should be  
13 increased to 2%. The increased cap will “allow for more timely recovery of approved costs” and  
14 will ensure that the costs caused by current customers are paid for by current customers, rather  
15 than by future customers.<sup>79</sup>

16           **F.     The LGS customers should remain subject to the LFCR.**

17           AECC witness Higgins suggests that Large General Service (“LGS”) customers should  
18 be exempted from the LFCR.<sup>80</sup> Under Mr. Higgins’s proposal, the lost fixed cost revenues  
19 associated with the LGS customer class would be entirely excluded from the LFCR.<sup>81</sup> This  
20 proposal would only worsen the lost fixed cost problem. As Mr. Jones explains, “[c]urrently  
21 LGS customers benefit from EE and DG programs, and TEP recovers a large portion of the fixed  
22 costs to serve them through volumetric rates. Therefore, this class should participate in the  
23 LFCR and contribute to lost fixed cost recovery.”<sup>82</sup>

24  
25 <sup>78</sup> Ex. TEP-31 (Jones Rebuttal) at 26:14-19.

26 <sup>79</sup> Ex. TEP-31 (Jones Rebuttal) at 28:9-12.

27 <sup>80</sup> Ex. AECC-10 (Higgins Surrebuttal) at 40:1.

<sup>81</sup> Tr. (Higgins) at 1077:20-25.

<sup>82</sup> Ex. TEP-32 (Jones Rejoinder) at 9:12-15.

1           **G.     Response to SWEEP's full decoupler proposal.**

2           SWEEP suggests that the Commission approve a full decoupling mechanism. This  
3 would go beyond the LFCR and include kWh sales reductions not caused by EE or DG. The  
4 Commission's policy statement notes the potential benefits of a full decoupler, and TEP believes  
5 this is an interesting proposal that merits further consideration in a future case. However,  
6 SWEEP has not filed a detailed proposal. Moreover, it is reasonable to try fixing the problems  
7 within the existing LFCR before adopting an entirely new approach.

8           **H.     Other revisions to the LFCR.**

9           TEP has also requested that the LFCR fixed charge option be eliminated. No customers  
10 have used this option, and Staff supports eliminating it.<sup>83</sup> TEP has proposed submitting a revised  
11 Plan of Administration for the LFCR within 60 days of the rate decision. Thus, TEP requests  
12 that the order direct it to submit a revised POA within 60 days of the effective date reflecting the  
13 modifications approved by the Commission.

14           In addition, the separate EE and DG LFCR charges should be combined into a single  
15 LFCR charge to simplify customers' bills.<sup>84</sup>

16 **V.     TEP's residential and small general service rates should be modernized.**

17           **A.     TEP's antiquated rate design should be updated.**

18           The Company's current rate design for residential and small commercial customers does  
19 not reflect the way costs are incurred to serve these customers. For decades, rate designs for  
20 these classes have incorporated a very simplistic two part rate structure; a basic service charge  
21 (customer charge) and energy charges. This was defensible because these customers typically  
22 had relatively similar usage levels and patterns. It also allowed utilities to avoid the higher cost  
23 of meters capable of measuring demand because such meters sized for residential and small  
24 commercial customers were prohibitively expensive in the past.<sup>85</sup>

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<sup>83</sup> Ex. TEP-31 (Jones Rebuttal) at 24:6-9.

27

<sup>84</sup> Ex. TEP-30 (Jones Direct) at 80:6-12.

<sup>85</sup> Ex. TEP-21 (Dukes Direct) at 11.

1 Historically, basic service charges have been limited to bare minimum levels while  
2 inclining price rate tiers have been added, forcing customers who use more power to pay an  
3 increasingly disproportional share of the fixed costs incurred on behalf of all customers. Today,  
4 though, customers have access to a burgeoning market of distributed energy resources (“DER”)  
5 and demand management opportunities. The growing inequities that result from these new  
6 options are exacerbated by utility rates that have become even more detached from cost  
7 causation. Thus, TEP is proposing rate design changes that are designed to address those  
8 inequities.<sup>86</sup>

9 A customer’s individual kWh consumption does not reflect the fixed costs they impose  
10 on their utility. Indeed, a customer with zero billed kWh still imposes significant fixed costs on  
11 the utility, similar to a typical customer. Seasonal homes, vacant homes and homes with DG all  
12 require significant plant and fixed costs to be connected to the grid, yet under the current two-  
13 part rate design they contribute little to recovery of the fixed costs of serving them.<sup>87</sup> Nearly one  
14 out of every three residential (Residential R-01) bills issued by TEP during the test year –  
15 1,308,714 to be precise – reflected monthly usage of 400 kWh or less.<sup>88</sup> Because even a studio  
16 apartment with basic appliances and moderate usage would likely consume almost 400 kWh per  
17 month, these bills probably were generated by vacant homes, seasonal customers and DG  
18 customers.<sup>89</sup> TEP recovered only \$10 to \$33 in fixed costs per month from these issued bills – a  
19 fraction of their equitable share of the fixed costs (\$87 per month) the Company incurs to  
20 provide service to them.<sup>90</sup> Put simply, these customers do not pay their fair share of the fixed  
21 costs they cause.

22

23

24

25 <sup>86</sup> Ex. TEP-21 (Dukes Direct) at 11

26 <sup>87</sup> Ex. TEP-21 (Dukes Direct) at 11-12.

27 <sup>88</sup> Ex. TEP-21 (Dukes Direct) at 12:14-16.

<sup>89</sup> Ex. TEP-21 (Dukes Direct) at 12:15-19.

<sup>90</sup> Ex. TEP-21 (Dukes Direct) at 12:19-22(\$10 to \$33); Ex. TEP-45, Revised Schedule G-6-1, page 2, line 33 (fixed costs of \$87/month).

1 In the recent UNS Electric rate order, Decision No. 75697 (August 18, 2016) (“2016  
2 UNSE Rate Order”), the Commission recognized that “the time is ripe for a more modern rate  
3 design.”<sup>91</sup> The 2016 UNSE Rate Order further stated that:

4 Utilities have traditionally used two-part volumetric rates, consisting of a fixed  
5 customer charge, and an energy charge based on kWh sold, to recover the costs of  
6 serving residential customers. Until fairly recently, the load characteristics of  
7 residential customers were relatively homogeneous, such that the simple two-part  
8 rates, designed based on average consumption assumptions, did an adequate job  
9 of recovering the costs of service. The short-coming of two-part rates is that if  
10 customers use fewer kWhs, for whatever reason, including energy efficiency  
11 products, a desire to protect the environment, or to save money, these rates do not  
12 recover all of the costs of service. The Commission recognized this effect when  
13 energy efficiency and DSM programs were approved by enacting the LFCR,  
14 which was intended to compensate the Company for the lost revenues associated  
15 with EE and DG. . . . Low usage customers do not contribute as much to lost fixed  
16 cost recovery as other because their utility bills are smaller.<sup>92</sup>

17 TEP is proposing changes to its residential and small general service rate structure to: (1) begin  
18 to address its customers’ evolving use of the electric system, (2) better align rate design with cost  
19 causation and reduce inter- and intra-class inequities; (3) reduce the level of cross-subsidies  
20 among customers; and (4) enhance the Company’s ability to recover its fixed costs.<sup>93</sup> The  
21 Company’s rate design proposals for residential and small commercial customers include  
22 changes intended to begin to move towards better price signals and a more equitable sharing of  
23 the cost of TEP’s infrastructure which is the backbone of providing safe and reliable service to  
24 all of its customers.

25 **B. Overview of TEP’s proposed residential and small commercial rate design.**

26 TEP’s proposed rate structure for non-DG residential and small general service customers  
27 is basically the same rate structure that the Commission recently approved for UNS Electric. For  
28 residential customers, there would be four rate options: (1) a basic two-part rate; (2) a two-part  
29 TOU rate; (3) a basic three-part rate that includes a monthly basic service charge, a demand

30 <sup>91</sup> Decision No. 75697 (August 18, 2016) at 65:23.

31 <sup>92</sup> Decision No. 75697 at 64:5-16.

32 <sup>93</sup> See Ex. TEP-4 (Hutchens Direct) at 20; Ex. TEP-21 (Dukes Direct) at 2.

1 charge and a volumetric energy charge; and (4) a TOU three-part rate that is the same as the  
2 basic three-part rate except that the volumetric energy charges will be TOU-based. All four of  
3 these options are designed to recover similar amounts from the typical residential customer. For  
4 qualifying low income residential customers, the Company will continue to offer a Lifeline  
5 discount. Small General Service ("SGS") customers will have similar rate options made  
6 available to them.

7 The proposed rates are set forth in the H-3 Schedules included as part of Exhibit CAJ-RJ-  
8 1 to the Rejoinder Testimony of Craig Jones.<sup>94</sup> These proposed rates reflect the \$81.5 million  
9 revenue requirement increase under the Settlement Agreement as well as TEP's proposed class  
10 revenue allocation.<sup>95</sup>

11 **C. TEP's residential rate tariffs.**

12 **1. Basic service charge.**

13 TEP is proposing a basic monthly service charge of \$15 for its standard two-part  
14 residential rate and \$12 for the other three residential rate options. The proposed basic service  
15 charge is designed to recover costs that TEP incurs each month, including the costs of meters,  
16 billing and collection, meter reading, the service line or drop and the other components needed to  
17 form the minimum system.<sup>96</sup> As set forth in the Company's CCOSS, the minimum system cost  
18 is \$15.03.<sup>97</sup> Staff agreed with the Company's methodology of determining the minimum system  
19 cost.<sup>98</sup> No other party submitted a CCOSS that refuted the minimum system cost determined by  
20 the Company.

21 Staff supports the Company's proposed \$15 basic service charge.<sup>99</sup> Staff also agrees that  
22 recovery of these minimum system costs through the basic service charge is appropriate.<sup>100</sup> Such

23  
24 <sup>94</sup> Ex. TEP-32 (Jones Rejoinder), Exhibit CAJ-RJ-1, Schedules H-3.

<sup>95</sup> Ex. TEP-32 (Jones Rejoinder) at 4.

25 <sup>96</sup> See Ex. TEP-21 (Dukes Direct) at 18:12-25; Ex. S-10 (Solganick Rate) at 28-30; Ex. TEP-28  
(Overcast Rebuttal) at 7-45; Tr. (Solganick) at 2369:9-23.

26 <sup>97</sup> See Ex. TEP-45 (updated Schedule G-6-1)(\$5.03) at page 2, line 24.

<sup>98</sup> Ex. S-10 (Solganick Rate) at 28-30.

27 <sup>99</sup> Tr. (Solganick) at 2472-73.

<sup>100</sup> Ex. S-10 (Solganick Direct) at 29.

1 an approach provides customers with a more accurate price signal that reflects the costs incurred  
2 to assure minimum service from the electrical grid to provide safe and reliable service.<sup>101</sup> And  
3 by coupling the new customer charge with the elimination of the top two tiers (discussed below),  
4 the intra-class subsidy regarding payment of fixed costs will be reduced.<sup>102</sup> This is important for  
5 transitioning to rates that meet cost causation and matching principles.

6 Moreover, the uncontroverted evidence in this case establishes that the fixed monthly  
7 cost to serve the average residential customer is approximately \$87.<sup>103</sup> Even with the  
8 Company's proposed increase in the basic service charge from \$10 to \$15 for most residential  
9 customers, TEP will still be recovering \$72 per month of its fixed costs through volumetric rates.

10 Several parties argue that the minimum system cost approach is improper and that the  
11 basic customer method be used. The Commission recently approved basic service charges in the  
12 UNSE Rate Order that are identical to what TEP is now proposing here. In the UNSE Rate  
13 Order, the Commission did not adopt the basic customer method. Rather, it approved basic  
14 service charges that were based on the minimum system method.

15 Moreover, the basic customer method greatly underestimates the unavoidable fixed  
16 system costs needed to serve a customer. It also ignores the increasingly diverse use of the grid  
17 that makes recovery of fixed costs through volumetric rates inequitable. The basic customer  
18 method does not accurately reflect cost causation<sup>104</sup>, resulting in an under-recovery of customer-  
19 related costs.

20 Concerns that increasing the basic service charge will reduce customer incentives to  
21 conserve energy are simply a red herring. Because there is a revenue requirement increase, the  
22 increased basic service charge only covers a *portion* of the increase for the average customer.  
23 Indeed, the volumetric rates—allegedly the driver for conservation—will actually be slightly  
24 higher unless the customer had been using more than 3500 kWh per month.<sup>105</sup> Customers will

25 <sup>101</sup> See e.g. Tr. (Solganick) at 2349:23-24.

26 <sup>102</sup> Ex. TEP-21 (Dukes Direct) at 18:12-18.

27 <sup>103</sup> See Ex. TEP-45 (Schedule G-6-1 at Sheet 1 of 1).

<sup>104</sup> Ex. TEP-28 (Overcast Rebuttal) at 17-20.

<sup>105</sup> See, e.g., Ex. TEP-32 (Jones Rejoinder), Exhibit CAJ-RJ-1, Schedule H-3, page 6 of 23.

1 continue to have plenty of financial incentive to conserve even with the increased basic service  
2 charge.

3 **2. Reduction to two volumetric tiers.**

4 TEP is proposing to eliminate two of its four volumetric tiers. This reduction in the  
5 number of volumetric tiers is fully supported by Staff, matches the number of tiers recently  
6 approved for UNS Electric<sup>106</sup>, and is necessary given the evolving electric service landscape. As  
7 Mr. Hutchens explained:

8 The Company's current rates include higher kWh charges at higher levels of  
9 consumption, a feature typically described as an inclining block structure. This  
10 type of rate design was first implemented when economic growth and higher  
11 residential consumption levels drove annual increases in electric sales, providing  
12 electric utilities with better recovery of its fixed system costs. However, the  
13 "new normal" of flat or declining sales – resulting primarily from the use of EE  
14 and DG – limits the Company's ability to recover its costs through rates that  
15 feature an inclining block structure. This problem is exacerbated by DG  
16 customers whose energy usage rarely reaches the upper rate tiers, thus shifting the  
17 burden of paying for fixed system costs to other customers. TEP is proposing to  
18 eliminate certain upper tiers to reduce this cost shift and enhance the Company's  
19 ability to recover its fixed costs.<sup>107</sup>

20 Eliminate the top two tiers better aligns the rate design with cost-causation.<sup>108</sup> Because  
21 fixed costs are recovered through volumetric energy rates, the top two tiers result in a  
22 disproportionate recovery of fixed costs from customers whose usage is pushed into the top two  
23 tiers.<sup>109</sup> TEP has retained a lower volumetric rate tier for usage from 0 to 500 kWh. All usage  
24 above 500 kWh will be billed at a higher volumetric rate.

25 Staff agrees that the top two tiers should be eliminated.<sup>110</sup> Moreover, Staff also  
26 recommended that the inclination between the remaining two tiers be flattened because it is more  
27 reflective of cost causation and sends proper price signals for more efficient use of the system.<sup>111</sup>

24 <sup>106</sup> Decision No. 75697 at 27:22-24 (describing UNSE proposal to reduce to two tiers); and at  
25 66:1-10 (approving rate designed based on UNSE Initial Brief).

26 <sup>107</sup> Ex. TEP-4 (Hutchens Direct) at 22.

27 <sup>108</sup> Ex. TEP-30 (Jones Direct) at 45:1-13.

28 <sup>109</sup> Ex. TEP-30 (Jones Direct) at 41:12-17 and 45:1-13.

29 <sup>110</sup> Ex. S-10 (Solganick Direct) at 29.

30 <sup>111</sup> Ex. S-10 (Solganick Direct) at 29; Tr. (Solganick) at 2471-72.

1 Opponents of eliminating the top two volumetric tiers argue that doing so would reduce  
2 the incentive for customers to adopt DG or EE. However, the record is clear that eliminating the  
3 highest two tiers better aligns the rate design with cost-causation<sup>112</sup> and reduces the excess  
4 recovery of fixed costs from customers whose usage pushed them into the two highest tiers.<sup>113</sup>  
5 The two higher tiers are a significant driver of intra-class cross-subsidization and has contributed  
6 to the Company's inability to earn its Commission-authorized revenue requirement.<sup>114</sup>  
7 Moreover, even with the elimination of the third and fourth rate tiers, 99.5% of the bills (based  
8 on test year bill frequency data) reflect usage of 3,500 kWh or less.<sup>115</sup> The Company's proposal  
9 only reduces the volumetric rate for a portion of 0.5% of the bills issued to this rate class.<sup>116</sup>

### 10 3. *Time-of-Use Rates.*

11 TEP is proposing a two-part TOU rate option that is similar in structure to the two-part  
12 TOU rate recently approved for UNS Electric. The Company will default new customers to the  
13 TOU two-part rate after the rate effective date unless they specify their desire to be placed on  
14 one of the other rates. The monthly basic service charge will be \$12. There will be two  
15 volumetric tiers, instead of the single tier in the current TOU rate. The peak period for summer  
16 will be shortened to 3:00 p.m. – 7:00 p.m (from 2:00 p.m. – 8:00 p.m.), and the winter peaks will  
17 be shortened to 6:00 – 9:00 a.m. and p.m (from 6:00 a.m. to 10 a.m. and 5 p.m. to 9:00 p.m.).

18 Although some parties appear to contest the basic service charge as too high, the  
19 proposed \$12 charge for the TOU and three-part rate options is only slightly higher than the  
20 current \$11.50 charge for TOU customers.<sup>117</sup> Moreover, Staff would prefer the TOU basic  
21 service charge to match the higher proposed \$15 charge for standard two part rates.<sup>118</sup>

22  
23  
24 <sup>112</sup> Ex. TEP-32 (Jones Direct) at 41:12-17 and 45:1-13.

<sup>113</sup> Ex. TEP-32 (Jones Direct) at 42.

<sup>114</sup> See Ex. TEP-30 (Jones Direct) at 41-42.

<sup>115</sup> See Ex. TEP-2 (Schedules), Schedule H-5, page 1 of 45; Ex. TEP-22 (Dukes Rebuttal) at 7:12-  
26 16.

<sup>116</sup> Ex. TEP-22 (Dukes Rebuttal) at 7:15-18.

<sup>117</sup> See TEP-32 (Jones Rejoinder), Exhibit CAJ-RJ-1, page 7 of 23.

<sup>118</sup> Tr. (Solganick) at 2472-73.

1 RUCO has proposed its own form of two-part TOU rate. It seeks to use three volumetric  
2 tiers, even though TEP's current TOU rate has only a single tier. RUCO also seeks a rate that  
3 includes a much larger rate spread for on-peak versus off-peak than currently used – more than  
4 twice as great.<sup>119</sup> RUCO further proposes volumetric rates that simply do not track the  
5 Company's costs.<sup>120</sup> For example, RUCO is proposing a tier with a 1.1 cent per kWh rate, which  
6 RUCO admits is well below TEP's marginal cost of power.<sup>121</sup> RUCO's TOU rate, in effect,  
7 seeks to drastically change every element of the current TOU rate. While TEP supports  
8 modifications to its TOU rate, TEP submits that its proposal is a more gradual, cost-based  
9 approach.<sup>122</sup>

10 TEP's proposed TOU rate, in combination with the proposed customer outreach and  
11 education,<sup>123</sup> is a gradual and appropriate step to encourage more customers to use TOU rates.  
12 The gradual approach also is less likely to result in unintended circumstances.

13 With the shorter on-peak time periods being proposed for the standard residential TOU  
14 rates the Company has proposed to cancel the current Super-Peak TOU rate, as was done for UNS  
15 Electric. No party has objected to this.

#### 16 4. *Optional Three-Part Rates.*

17 No party has specifically opposed the two optional three-part rates for residential  
18 customers, except regarding the amount of the basic customer charge (which has been addressed  
19 above).

#### 20 5. *Service Fees.*

21 TEP has proposed updated service fees.<sup>124</sup> Staff made recommendations regarding the  
22 service fees that are acceptable to the Company.<sup>125</sup> These service fees appear to be uncontested  
23

24 <sup>119</sup> Tr. (Huber) at 1660-61.

25 <sup>120</sup> See Tr. (Huber) at 1659-60.

26 <sup>121</sup> See Tr. (Huber) at 1660-62.

27 <sup>122</sup> Tr. (Huber) at 1663-64.

<sup>123</sup> See Ex. TEP-32 (Jones Rejoinder) at 4.

<sup>124</sup> Ex. TEP-30 (Jones Direct) at Ex. CAJ-3 (Proposed Tariff Sheet No. 801).

<sup>125</sup> See Ex. S-10 (Solganick Direct) at 44-47; Ex. TEP-31 (Jones Rebuttal) at 32.

1 and should be adopted. The Company will submit the modified service fees in the Statement of  
2 Charges that will be filed as part of its compliance tariffs.

3 **D. Lifeline Rates.**

4 TEP currently has 27 different Lifeline rates, 22 of which are frozen and many of which  
5 have only a handful of customers on them.<sup>126</sup> The multiple Lifeline rates have a variety of  
6 discount mechanisms, ranging from flat dollar discounts, to varying percentage discounts. These  
7 multiple options are confusing for both customers and TEP's customer service representatives.  
8 TEP is seeking to simplify its Lifeline rates and make them more understandable for eligible  
9 Lifeline customers.

10 TEP is proposing to move all Lifeline customers to a standard residential rate and then  
11 provide a flat monthly discount. The flat discount is designed to produce a discount similar to  
12 what the Lifeline customer is currently receiving. Given the current complexity of the Lifeline  
13 rates, the Company is proposing four different levels of monthly discount: \$15, \$18, \$30 and  
14 \$40. The applicable discounts are set forth in the bill impact summary included with the  
15 Rejoinder testimony.<sup>127</sup> TEP's Lifeline proposal will increase the total annual Lifeline funding  
16 from \$1.8 million to \$2.8 million.<sup>128</sup>

17 TEP also has committed to a \$150,000 annual shareholder contribution for the next five  
18 years to fund low-income bill assistance programs.<sup>129</sup>

19 Staff supports TEP's proposed move to a flat Lifeline discount.<sup>130</sup> However, Staff has  
20 expressed a concern that there could be 80 to 350 Lifeline customers that may require higher  
21 discounts in order to be more in parity with their current discounts.<sup>131</sup> The Company may be  
22 amenable to increasing a limited number of discounts, but is concerned about increasing the  
23

24 <sup>126</sup> Ex. TEP-30 (Jones Direct) at 57-58. See also Ex. TEP-32 (Jones Rejoinder), Exhibit CAJ-RJ-

25 1.  
<sup>127</sup> See Ex. TEP-32 (Jones Rejoinder), Exhibit CAJ-RJ-2.

26 <sup>128</sup> Ex. TEP-31 (Jones Rebuttal) at 22.

27 <sup>129</sup> Tr. (Smith) at 1872:23-25.

<sup>130</sup> See Ex. S-11 (Solganick Rebuttal) at 18.

<sup>131</sup> See Tr. (Solganick) at 2342-43.

1 costs to the other residential customers from the increased discounts, particularly given that the  
2 Lifeline support is already increasing by \$1 million annually.

3 Finally, as with UNS Electric, TEP is willing to look into ways to increase Lifeline  
4 enrollment.

5 **E. Small General Service Rates.**

6 The Company proposes a rate structure for the SGS customer that parallels the rate  
7 structure for residential service, except that their current TOU periods will remain in effect to  
8 match the other commercial classes. SGS customers could take service under a two-part rate, a  
9 two-part TOU rate and standard and TOU three-part rates.<sup>132</sup> The Basic Service Charge for the  
10 standard two-part rate would be set at \$27 per month,<sup>133</sup> which is actually below the minimum  
11 system cost for those customers.<sup>134</sup> For the other rate options, the Basic Service Charge will be  
12 \$22. The \$5 differential tracks the SGS differential approved in the UNSE Rate Order.<sup>135</sup>

13 **F. Residential and Small General Service DG Rates.**

14 As provided in the August 22, 2016 procedural order, rate options for new residential and  
15 SGS DG customers will be addressed in Phase 2 of this docket.

16 **G. Prepay Pilot Program.**

17 The evidence presented overwhelmingly supports TEP's Prepay Metering Proposal as a  
18 voluntary pilot program. The Company agrees with Staff's recommendation to implement the  
19 prepay program under pilot status to study such items as customer satisfaction, program energy  
20 and demand savings, customer interest and other information.<sup>136</sup> Even on cross-examination,  
21 ACAA witness Cynthia Zwick admitted that the program provided options and would benefit

22  
23  
24  
25 <sup>132</sup> See Ex. TEP-32 (Jones Rejoinder), Exhibit CAJ-RJ-1 at pages 17, 18 of 23.

26 <sup>133</sup> See Ex. TEP-32 (Jones Rejoinder) at 3, Exhibit CAJ-RJ-1 at page 17 of 23.

27 <sup>134</sup> See Ex. TEP-45 (Schedule G-6-1).

<sup>135</sup> Decision No. 75697 at 67:18-20.

<sup>136</sup> Ex. TEP-34 (Smith Rebuttal) at 3:9-11; 10: 14-16.

1 some customers that participate.<sup>137</sup> However, ACAA opposes the pilot program because of what  
2 ACAA perceives to be potential detriments to some customers that participate.<sup>138</sup>

3 As TEP witness Denise Smith explained, the prepay program gives customers a choice  
4 and promotes energy conservation: “[i]n addressing specific ACAA concerns regarding Prepay  
5 programs, it is helpful to consider the key concepts behind offering prepayment as a billing  
6 option: (1) the program’s direct cause and effect structure enables customers to have more  
7 control over their spending habits in the same manner that people often choose to utilize cash or  
8 debit cards versus credit cards; (2) a billing option that more closely times customer’s energy  
9 consumption and payment to inform customers in making proactive choices about how much  
10 energy they consume and (3) customers who commit to prepaying for their energy are  
11 necessarily relieved from posting a deposit because there is theoretically less risk of an unpaid  
12 arrearage.”<sup>139</sup>

13 Prepaid energy has a well-established track record in Arizona as a popular option that has  
14 been demonstrated to yield energy savings among participants. For example, the Salt River  
15 Project (“SRP”) M-Power program currently claims over 80% of participants as satisfied or very  
16 satisfied, and a recent survey of Arizona Public Service Company’s (“APS”) prepay program  
17 participants yielded top satisfaction scores of 71% and 78% among two participant groups.<sup>140</sup>

18 Ms. Smith explained that a prepaid program also promotes energy conservation:  
19 “[p]repay, is, in fact, a powerful behavioral EE program in which customers can reduce their  
20 energy consumption through a series of behavioral changes leading to conservation. During this  
21 rate case the Company is requesting approval of the tariff(s) upon which to build the program  
22 and then, as a second step, it will seek approval of the Prepay program as an EE measure in the  
23 Company’s behavioral program through its EE Implementation Plan docket.”<sup>141</sup>

24  
25 <sup>137</sup> Tr. (Zwick) at 632: 6-14.

26 <sup>138</sup> Tr. (Zwick) at 632: 6-14.

27 <sup>139</sup> Ex. TEP-34 (Smith Rebuttal) at 10: 19-27.

<sup>140</sup> Ex. TEP-33 (Smith Direct) at 6:9-13.

<sup>141</sup> Ex. TEP-34 (Smith Rebuttal) at 11: 6-11.

1 Per Staff's recommendation, the Company has also proposed to offer a Lifeline version  
2 of the Pre-Pay rate that will provide qualifying low income customers the same level of discount  
3 they would otherwise have received under other rate options.

4 **H. Bill Impacts.**

5 Under the Company's proposed rate design and using the Company's proposed revenue  
6 allocation, the bill increase for an average residential customer on a standard two-part rate is  
7 approximately \$8.15 per month, or 7.7%.<sup>142</sup> The average bill for standard low-income Lifeline  
8 customers would increase by approximately \$2.15 per month, or 2.2%.<sup>143</sup> These bill impacts  
9 would change somewhat if the Commission adopts a different class revenue allocation than the  
10 Company's proposal.

11 **VI. The rate design for medium and large commercial and industrial customers must be**  
12 **modernized.**

13 As with residential rate design, the rate design for TEP's medium and large commercial  
14 and industrial customers is antiquated. This rate design should be modernized to bring cost  
15 recovery more in line with cost causation, and to add classes to reflect the differences among  
16 these customer groups. A critical part of this modernization is creating a new Medium General  
17 Service ("MGS") rate, which provides a middle ground between the SGS rate and Large General  
18 Service ("LGS") rate. TEP is also proposing a new 138kV rate, which will be available to the  
19 Company's largest customers who take service at high voltages and do not cause distribution  
20 cost to the system.

21 **A. The new Medium General Service Class is needed to reflect the nature of**  
22 **these customers.**

23 TEP only has two general service classes, SGS and LGS. These two customer classes  
24 each contain a wide range of customer load sizes. For example, usage by SGS customers ranges  
25  
26

27 <sup>142</sup> Ex. TEP-32 (Jones Rejoinder), Exhibit CAJ-RJ-2.

<sup>143</sup> Ex. TEP-32 (Jones Rejoinder), Exhibit CAJ-RJ-2.

1 from less than a few hundred kWh per month to one million kWh per month.<sup>144</sup> Those high  
2 usage SGS customers are also typically high load factor customers. They use the grid more  
3 efficiently than the other customers in the very diverse SGS class. However, the current rate  
4 design is based on an average usage of the customer class and, as a result, the more efficient use  
5 of the grid by high load factor customers is not rewarded. The SGS class is simply too broad to  
6 appropriately match cost causation to cost recovery.

7 The proposed MGS rate will contain approximately 4,000 former SGS customers and 85  
8 former LGS customers.<sup>145</sup> The new MGS rate will apply to customers that have a load of 20 kW  
9 to 300kW.<sup>146</sup> Before a customer is transferred from the SGS to the MGS class, the customer  
10 must use 24,000 kWh in total over two consecutive months.<sup>147</sup> TEP's MGS rate class is  
11 basically the same as the new MGS rate class approved for UNS Electric in the UNSE Rate  
12 Order.<sup>148</sup> Staff agrees with adding the MSG class.<sup>149</sup>

13 Some parties have raised concerns about the potential bill impacts of the transition from  
14 SGS to MGS rates. The Company has analyzed bill impacts for a sample of transitioning  
15 customers.<sup>150</sup> These bill impacts are reasonable. Indeed, based on the bill impact analysis, the  
16 MGS rate design will benefit high load factor customers who use the system more efficiently,  
17 who comprises most of the SGS customers transitioning to the MGS rate.<sup>151</sup> Moreover, even  
18 SOLON agrees that approximately 80% of potentially transitioning SGS customers will see a  
19 rate increase of less than 2.2%.<sup>152</sup>

20

21

22 <sup>144</sup> Tr. (Jones) at 2795:6-13 (one customer at one million kWh/month); Ex. TEP-2 at Schedule H-5  
Unadjusted, page 29-45, under the heading "Usage Range".

23 <sup>145</sup> Ex. TEP-30 (Jones Direct) at 37:18-24.

24 <sup>146</sup> Ex. TEP-31 (Jones Rebuttal) at 13:7-8 (300 kW cap); Ex. TEP-30 (Jones Direct) at 37:24 (20  
kW minimum).

25 <sup>147</sup> Ex. TEP-31 (Jones Rebuttal) at 17; Ex. TEP-32 (Jones Rejoinder) at 26-27.

26 <sup>148</sup> Decision No. 75697 (August 18, 2016) at 66-67 and 85 (discussing rates for MGS class).

27 <sup>149</sup> Ex. S-10 (Solganick Direct) at 33.

<sup>150</sup> See Ex. TEP-43 (Table re SGS to MGS bill impacts).

<sup>151</sup> See Ex. TEP-43 (Table re SGS to MGS bill impacts).

<sup>152</sup> Tr. (Seibel) at 2745-47.

1                   **1.       MGS Transition Process.**

2                   Staff also included recommendations to fairly transition customers to the MGS tariff.<sup>153</sup>

3                   The Company generally agrees with Staff's recommendations, including keeping the rate case  
4                   open for 18 months to account for any unanticipated customer rate impacts. The Company will  
5                   develop multiple forms of communication for the transitioning customers and has developed a  
6                   plan to inform these customers before they are moved to the new MGS rate.<sup>154</sup> The transition  
7                   plan includes:

- 8                   • If the Commission approves the MGS rates, the Company will promptly begin  
9                   providing information about the new rates to the customers most likely to be migrated  
10                  to the MGS rate.
- 11                  • Educational materials detailing the new rates will be mailed (traditional and via  
12                  email, if known) to customers and will be available on TEP's website and included in  
13                  the Company's business customer e-newsletter.
- 14                  • SGS customers that qualify for the LGS rate (imputed demand greater than 500 kW)  
15                  will be moved to the LGS rate with the first billing cycle after the rate effective date.
- 16                  • SGS customers with usage meeting or exceeding 24,000 kWh in consecutive months  
17                  will automatically be moved to the MGS rate on the first billing cycle after the rate  
18                  effective date.
- 19                  • However, new MGS customers will not immediately experience a demand charge.  
20                  Instead, a two part MGS transition rate will apply for the first nine months. During  
21                  these nine months, MGS bills will reflect a \$0.0 per kW charge so that customer can  
22                  begin to track and manage their kW demand.
- 23                  • Once the nine month transition period is over, the next billing cycle will reflect the  
24                  final MGS rates.

25  
26  
27 <sup>153</sup> Ex. S-10 (Solganick Direct) at 33-35.

<sup>154</sup> Ex. TEP-31 (Jones Rebuttal) at 14, 16-17.

- 1           • The nine month transition period will provide transitioning customers with at least  
2           nine months of demand data. Further, keeping the rate case open for 18 months will  
3           allow any inadvertent impacts to be addressed if appropriate.<sup>155</sup>

4                           **2. Grandfathering DG SGS customers who qualify for MGS rates.**

5           Certain parties have expressed concerns about existing SGS customers with currently  
6           existing DG facilities who qualify for the MGS class. *TEP is willing to provide these customers*  
7           *with the option of remaining on two part rates.* The two part rates for these grandfathered DG  
8           customers would be the two-part MGS transition rate described above, except it would remain in  
9           effect for the grandfathering period approved in Phase 2 (consistent with the grandfathered net  
10          metering rider), rather than for nine months.

11                          **B. Demand ratchets are appropriate for these customer classes.**

12          In TEP's last rate case, it requested a 100% demand ratchet for large general service  
13          customers, but settled for a 75% ratchet as part of a comprehensive settlement.<sup>156</sup> A "ratchet" is  
14          a billing provision under which the demand charge for each month is based on the highest  
15          measured or billed demand over a period of time in the previous year. The 75 percent ratchet  
16          helps ensure a stable level of demand revenue and more closely aligns cost recovery with the  
17          cost causation.<sup>157</sup> In this case, TEP simply seeks to continue the existing demand ratchet  
18          approved by the Commission. In addition, a demand ratchet is proposed for the MGS class.  
19          TEP is not asking to extend the ratchet to residential or small general service customers.

20          The demand ratchet looks at the maximum demand used for billing purposes in the  
21          preceding 11 months, and the ratchet will apply if the demand that month is 75% of that level or  
22          lower.<sup>158</sup> When the ratchet applies, the demand charge is set at this 75% level. Thus, the ratchet  
23          operates as a type of minimum demand charge, but allows the customer to reduce that minimum

24 \_\_\_\_\_  
25 <sup>155</sup> Ex. TEP-31 (Jones Rebuttal) at 16-17.

26 <sup>156</sup> Decision No. 73912 (June 27, 2013) at 14:19-23 (noting 100% ratchet proposal) and  
27 Attachment J, Tariff Sheet 204 (reflecting 75% ratchet).

<sup>157</sup> Ex. TEP-32 (Jones Rejoinder) at 12-14.

<sup>158</sup> See TEP's current tariff sheet number 204 (LGS-13 tariff) under the heading "Billing Demand").

1 charge by reducing their maximum demand during a rolling 11 month period. Therefore, the  
2 demand ratchet helps ensure a minimum level of demand revenues to the utility—recognizing  
3 that infrastructure investments meet a customer’s demand are relatively long-term—while giving  
4 the customer the ability to reduce the demand charge by reducing their maximum demand over  
5 time.

6 Ratchets were expanded to additional classes in the last rate case to help mitigate intra-  
7 class subsidies. Ratchets are a common method of assigning the actual demand that a customer  
8 places on the system.<sup>159</sup> Mr. Jones also notes that the alternatives are to assign these costs to “be  
9 paid by other customers” or to create a seasonal rate that recovers these costs by higher charges  
10 on these same customers.<sup>160</sup> Demand charges recover long-term costs for facilities such as wires,  
11 poles and generating resources. The demand ratchet helps ensure that demand revenues will  
12 cover these costs, while also sending appropriate price signals to the medium and large  
13 commercial customers to reduce demand over the long term.

14 However, the Company identified a handful of potential MGS accounts that are  
15 extremely counter seasonal. These accounts draw significant power for a short period of time  
16 during the low use winter period. To limit the impact of the ratchet on these customers, the  
17 Company is proposing to amend the MGS tariff to include a seasonality clause.<sup>161</sup> The Company  
18 is proposing to add a provision to the MGS tariff that will apply to those full requirements  
19 customers who consume 90% or more of their kWh during the winter period (October-April, as  
20 defined by the TEP tariffs). The provision includes: waiving the ratchet mechanism, waiving the  
21 MGS cap, and applying section 7.C.7.g of the Company’s Rules and Regulations.<sup>162</sup> The  
22 Company proposes waiving the ratchet for the customers qualifying for the seasonality clause

23  
24 <sup>159</sup> Ex. UNSE-32 (Jones Rebuttal) at 36.

<sup>160</sup> Ex. UNSE-32 (Jones Rebuttal) at 36.

<sup>161</sup> Ex. TEP-31 (Jones Rebuttal) at 15.

<sup>162</sup> “Unusual Loads; Line extensions to unusually small loads not consisting of a residence or  
26 permanent building (e.g. individual lights, wells, signs, etc.) will not be granted the five hundred  
27 (500) foot allowance but will instead be required to advance any costs of service in excess of their  
estimated two years annual revenue. Refunding will be according to Subsections 7.C.1.c and  
7.C.3.a.iv.”

1 because their consumption does not occur during summer months and exposing them to the full  
2 system costs implicit in the ratchet mechanism would be overly punitive from a rate perspective.  
3 <sup>163</sup> Applying Section 7.C.7.g insures that, the localized infrastructure costs associated directly  
4 with their significant power draw will be recovered, thus limiting the need for the higher basic  
5 service charges and preventing these seasonal customers from being subsidized by other  
6 customers.<sup>164</sup> The Company recognizes this proposal does not fully follow traditional cost  
7 allocation of demand related costs, but believes it is a reasonable proposal for a dozen or so  
8 customers with very unusual load profiles. Further, this rate will only be available to full  
9 requirements customers because customers who net meter to zero through the summer but still  
10 draw power through the year should fully contribute their costs to the grid as they fully utilize  
11 the grid year round.<sup>165</sup>

12 **C. The frozen mobile home rate should not be unfrozen.**

13 Many years ago, the Commission approved a special rate schedule for mobile parks (now  
14 known as rate schedule GS-11F). The Commission later enacted a rule prohibiting new mobile  
15 home "master meters" situations like this. A.A.C. R14-2-205. The Commission froze the  
16 special mobile home rate 15 years ago.<sup>166</sup> Now, AECC and a mobile home park (Tucson  
17 Meadows) request that this rate be unfrozen. This rate is not cost-based, is highly subsidized and  
18 should not be unfrozen.

19 TEP met with Tucson Meadows before the rate case and advised them that the rate was  
20 frozen and they could not be placed on the rate unless the Commission authorizes Tucson  
21 Meadows to move to the frozen rate in this rate case. AECC witness Higgins admitted that this  
22 was appropriate because utilities are expected to follow Commission orders and tariffs.<sup>167</sup>  
23 Notably, Tucson Meadows purchased the business in 1979, many years before the rate was  
24

25 <sup>163</sup> Ex. TEP-31 (Jones Rebuttal) at 15.

26 <sup>164</sup> Ex. TEP-31 (Jones Rebuttal) at 16.

27 <sup>165</sup> Ex. TEP-31 (Jones Rebuttal) at 16.

<sup>166</sup> Ex. TEP-32 (Jones Rejoinder) at 20:25.

<sup>167</sup> Tr. (Higgins) at 1066-67.

1 frozen.<sup>168</sup> It had many years to opt into the rate but never did so. As Mr. Higgins conceded, it is  
2 the customer's responsibility to select from the rate schedules available to them.<sup>169</sup>

3 The biggest problem with the mobile home rate is that it is highly subsidized. Indeed, the  
4 frozen rate is less than the residential rate.<sup>170</sup> Even Mr. Higgins admitted that he doesn't "see  
5 any reason why it should be less than the residential rate."<sup>171</sup> Further, Tucson Meadows would  
6 still be permitted to resell the power at the residential rate, turning a profit on the power it did not  
7 produce, contrary to the Legislature's intent.

8 Tucson Meadows has other options. It could ask the Legislature to allow it to charge  
9 more for reselling electricity. It could have TEP take over service to the individual mobile  
10 homes. It could treat the rate differential as a cost of doing business. But unfreezing an obsolete  
11 and highly subsidized rate is inappropriate.

12 **D. Kroger's multi-site commercial rate should be rejected.**

13 Kroger requests the Commission consider a new multi-site commercial rate. Kroger has  
14 not proposed a specific rate but it requests a "study" to "investigate" the multi-site commercial  
15 rate.<sup>172</sup> No study is needed, because the multi-site commercial rate is a bad idea. Kroger witness  
16 Baron was unable to identify any utilities in Arizona that have a multi-site commercial rate.<sup>173</sup>  
17 Mr. Baron suggested that a discounted multi-site rate is appropriate because it is "unlikely" that  
18 each of their locations would "achieve maximum demand at the same time."<sup>174</sup> But Kroger has  
19 not provided demand data to validate this claim.<sup>175</sup> In addition, Kroger's stores are similar  
20 facilities, in the same line of business, and located in the same service area.<sup>176</sup> Therefore, it is  
21 likely that these facilities' demand will occur around the same time. Further, billing  
22

23 <sup>168</sup> Tr. (Higgins) at 1068.

24 <sup>169</sup> Tr. (Higgins) at 1068.

25 <sup>170</sup> Tr. (Higgins) at 1069.

26 <sup>171</sup> Tr. (Higgins) at 1069.

27 <sup>172</sup> Tr. (Higgins) at 853-54.

<sup>173</sup> Tr. (Baron) at 856:13-20.

<sup>174</sup> Tr. (Baron) at 854.

<sup>175</sup> Tr. (Baron) at 854.

<sup>176</sup> Tr. (Baron) at 855.

1 determinants are based on individual service points.<sup>177</sup> In addition, providing a multi-site  
2 discount would require other customers to make up the difference.<sup>178</sup>

3 **E. Modifications to the LGS Tariff.**

4 The new LGS rate will apply to customers with a load of 300 kW to 5,000 kW. The  
5 current 75% ratchet will continue to apply. Additionally, the off-peak excess demand provision  
6 was added to the LGS-TOU rate to be consistent with the currently effective LPS-TOU off peak  
7 demand provision.<sup>179</sup>

8 Walmart proposes shifting additional revenue in the LGS-85 (TOU) rate from the  
9 volumetric energy charge to the demand charge. Walmart prefers allocating more revenue to the  
10 demand charge because that benefits high load factor customers who use the system more  
11 efficiently, and it more accurately reflects the distinction between fixed and variable costs.<sup>180</sup>  
12 TEP moved substantially in this direction in rebuttal, but not quite as far as Walmart prefers.<sup>181</sup>

13 **F. Modifications to the LPS Tariff.**

14 The Company is proposing some modifications to the LPS-TOU rate and the elimination  
15 of the standard LPS rate.

16 First, since the last LLP-14 (Rate 14) customer moved to the equivalent TOU rate because  
17 it was a less expensive option, the Company proposed eliminating Rate 14 as unnecessary.<sup>182</sup> No  
18 party objected to cancelling this rate.

19 Second, the Company is proposing to change the way the power factor is applied and  
20 billed in the large power service tariffs (Rates LPS-90 and 138 kV). This change to the power  
21 factor-related charges matches the method currently in place for TEP's sister company UNS  
22 Electric. This method tracks the amount a customer's monthly power factor varies from 100%  
23 and applies the current tariff's demand charge to the equivalent demand calculated from the  
24

25 <sup>177</sup> Tr. (Baron) at 855.

26 <sup>178</sup> Tr. (Baron) at 855-56.

27 <sup>179</sup> Ex. TEP-30 (Jones Direct) at 35:10-18.

<sup>180</sup> Tr. (Tillman) at 1829-31.

<sup>181</sup> Tr. (Tillman) at 1829-31.

<sup>182</sup> Ex. TEP-30 (Jones Direct) at 46:8-9.

1 power factor variance from 95%. TEP will also apply the provision in its Rules and Regulations  
2 that allows the Company to require installation of power factor correcting equipment on a regular  
3 basis, if the provision in the tariffs does not encourage the customers to operate at improved  
4 power factors.<sup>183</sup>

5 AECC witness Higgins argues that all distribution transformer costs should be removed  
6 from the LPS class because many customers in this class own their own transformers.<sup>184</sup> But Mr.  
7 Higgins admitted that some customers in the LPS class do not own their own transformers, and  
8 that the transformer costs for thee transformers should not be allocated to other classes.<sup>185</sup> Mr.  
9 Higgins proposes a special “upcharge” for LPS customers that use TEP transformers. But he  
10 does not say what the upcharge should be.<sup>186</sup> The “upcharge” proposal would be difficult to  
11 administer, and the better alternative is to include the transformer costs for the LPS class in the  
12 rates for the LPS class.

#### 13 **G. New 138kV Rate.**

14 TEP has one customer—Freeport—that presently takes service at transmission level  
15 voltage. This is a recent development; TEP sold certain facilities to Freeport to allow this to  
16 occur. TEP now proposes, with Freeport’s support, a new 138kV rate. The rate excludes  
17 distribution system costs and distribution line losses, because customers that receive service at  
18 transmission level voltage do not use the distribution system. This new rate will be offered to  
19 customers taking service at a delivery voltage of 138kV or higher and delivered at a single point  
20 of service.<sup>187</sup> Customers taking service on this rate are subject to a 10,000 kW minimum  
21 monthly billing demand. No party has opposed the creation of this new rate.

#### 22 **H. Community Solar Rate.**

23 The Company is proposing to update its Community Solar rate. Although the existing  
24 rate will be locked in place for the remainder of the customer’s 20-year agreement, a new rate

25 <sup>183</sup> Ex. TEP-30 (Jones Direct) at 51.

26 <sup>184</sup> Tr. (Higgins) at 1075-77.

27 <sup>185</sup> Tr. (Higgins) at 1075-77.

<sup>186</sup> Tr. (Higgins) at 1075-77.

<sup>187</sup> Ex. TEP-30 (Jones Direct) at 56.

1 based on the revised class level base fuel cost will be calculated. The new rate will have the  
2 same, Commission approved, \$0.02 per kWh premium added to it and will be available to any  
3 customer signing up for the program after the effective date of the new rates.<sup>188</sup> This is the same  
4 process approved in the Company's last rate case.

5 The existing frozen Community Solar rates have a 20-year term and are based on fuel  
6 costs established in prior rate cases. For customers being migrated from the current SGS rate to  
7 the MGS rate, they will pay the MGS delivery rates, but will be allowed to maintain the fixed  
8 Community Solar rate for the energy blocks they currently have.<sup>189</sup> They will only need to pay  
9 the new MGS Community Solar rate if they choose to purchase new blocks or replace blocks  
10 they dropped.

11 **VII. The meter charge for DG customers should reflect their second meter.**

12 The Commission should approve an additional meter charge for new DG customers to  
13 address the cost of their second meter. The proposed charge of \$8.62 for residential DG  
14 customers, and \$9.13 for small general service customers is cost-based.<sup>190</sup> These costs are based  
15 on the Company's marginal cost study. Because the charge will apply only to new DG  
16 customers, these are incremental costs, so it is appropriate to use the marginal cost study, as  
17 opposed to historical embedded costs.<sup>191</sup> Indeed, these figures are conservative, since they are  
18 for traditional meters, rather than the more expensive bidirectional meters required for DG  
19 customers.<sup>192</sup>

20 Because EFCA cannot deny the second meter exists, it argues that the second meter is  
21 unnecessary. That is incorrect. Indeed, EFCA witness Garrett admitted that TEP is required to  
22 record PV production data and that complying with regulatory requirements is part of TEP's cost  
23 of service.<sup>193</sup> The Commission's REST rules require TEP to measure the output of all solar  
24

25 <sup>188</sup> Ex. TEP-30 (Jones Direct) at 54.

26 <sup>189</sup> Ex. TEP-30 (Jones Direct) at 54

27 <sup>190</sup> Ex. TEP-32 (Jones Rejoinder) at 24:10-16.

<sup>191</sup> Ex. TEP-32 (Jones Rejoinder) at 24:18-26.

<sup>192</sup> Ex. TEP-32 (Jones Rejoinder) at 24:18-26.

<sup>193</sup> Tr. (Garrett) at 2296.

1 systems of TEP customers.<sup>194</sup> And the LFCR Plan of Administration also requires this data for  
2 the LFCR calculations.<sup>195</sup> Moreover, the second meter provides data to TEP that could help the  
3 Company manage its distribution system.<sup>196</sup> The second meter can also directly benefit DG  
4 customers, as shown by the personal examples of Mr. Huber and Mr. Tilghman checking their  
5 meters.<sup>197</sup> While inverters may provide production data, they do not have billing quality  
6 accuracy, and they produce data in various formats that are inconsistent with TEP's billing  
7 system.<sup>198</sup>

8 Finally, it should be noted that the Commission recently approved an additional meter  
9 charge for new DG customers in the UNSE Rate Order. In its decision approving the charge, the  
10 Commission stated:<sup>199</sup>

11 *The meter-related costs for the second meter required by DG customers is*  
12 *not being paid directly by DG customers and is currently being passed on*  
13 *to non-DG customers. It is appropriate for each DG customer to bear the*  
14 *cost of that second meter.*

15 In short, the second meters are necessary to comply with Commission requirements, to  
16 provide billing quality data, and to also provide benefits to TEP and DG customers. These costs  
17 would not be incurred but for the choice of DG customers to install DG systems, so they should  
18 bear the cost. Accordingly, the additional meter charge should be approved.

19 **VIII. TEP's proposed Economic Development Rider should be approved.**

20 The Company's proposed Rider 13, Economic Development Rider ("EDR") is intended  
21 to attract new jobs and economic activity and is similar to the EDR that was recently approved  
22 for UNS Electric. The EDR will provide a discount to customers that qualify under existing  
23

24  
25 <sup>194</sup> A.A.C. R14-2-1812(B)(1); Tr. (Tilghman) at 883-884.

26 <sup>195</sup> Tr. (Solganick) at 2345:18-23; Tr. (Huber) at 1473:2.

27 <sup>196</sup> Tr. (Solganick) at 2345-47 and 2380-81.

<sup>197</sup> Tr. (Huber) at 1569:1-15 and (Tilghman) at 887-888.

<sup>198</sup> Tr. Solganick) at 2347:17-23.

<sup>199</sup> Decision No. 75697 at page 118, lines 13-16.

1 Arizona economic development tax credits.<sup>200</sup> The discount is gradually phased out over five  
2 years.<sup>201</sup> Participating customers could include new customers or customers who expand their  
3 existing operations. The proposed discount is higher for customers that “infill” in areas with  
4 existing facilities.<sup>202</sup>

5 To qualify, customers must have a minimum load factor of 75% and have a peak demand  
6 of at least 3,000 kW.<sup>203</sup> This helps ensure that the new customer does not increase costs for the  
7 system.<sup>204</sup>

8 To be clear, TEP will absorb the non-fuel costs that are lost as a result of the discount.<sup>205</sup>  
9 As Mr. Hutchens explained, TEP is willing to bear these costs because the “long-term benefits of  
10 attracting or retaining large, high load factor customers greatly outweigh the short-term costs.”<sup>206</sup>  
11 At the time of the hearing, no party appeared to be opposed to the EDR.

12 **IX. The proposed “buy-through” tariff is premature, harmful to customers, and illegal.**

13 **A. It would be premature to approve a “buy-through” tariff.**

14 As required by the Fortis settlement, TEP has prepared—but does not support—a “buy-  
15 through” tariff, Experimental Rider 14, Alternative Generation Service. Wal-Mart proposes  
16 radical revisions to this tariff, while AECC witness Higgins proposes two different, and even  
17 more problematic, buy-through programs. All of these buy-through proposals should be rejected  
18 as premature, harmful to customers, and illegal—just as the buy-through proposals in the UNS  
19 Electric rate case were rejected.

20 Approval of any buy-through tariff is premature because Arizona has only one,  
21 experimental buy-through program, APS’s AG-1 program. The AG-1 program was created as an  
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24 <sup>200</sup> Ex. TEP-21 (Dukes Direct) 31-32.

25 <sup>201</sup> Ex. TEP-21 (Dukes Direct) at 31:13-16.

26 <sup>202</sup> Ex. TEP-21 (Dukes Direct) at 32:8-16.

27 <sup>203</sup> Tr. (Dukes) at 1376:4-13.

28 <sup>204</sup> Tr. (Dukes) at 1383:20 to 1384:7.

29 <sup>205</sup> Ex. TEP-22 (Dukes Rebuttal) at 18:15-21.

30 <sup>206</sup> Ex TEP-18 (Dukes Rebuttal) at 18:19-21.

1 experimental program as part of a settlement in an APS rate case.<sup>207</sup> It would be premature to  
2 adopt a similar program until the results of this experiment are known and analyzed.

3 The initial results of the AG-1 experiment are concerning. APS has reported significant  
4 losses, high costs, and other problems.<sup>208</sup> APS strongly opposes continuation of the program.  
5 The AG-1 program will be fully examined in the pending APS rate case. The Commission  
6 should wait until the AG-1 experiment is fully examined in the APS rate case before ordering yet  
7 another risky experimental rate rider, especially one that has such potential to harm other  
8 customers.

9 **B. Any buy-through program will harm other customers.**

10 Certain large commercial and industrial customers favor buy through programs because  
11 they will give them access to the currently low cost wholesale power market. But giving these  
12 customers preferential access to the lowest cost power generation resources at the present time  
13 will raise costs for all other customers by leaving them with the burden of the fixed cost  
14 component of power prices. Each of the buy- through programs goes about this in a different  
15 way, but make no mistake, under each of these programs non-participating customers will be  
16 worse off.

17 With the wholesale market at historic lows,<sup>209</sup> it is easy to understand the short-term  
18 appeal that a buy-through tariff has to offer large commercial and industrial customers. Today's  
19 low wholesale market condition enables the Company to share the benefit of low cost purchased  
20 power across all of its retail customers, as compared to a buy-through program that would only  
21 provide benefits to a select class of customers. For example, under TEP's original buy-through  
22 proposal, there would be a 0.5 mil increase for TEP's residential and commercial customers in  
23 the 2017 PPFAC rate if a 60 MW buy-through program is approved.<sup>210</sup> Moreover, the program

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25 <sup>207</sup> Tr. (Higgins) at 1004.

26 <sup>208</sup> See Arizona Public Service Company ("APS") Rate Application filed in Docket No. E-  
01345A-16-0036 by APS witness Leland Snook, Attachment LRS-06DR (AG-1 Program  
Evaluation Report).

27 <sup>209</sup> Tr. (Higgins) at 1090.

<sup>210</sup> Tr. (Sheehan) at 1238-39.

1 would shift unrecovered fixed costs to non-participating customers through future increases in  
2 non-fuel base rates.

3 AECC witness Higgins proposes two buy-through alternatives. His first alternative  
4 “funds” the buy thorough program with approximately \$7.6 million in revenue reduction  
5 (compared to TEP’s application) for the LGS, LPS and high voltage classes.<sup>211</sup> While cleverly  
6 designed, the reality is that this approach places the burden on non-participating customers in  
7 those classes because the \$7.6 million must be collected from all non-participating customers.  
8 Mr. Higgins admitted that under his approach, the following LGS, LPS and high voltage  
9 customers would have higher rates if his Alternative 1 is approved:

- 10 • Customers who do not elect to participate in the program.
- 11 • Customers who do not qualify for the program.
- 12 • Customers excluded from the program because the cap has been reached.<sup>212</sup>

13 Mr. Higgins admits that there are “winners” and “losers” under his proposal, and that if Staff’s or  
14 TEP’s rate spread is adopted, the “losers” will lose even more.<sup>213</sup> Moreover, Mr. Higgins also  
15 conceded that the \$7.6 million in “funding” might not be enough, which would again leave other  
16 customers on the hook.<sup>214</sup>

17 Mr. Higgins’s second alternative is modeled after a program in effect in Portland General  
18 Electric’s service territory. Under Higgins Alternative 2, customers who select the program will  
19 continue to pay the equivalent of their regular generation rates for an initial period of five years.  
20 This proposal simply pushes the harm to other customers further out to the future. Once the  
21 initial term expires, the same problems exist as with the program that TEP was required to  
22 propose. One of the lowest cost (at current prices) components of the generation resource  
23 portfolio will be preferentially allocated to these select few customers. And the remaining  
24 customers will be left with a more expensive resource mix, as well as the responsibility for  
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26 <sup>211</sup> Tr. (Higgins) at 1052.

27 <sup>212</sup> Tr. (Higgins) at 1053-54.

<sup>213</sup> Tr. (Higgins) at 1079.

<sup>214</sup> Tr. (Higgins) at 1010-12.

1 making up lost fixed generation cost revenues. As Mr. Jones observed, the "Company's fixed  
2 generation costs do not go away after 5 years. Most of those facilities have a useful life of far  
3 more than 5 years...."<sup>215</sup> Thus, Higgins Alternative 2 "is just another way of shifting costs to the  
4 remaining customers for plant that was placed in service to meet his client's needs."<sup>216</sup>

5 Further, under all three proposals (TEP and Higgins Alternatives 1 and 2), TEP and its  
6 non-participating customers face the risk of returning customer loads. As a result, TEP would  
7 not realize any long term planning benefits under these types of program since customers would  
8 be able to return to TEP's generation service with limited advanced notice. This provides buy-  
9 through customers with the option to return to TEP generation service in the event that wholesale  
10 market prices increase above TEP's cost of generation service. In addition, buy-through  
11 customer loads are not interruptible and if the buy-through customer's generation service  
12 provider fails to deliver power at any time, TEP would still be responsible for serving the buy-  
13 through customer load. Given these provisions, TEP would still have to continue to account for  
14 these buy-through customers as part of their on-going long- and short-term resource planning  
15 requirements. While Mr. Higgins touts his second alternative as prohibiting return<sup>217</sup>, on cross-  
16 examination, he admitted that customers would be permitted to return without any notice to a  
17 higher rate, and then to the regular retail rate after three years.<sup>218</sup>

18 Another source of risk for TEP and its non-participating customers occurs when a buy-  
19 through generation service provider defaults. As Noble witness Bass aptly explained, generation  
20 service providers make money by buying at wholesale and selling at retail prices.<sup>219</sup> This  
21 requires them to take on the risk associated with long-term wholesale contracts, because they buy  
22 long term but bill customers monthly.<sup>220</sup> They therefore need a strong balance sheet to make  
23

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25 <sup>215</sup> Ex. TEP-32 (Jones Rejoinder) at 10:6-9.

26 <sup>216</sup> Ex. TEP-32 (Jones Rejoinder) at 10:11-12.

27 <sup>217</sup> Tr. (Higgins) at 1016 (stating customers will be "permanently" off the system).

<sup>218</sup> Tr. (Higgins) at 1057, 1065.

<sup>219</sup> Tr. (Bass) at 1140.

<sup>220</sup> Tr. (Bass) at 1129.

1 these purchases.<sup>221</sup> If the market turns, their bets could turn bad quickly. Indeed, Noble's credit  
2 rating has been slashed to junk status.<sup>222</sup> This financial uncertainty leaves the utility with  
3 significant counterparty risk—if the wholesale provider can't pay, the utility is responsible for  
4 serving the buy-through customer's load obligations.<sup>223</sup>

5 In summary, each buy-through program creates winners and losers. The utility—and its  
6 customers—also face returning customer risk and counterparty risk.

7 **C. The buy-through proposals are unlawful.**

8 ***I. The buy-through rates violate the fair value requirement.***

9 The Arizona Constitution requires the Commission to use fair value to set rates.  
10 *Residential Util. Consumer Office v. Arizona Corp. Comm'n*, 240 Ariz. 108, ¶ 13, 377 P.3d 305,  
11 309 (2016). Even in a competitive industry, the Commission must find and consider fair value in  
12 setting rates. *US W. Communications, Inc. v. Arizona Corp. Comm'n*, 201 Ariz. 242, 246, ¶ 20,  
13 34 P.3d 351, 355 (2001) (“We do not hold that a fair value determination should play no role in  
14 the establishment of rates, or that it can simply be ignored.”); *see also Phelps Dodge Corp. v.*  
15 *Arizona Elec. Power Co-op., Inc.*, 207 Ariz. 95, 108, ¶ 39, 83 P.3d 573, 586 (App. 2004), as  
16 amended on denial of reconsideration (Mar. 15, 2004)(Commission erred by “improperly  
17 delegating to the competitive marketplace” setting rates and by failing to consider fair value in  
18 setting rates); *Id.* at ¶ 24 (“superior court correctly ruled that the Commission violated Article 15,  
19 Section 14 in approving CC&Ns for the ESPs without first determining and considering fair  
20 value”).

21 The buy-through proposals do not even come close to meeting these requirements. Under  
22 these proposals, the Commission does not set a rate at all (not even maximum or minimum  
23 rates), and the rates are not filed with the Commission.<sup>224</sup> Indeed, Noble witness Bass was  
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25  
26 <sup>221</sup> Tr. (Bass) at 1129.

27 <sup>222</sup> Tr. (Bass) at 1130-31.

<sup>223</sup> Tr. (Bass) at 1145.

<sup>224</sup> Tr. (Higgins) at 1000; Tr. (Bass) at 1125-26.

1 emphatic that Noble has “prices”, not “rates”.<sup>225</sup> Further, these “prices” are set without any  
2 consideration of fair value.<sup>226</sup>

3 Thus, judged under the standards for competitive utilities, the buy-through proposals fail.  
4 But the competitive standards do not apply because the buy-through proposals are not true  
5 competition. In each case, TEP would contract with the wholesale provider and then sell the  
6 power to the customer.<sup>227</sup> Both Mr. Higgins and Mr. Bass sharply distinguished buy-through  
7 tariffs from competitive direct access.<sup>228</sup> Because the service is ultimately being provided by the  
8 utility, the buy-through proposals are subject to the full, traditional rate of return requirements.  
9 *RUCO*, 240 Ariz. at ¶ 13, 377 P.3d at 309 (noting that rate of return method with fair value  
10 “required... in ratemaking for private, for-profit monopolies.”). Because the buy-through rates  
11 would be set without any consideration of fair value or rate of return, they fail the traditional  
12 standard. Thus, under either the competitive or traditional version of the fair value requirement,  
13 the buy-through proposals are simply not permissible under the Arizona Constitution.

14 **2. *The buy-through proposals are not consistent with the competition***  
15 ***statutes and rules.***

16 *Phelps Dodge* casts a long shadow over electric competition, and it casts doubt on the  
17 viability of the electric competition statutes and related regulations. But even if this competition  
18 scheme remains both viable and in effect, the buy-through proposals do not meet the  
19 requirements. For example, A.R.S. § 40-207(A) requires that, “[a]n electricity supplier shall  
20 obtain a certificate from the commission before offering electricity for sale to retail electric  
21 customers in this state.” Likewise, A.R.S. § 40-201(14) defines “Electricity supplier” as “a  
22 person, whether acting in a principal, agent or other capacity, that is a public service corporation  
23 that offers to sell electricity to a retail electric customer in this state.” Here, none of the proposed  
24 buy-through providers have valid CC&Ns, nor have any of them indicated they would accept  
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26 <sup>225</sup> Tr. (Bass) at 1125-26.

27 <sup>226</sup> Tr. (Higgins) at 1000; Tr. (Bass) at 1125-26.

<sup>227</sup> Tr. (Higgins) at 1000.

<sup>228</sup> Tr. (Higgins) at 1019; Tr. (Bass) at 1134.

1 regulated public service corporation status. Likewise, the Commission's competition rules  
2 require a competitive Electric Service Provider to obtain a CC&N. A.A.C. R14-2-1603(A)("Any  
3 Electric Service Provider intending to supply Competitive Services shall obtain a Certificate of  
4 Convenience and Necessity from the Commission pursuant to this Article."); A.A.C. R14-2-  
5 1601(15)("Electric Service Provider" (ESP) means a company supplying, marketing, or  
6 brokering at retail any Competitive Services pursuant to a Certificate of Convenience and  
7 Necessity.")

8 **3. *The buy-through proposals violate the management interference***  
9 ***doctrine.***

10 The Commission has long acknowledged that each electric utility has the obligation to  
11 acquire a prudent mix of generation and the discretion to do so.<sup>229</sup> Thus, the Commission has  
12 stated that "TEP does not need our permission to acquire generation assets. Typically, public  
13 service corporations decide what type of generation assets to acquire for their resource portfolios.  
14 They then build and/or acquire those assets, and the Commission evaluates the prudence of those  
15 decisions in subsequent rate cases."<sup>230</sup> This is consistent with the legal principle that  
16 Commission sets rates but does not manage the utility. This legal principle is known as the  
17 "Management Interference Doctrine." "It must never be forgotten that, while the state may  
18 regulate with a view to enforcing reasonable rates and charges, it is not the owner of the property  
19 of public utility companies, and is not clothed with the general power of management incident to  
20 ownership." *S. Pac. Co. v. Arizona Corp. Comm'n*, 98 Ariz. 339, 343, 404 P.2d 692, 694 (1965)  
21 quoting *State of Missouri ex rel. Southwestern Bell Telephone Co. v. Public Service Commission*  
22 of Missouri, 262 U.S. 276, 289 (1923); see also *Phelps Dodge*, 207 Ariz. at 113 ¶ 60, 83 P.3d at  
23 591; *Miller v. Arizona Corp. Comm'n*, 227 Ariz. 21, 27, ¶¶ 21-23, 251 P.3d 400, 406 (App.  
24 2011). Under the Management Interference Doctrine, it is the utility's management that is  
25 responsible for obtaining appropriate generation. For example, the Arizona Attorney General  
26

27 <sup>229</sup> Decision No. 67744 (April 5, 2005) at Attachment A ¶ 76.

<sup>230</sup> Decision No. 74884 (December 31, 2014) at Finding of Fact 63.

1 has opined that the “Arizona Corporation Commission lacks authority to compel Arizona public  
2 service corporations to purchase fuel oil cooperatively or jointly”<sup>231</sup> TEP has not agreed to a buy-  
3 through program, and would violate the Management Interference Doctrine to force TEP to  
4 acquire generation from certain wholesale providers and sell the power to select customers.  
5 Instead, choices about generation purchases should be left for TEP’s management.

6 **D. If the buy-through is approved, the cap should remain at 30 MW.**

7 As Kroger witness Baron testified, a “cap on participation load is necessary to limit the  
8 impact of the program on nonparticipating customers.” Of course, the best way to limit the  
9 impact on nonparticipating customers is to not approve a buy-through program. But if a buy-  
10 through program is approved, TEP proposes a 30 MW cap, which is based on the AG-1 cap  
11 scaled down to fit TEP.<sup>232</sup> AECC proposes raising the cap to 60 MW,<sup>233</sup> while Wal-Mart  
12 proposes a cap of 250 MW, over eight times TEP’s proposal.<sup>234</sup> These larger caps would only  
13 increase the harm to customers. If this harmful and risky program is approved in any form, it  
14 should be kept as small as possible.

15 **E. TEP’s management fee should be approved, if a buy-through is approved.**

16 If a buy-through program is approved, TEP will incur additional costs to manage the  
17 program, such as the additional costs of scheduling and coordinating these power deliveries and  
18 dealing with both the customer and the wholesale provider. These costs must be estimated, as  
19 TEP does not presently provide these services under such a program. No party has provided an  
20 actual estimate of TEP’s costs to dispute TEP’s estimate. Instead, other parties rely on APS’s  
21 management fee. But APS’s costs may be different than TEP’s, as admitted by Walmart witness  
22 Hendrix, AECC witness Higgins, and Kroger witness Baron.<sup>235</sup> Therefore, APS’s fee cannot be  
23

24  
25 <sup>231</sup> Ariz. Op. Atty. Gen. No. 179-099 (April 9, 1979).

26 <sup>232</sup> Ex. TEP-31 (Jones Rebuttal) at 78:1-11.

27 <sup>233</sup> Tr. (Higgins) at 1001.

<sup>234</sup> Tr. (Hendrix) at 1865:9-12; see also *id.* at lines 1-3 (noting that 250 MW cap would “replace the vast majority of TEP’s wholesale purchases”).

<sup>235</sup> Tr. (Baron) at 859; Tr. (Higgins) at 1047; Tr. (Hendrix) at 1867-68.

1 blindly adopted here. Further, in its rate case, APS alleges that the fee falls far short of covering  
2 the costs of the AG-1 program.<sup>236</sup>

3 **F. Walmart's renewable buy-through program should be rejected.**

4 Walmart has also proposed a renewable buy-through program, which it calls the  
5 "Renewable Generation Service ("RGS") tariff."<sup>237</sup> The RGS tariff suffers from all the  
6 deficiencies of the other buy-through tariffs. Further, TEP has a strong commitment to  
7 expanding renewable generation, and TEP already provides numerous renewable options to  
8 customers who desire additional renewable power, such as:

- 9 • Rider R-5, Bright Tucson Community Solar Program;
- 10 • Rider R-7, Customer Self Directed Renewable Energy Option;
- 11 • Possible special contracts with TEP.<sup>238</sup>

12 Thus, an RGS tariff is not necessary. In addition, title to the Renewable Energy Credits would  
13 remain with Walmart, so this tariff would not help TEP meet its renewable energy obligations.<sup>239</sup>

14 In addition, Walmart's proposal is entirely conceptual; it has not proposed details or specific  
15 tariff sheets.<sup>240</sup>

16 **G. Other program elements.**

17 If a buy-through program is approved, customers returning to TEP's system should pay  
18 the applicable rate based on the Dow Jones Palo Verde Index plus \$20 per megawatt hour.<sup>241</sup>  
19 This will ensure that TEP will recoup at least some of the costs related to a customer returning to  
20 the system.

21 If a buy-through program is approved, the minimum load size to participate in the  
22 program should be 3 MW.<sup>242</sup> Customers should not be permitted to "aggregate" load to meet  
23

24 <sup>236</sup> Tr. (Baron) at 859.

25 <sup>237</sup> Tr. (Hendrix) at 1066-67.

26 <sup>238</sup> Tr. (Hendrix) at 1066-67.

27 <sup>239</sup> Tr. (Hendrix) at 1066-67.

<sup>240</sup> Tr. (Hendrix) at 1066-67.

<sup>241</sup> Ex. TEP-31 (Jones Rebuttal) at 81:1-12.

<sup>242</sup> Ex. TEP-31 (Jones Rebuttal) at 77:14-22.

1 this minimum. Allowing aggregation only broadens the number of possible customers and the  
2 scope of the resulting problems. In addition, aggregation also presents administrative problems.

3 Lastly, if a buy-through program is approved, it should be limited to the Large Power  
4 Service (LPS) class.<sup>243</sup> This was the only class mentioned in related portions of the Fortis  
5 settlement. And again, if a program is approved, it should be as limited as possible to limit the  
6 risk and cost shifts to other customers.

7 **X. Freeport's "franchise agreement" proposal should be rejected.**

8 TEP values and respects Freeport as TEP's largest customer. There is no doubt that  
9 Freeport plays an important role in the community and the local economy. As Mr. Hutchens  
10 testified, "[w]e are deeply concerned with the long-term economic viability of the Sierrita  
11 mine—our largest customer and a huge employer in our community."<sup>244</sup> Recognizing this, TEP  
12 has worked with Freeport extensively over the years to assist Freeport in lowering its power  
13 costs. For example, Freeport is exempt from the LFCR and DSM mechanisms and TEP has  
14 entered into special contracts with Freeport in the past.<sup>245</sup> Further, TEP sold its Sierrita  
15 substation to Freeport and developed the special 138 kV rate especially for Freeport. Under this  
16 rate, Freeport is not responsible for distribution costs or distribution line losses.<sup>246</sup> TEP has also  
17 worked to make the revenue allocation more balanced, which will benefit Freeport.

18 However, Freeport's proposed "Franchise Agreement" should be rejected. This  
19 "Agreement" was unilaterally created by Freeport with no input or agreement from TEP. Under  
20 this proposal, Freeport's subsidiary Morenci Water & Electric ("MWE") would take over electric  
21 service to the Sierrita mine. But MWE has no facilities to serve the mine. The arrangement  
22 would be strictly a fiction existing only on paper.

23 Freeport points to the agreement between Freeport, MWE and Graham County Electric  
24 Cooperative for service to the Safford mine. But the cooperative voluntarily agreed to that

25  
26 <sup>243</sup> Ex. TEP-31 (Jones Rebuttal) at 83:18-22.

27 <sup>244</sup> Ex. TEP-7 (Hutchens Rejoinder) at page 8, lines 14-15.

<sup>245</sup> Tr. (McElrath) at 1740-42.

<sup>246</sup> Tr. (McElrath) at 1742.

1 agreement; here TEP does not agree. Further, the Safford mine was new load, so the cooperative  
2 would not have lost any existing revenues or load. In contrast, Freeport's Sierrita load is existing  
3 load with existing revenues. If these revenues go away, other customers will have to make up  
4 the difference for fixed generation and transmission costs. Moreover, given the large size of the  
5 load, the cooperative may not have had the capability to serve—this is not an issue for TEP.

6 Further, Freeport witness McElrath testified that the biggest factors in determining the  
7 level of activity at the Sierrita mine are copper and molybdenum prices.<sup>247</sup> Mr. McElrath  
8 conceded that Freeport could not guarantee that any jobs would be preserved if its proposals for a  
9 franchise agreement or a buy-through tariff are approved.<sup>248</sup> Indeed, he testified that Sierrita  
10 could be shut down even if the franchise agreement and buy-through are approved.<sup>249</sup>

11 In addition, an “agreement” that a party does not agree to is legally questionable, at best.  
12 TEP has the CC&N to serve this area, and it stands ready and willing to provide service. Thus  
13 there are no grounds to disregard TEP's CC&N. *Application of Trico Elec. Co-op, Inc.*, 92 Ariz.  
14 373, 386, 377 P.2d 309, 319 (1962)(“We hold the Corporation Commission was under a duty to  
15 Trico to protect it in the exclusive right to serve electricity in the region where it rendered  
16 service, under its certificate..”); *James P. Paul Water Co. v. Ariz. Corp. Comm'n*, 137 Ariz. 426,  
17 429, 671 P.2d 404, 407 (1983)(Commission may alter or delete CC&N only where holder fails to  
18 provide reasonable service at a reasonable price).<sup>250</sup>

19 In short, the franchise agreement brings no certain benefits in terms of preserving jobs or  
20 economic activity. But it brings certainty that other customers will pay more. It should be  
21 rejected.

22 **XI. AECC'S PPFAC “Sharing” proposal must be rejected.**

23 AECC witness Higgins touts a so-called PPFAC “sharing” mechanism. This risky  
24 proposal would expose TEP to fuel and power market risk for every transaction, “every hour of

25 <sup>247</sup> Tr. (McElrath) at 1730.

26 <sup>248</sup> Tr. (McElrath) at 1738-39.

27 <sup>249</sup> Tr. (McElrath) at 1739.

<sup>250</sup> Neither Freeport nor MWE have not sought a competitive CC&N, so there are no grounds to determine whether certificates under A.R.S. § 40-207 remain available.

1 the day.”<sup>251</sup> Mr. Higgins admits that this proposal will increase TEP’s risk, and that it would be  
2 viewed negatively by credit rating agencies.<sup>252</sup> The current PPFAC reflects the common-sense  
3 idea that TEP should neither make a profit nor a loss on the fuel and purchased power it buys to  
4 serve its retail customers. AECC’s proposal would leave TEP to “play the market” to try to  
5 prevent losses.

6 Mr. Higgins argues that this risk is needed to ensure that TEP has an incentive to manage  
7 its fuel and purchased power costs.<sup>253</sup> But TEP’s fuel and purchased power practices have been  
8 reviewed by Staff, which found no deficiencies, nor has Mr. Higgins.<sup>254</sup> Mr. Higgins suggests  
9 that it would also give TEP an incentive to schedule its plant maintenance at advantageous  
10 times—but Mr. Higgins admitted that he has no evidence that TEP does not do this.<sup>255</sup>

11 Mr. Higgins’ proposal, based on a mechanism in Wyoming, would take the projected cost  
12 of power for 2017 and penalize the Company if TEP’s purchased power or fuel costs are greater  
13 than that projection.<sup>256</sup> This presents several problems. By their nature, projections are just that,  
14 projections based upon currently available information. Projections of costs for a utility such as  
15 TEP are not meant to generate profit and loss, as with a merchant, but to allow prudent planning  
16 of resource utilization. And with wholesale power prices at historic lows, AECC is essentially  
17 trying to protect itself from any price increase in the event prices revert to the mean. AECC did  
18 not request a sharing mechanism during a period of high prices or high volatility of prices for  
19 this very reason. The request for a sharing mechanism is being timed as a “buy-low” trade by  
20 Mr. Higgins’ constituents.

21 Further, the 2017 projection would rapidly become out-of-date as regional prices change  
22 and weather volatility is experienced. Moreover, the Wyoming risk-sharing proposal was for a  
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24

25 <sup>252</sup> Tr. (Higgins) at 1043-1044.

26 <sup>253</sup> Tr. (Higgins) at 1041.

27 <sup>254</sup> Tr. (Higgins) at 1041.

<sup>255</sup> Tr. (Higgins) at 1041-42.

<sup>256</sup> Tr. (Higgins) at 1044-45.

1 utility with large amounts of hydropower, which is very flexible in dispatch.<sup>257</sup> In contrast, TEP  
2 has no hydropower resources, and its generation resources (natural gas and coal) are therefore  
3 more correlated with natural gas and regional power markets. Lastly, Mr. Higgins has not  
4 provided the extensive modifications to the PPFAC plan of administration that would be required  
5 for the sharing mechanism he is proposing.<sup>258</sup>

6 In sum, AECC's PPFAC proposal should be rejected because it is risky and unnecessary.

7 **XII. Revisions to TEP's Rules and Regulations.**

8 TEP has proposed revisions to its Rules and Regulations Tariff to: (1) modernize the  
9 Rules and Regulations, (2) update provisions to meet current operational needs, and (3) bring  
10 them closer to the Rules and Regulations of its sister company, UNS Electric, that were approved  
11 in the UNS Electric Rate Case in Decision No. 75697 (August 18, 2016). TEP submitted  
12 proposed revisions to its current Rules and Regulations as part of the Direct Testimony of Denise  
13 Smith.<sup>259</sup>

14 Both Staff and ACAA raised issues with the proposed revisions. TEP believes it has  
15 resolved all of Staff's concerns. TEP has addressed most, but not all, of ACAA's concerns. TEP  
16 has attached an updated redline of its Rules and Regulations (**Attachment 2**) that reflects the  
17 resolution of Staff's and ACAA's concerns to which the Company agreed and should be adopted  
18 by the Commission.<sup>260</sup>

19 TEP does not agree with the following requests by ACAA with respect to the Rules and  
20 Regulations:

21 1. ACAA has requested that Lifeline customers be held harmless from the modifications  
22 regarding deposits in Subsection 3.B.3. The Company believes equitable treatment among  
23

24 <sup>257</sup> Ex. TEP-39 (Robey Rejoinder) at 3-4.

25 <sup>258</sup> Tr. (Higgins) at 1046.

26 <sup>259</sup> See Ex. TEP-33 (Smith Direct), Exhibits DAS-1 and DAS-2.

27 <sup>260</sup> Section 12.A of the Rules and Regulations currently cross-references to R14-2-211.A of Arizona Administrative Code (Non-Permissible Reasons to Disconnect Service.) The attached proposed Rules and Regulations now replicate the provisions of R14-2-211.A. in Section 12.A. and is therefore not reflected as a redline change. Staff has agreed with this approach.

1 customers regarding deposits is appropriate. Moreover, TEP takes significant efforts to provide  
2 workable solutions for its customers who are facing challenges in paying bills or deposits.<sup>261</sup>

3 2. TEP also does not agree with ACAA's request to excuse customers who file for  
4 bankruptcy from providing a deposit. A deposit on a post-petition account is an appropriate  
5 assurance of payment under 11 U.S.C. § 366.

6 3. Subsection 3.B.3. is consistent with the Rules and Regulations of other Arizona  
7 utilities,<sup>262</sup> and UNS Electric's Rules and Regulations that were approved in the UNS Electric  
8 rate case on August 18, 2016.

9 **XIII. Adjustor Mechanisms.**

10 **A. Purchased Power and Fuel Adjustment Clause**

11 TEP has withdrawn its request for a percentage based (as opposed to kWh) changes to the  
12 PPFAC, and its request to modify the PPFAC to reflect a 12 month rolling average.<sup>263</sup> As  
13 described in another section of this brief, AECC's proposed 70/30 "sharing" revision to the  
14 PPFAC should be rejected. Thus, TEP simply requests that the PPFAC remain unchanged.<sup>264</sup>

15 **B. Lost Fixed Cost Recovery Mechanism.**

16 TEP's proposed revisions to the LFCR are discussed in another section to this brief.

17 **C. Environmental Cost Adjustor.**

18 The Environmental Cost Adjustor ("ECA") provides recovery for environmental costs,  
19 including the costs of complying with Federal environmental mandates. Unfortunately,  
20 environmental requirements are only growing more strict, increasing TEP's environmental  
21 compliance costs. TEP's ECA is capped at \$0.00025 per kWh, based on 0.25% of prior test year  
22 revenues.<sup>265</sup> This amounts to about \$2 million per year. However, TEP expects eligible  
23

24 <sup>261</sup> See Ex. TEP-34 (Smith Rebuttal) at 8.

25 <sup>262</sup> See Ex. TEP-34 (Smith Rebuttal) at 9.

26 <sup>263</sup> Tr. (Robey) at 1460.

27 <sup>264</sup> TEP will be filing an application in Docket No. E-01933A-12-0291 requesting acceleration of  
the effective date of its revised PPFAC to match the effective date of new rates in this docket.  
This will act to mitigate the impact of the rate increase in this docket.

<sup>265</sup> See Ex. TEP-30 (Jones Direct) at 81:14-17.

1 compliance costs of at least \$4 million per year.<sup>266</sup> Thus, TEP requests that the cap be increased  
2 to 0.50% of annual revenues.<sup>267</sup>

3 In addition, TEP proposes changing the ECA from a \$ per kWh charge to a percentage  
4 based charge.<sup>268</sup> This will ensure that all customer classes are treated fairly when the surcharge  
5 is reset.

6 **D. Demand Side Management Surcharge.**

7 The DSM surcharge is currently calculated as a \$ per kWh charge for residential  
8 customers, and a percentage-based charge for all other classes.<sup>269</sup> TEP proposes that a  
9 percentage-based charge apply to all customer classes. TEP believes that this will be simpler and  
10 more equitable.

11 **E. Walmart's subsidy mitigation plan.**

12 Walmart proposes to eliminate the subsidies paid by commercial and industrial classes  
13 over eight years through a "subsidy mitigation plan", which it calls the "revenue support  
14 rider."<sup>270</sup> This proposal brings all classes to rate parity under the cost of service study by eight  
15 annual rate adjustments. TEP neither supports nor opposes this proposal. However, TEP notes  
16 that Walmart witness Tillman agreed that under this plan, "residential customer bills would go  
17 up every year for eight years."<sup>271</sup>

18 **XIV. Modification of Compliance Matters.**

19 TEP has identified several Commission orders that set compliance requirements which  
20 are outdated and are either moot, have been supplanted by subsequent orders, or are no longer  
21 necessary. The proposed eliminations to the reporting requirements were addressed by Staff and  
22 have been revised from TEP's initial request to reflect Staff's position.<sup>272</sup> The revised list of  
23

24 <sup>266</sup> Ex. TEP-30 (Jones Direct) at 81:17-18.

25 <sup>267</sup> Ex. TEP-30 (Jones Direct) at 81:23-25.

26 <sup>268</sup> Ex. TEP-30 (Jones Direct) at 81:20-22.

27 <sup>269</sup> Ex. TEP-30 (Jones Direct) at 82.

<sup>270</sup> Tr. (Tillman) at 1831.

<sup>271</sup> Tr. (Tillman) at 1832.

<sup>272</sup> Ex. TEP-34 (Smith Rebuttal) at 6; Ex. S-17 (Connolly Direct) at 10-16.

1 reporting requirements that should be eliminated are set forth in **Attachment 3**. No other party  
2 opposed elimination of the reporting requirements.

3 **XV. Response to Commissioner Forese.**

4 TEP will provide a response to Commissioner Forese's September 29, 2016 letter in this  
5 docket in conjunction with filing its Reply Brief on November 14, 2016.

6 **XVI. Conclusion.**

7 The Commission should approve the revenue requirement and other provisions of the  
8 Settlement Agreement. The revenue requirement is broadly supported, reasonable and in the  
9 public interest.

10 The record shows a mismatch between fixed costs and volumetric rates which creates  
11 ever-increasing levels of unrecovered fixed costs. The proposed rate design changes, including  
12 the increased basic service charge and reducing residential volumetric tiers from four to two, are  
13 an important step in beginning to address TEP's antiquated rate design and related under-  
14 recovery of fixed cost revenues. Another important step in addressing TEP's fixed cost recovery  
15 problem is approving the Company's proposed modifications to the LFCR to include *all* lost  
16 fixed costs caused by EE and DG programs.

17 The Commission should also approve the revenue allocation proposed by TEP. The large  
18 customers have proposed "buy-through", franchise agreement, and PPFAC sharing programs that  
19 should be rejected as harmful to other customers and too risky. Likewise, the special mobile  
20 home rate should remain frozen.

21 The Commission should also approve: (1) the revisions to the ECA and DSM  
22 mechanisms; (2) the proposed prepay option for customers; (3) TEP's proposed revisions to its  
23 Rules and Regulations tariff; (4) the compliance modifications described above; (5) the creation  
24 of the new Medium General Service and 138 kV customer classes; (6) cancelation of the  
25 Residential Super-Peak rate and the LPS-14 rate; (7) the revised low income rates with a fixed  
26 discount; (8) the updated community solar rate; (9) the additional meter charge for the second  
27 meter used by DG customers; and (10) the proposed Economic Development Rider.

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RESPECTFULLY SUBMITTED this 31<sup>st</sup> day of October, 2016.

Tucson Electric Power Company

By 

Bradley S. Carroll  
Tucson Electric Power Company  
88 East Broadway, MS HQE910  
P.O. Box 711  
Tucson, Arizona 85702

and

Michael W. Patten  
Timothy J. Sabo  
Jason D. Gellman  
Snell & Wilmer L.L.P.  
One Arizona Center  
400 East Van Buren Street  
Phoenix, Arizona 85004

Attorneys for Tucson Electric Power Company

1 Original and 13 copies of the foregoing  
2 filed this 31<sup>st</sup> day of October 2016, with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington Street  
6 Phoenix, Arizona 85007

7 Copies of the foregoing hand-delivered/mailed/e-mailed  
8 this 31<sup>st</sup> day of October 2016, to:

9 Jane Rodda,  
10 Administrative Law Judge  
11 Hearing Division  
12 Arizona Corporation Commission  
13 400 West Congress  
14 Tucson, Arizona 85701

15 Robin Mitchell  
16 Legal Division  
17 Arizona Corporation Commission  
18 1200 West Washington Street  
19 Phoenix, Arizona 85007

20 Thomas Broderick, Director  
21 Utilities Division  
22 Arizona Corporation Commission  
23 1200 West Washington Street  
24 Phoenix, Arizona 85007

25 Daniel W. Pozefsky, Chief Counsel  
26 RUCO  
27 1110 West Washington, Suite 220  
Phoenix, Arizona 85007

Barbara LaWall, Pima County Attorney  
Charles Wesselhoft, Deputy County Attorney  
Pima County Attorneys' Office  
32 North Stone Ave., Suite 2100  
Tucson, Arizona 85701  
Charles.Wesselhoft@pcao.pima.gov

**Consented To Service By Email**

25  
26  
27

1 C. Webb Crockett  
2 Patrick Black  
3 Fennemore Craig, PC  
4 2394 East Camelback Road, Suite 600  
5 Phoenix, Arizona 85016  
6 wrockett@fclaw.com  
7 pblack@fclaw.com  
8 **Consented To Service By Email**

9 Kevin Higgins  
10 Energy Strategies, LLC  
11 215 South State Street, Suite 200  
12 Salt Lake City, Utah 84111

13 Nicholas J. Enoch  
14 Jarrett J. Haskovec  
15 Emily A. Tornabene  
16 Lubin & Enoch, PC  
17 349 North Fourth Avenue  
18 Phoenix, Arizona 85003

19 Lawrence V. Robertson, Jr.  
20 P.O. Box 1448  
21 Tubac, Arizona 85646

22 Meghan H. Grabel  
23 Osborn Maladon, PA  
24 2929 North Central Avenue  
25 Phoenix, Arizona 85012  
26 mgrabel@omlaw.com  
27 **Consented To Service By Email**

28 Gary Yaquinto, President & CEO  
29 Arizona Investment Council  
30 2100 North Central Avenue, Suite 210  
31 Phoenix, Arizona 85004  
32 gyaquinto@arizonaaic.org  
33 **Consented To Service By Email**

34 Timothy M. Hogan  
35 Arizona Center for Law in the Public Interest  
36 202 E. McDowell Road, Suite 153  
37 Phoenix, Arizona 85004  
38 thogan@aclpi.org  
39 **Consented To Service By Email**

1 Rick Gilliam  
2 Director of Research and Analysis  
3 The Vote Solar Initiative  
4 1120 Pearl Street, Suite 200  
5 Boulder, Colorado 80302  
6 rick@votesolar.org

7 **Consented To Service By Email**

8 Briana Kobor, Program Director  
9 Vote Solar  
10 360 22<sup>nd</sup> Street, Suite 730  
11 Oakland, CA 94612  
12 briana@votesolar.org

13 **Consented To Service By Email**

14 Michael Alan Hiatt  
15 Katie Dittelberger  
16 Earthjustice  
17 633 17<sup>th</sup> Street, Suite 1600  
18 Denver, Colorado 80202  
19 mhiatt@earthjustice.org  
20 kdittleberger@earthjustice.org

21 **Consented To Service By Email**

22 Craig A. Marks  
23 Craig A. Marks, PLC  
24 10645 N. Tatum Blvd., Suite 200-676  
25 Phoenix, Arizona 85028  
26 craig.marks@azbar.org

27 **Consented To Service By Email**

18 Pat Quinn  
19 President and Managing Partner  
20 Arizona Utility Ratepayer Alliance  
21 5521 E. Cholla Street  
22 Scottsdale, Arizona 85254

22 Kurt J. Boehm  
23 Jody Kyler Cohn  
24 Boehm, Kurtz & Lowry  
25 36 E. Seventh Street, Suite 1510  
26 Cincinnati, OH 45202

25 The Kroger Co.  
26 Attn: Corporate Energy Manager (G09)  
27 1014 Vine Street  
Cincinnati, OH 45202

1 Stephen J. Baron  
2 J. Kennedy & Associates  
3 570 Colonial Park Dr., Suite 305  
4 Roswell, GA 30075

4 Travis Ritchie  
5 Sierra Club Environmental Law Program  
6 2101 Webster Street, Suite 1300  
7 Oakland, California 94612  
8 Travis.ritchie@sierraclub.org  
9 **Consented To Service By Email**

8 Court S. Rich  
9 Rose Law Group pc  
10 7144 E. Stetson Dr., Suite 300  
11 Scottsdale, AZ 85251  
12 crich@roselawgroup.com  
13 **Consented To Service By Email**

12 Jeffrey Shinder  
13 Constantine Cannon LLP  
14 335 Madison Avenue, 9<sup>th</sup> Floor  
15 New York, NY 10017

15 Richard O. Levine  
16 Constantine Cannon LLP  
17 1001 Pennsylvania Ave, NW  
18 Suite 1300 North  
19 Washington, DC 20004

18 Thomas A. Loquvam  
19 Pinnacle West Capital Corporation  
20 P.O. Box 53999, MS 8695  
21 Phoenix, AZ 85072  
22 thomas.loquvam@pinnaclewest.com  
23 **Consented To Service By Email**

22 Kerri A. Carnes  
23 Arizona Public Service Company  
24 P.O. Box 53072, MS 9712  
25 Phoenix, AZ 85072-3999  
26 Kerri.Carnes@aps.com  
27 **Consented To Service By Email**

1 Tom Harris, Chairman  
2 Arizona Solar Energy Industries Association  
3 2122 W. Lone Cactus Dr., Suite 2  
4 Phoenix, AZ 85027  
5 Tom.harris@ariseia.org

**Consented To Service By Email**

6 Scott Wakefield  
7 Hienton & Curry, PLLC  
8 5045 N 12th Street, Suite 110  
9 Phoenix, Arizona 85014-3302

10 Steve Chriss  
11 Wal-Mart Stores, Inc.  
12 2011 S.E. 10th Street  
13 Bentonville, Arkansas 72716

14 Ken Wilson  
15 Western Resource Advocates  
16 2260 Baseline Road, Suite 200  
17 Boulder, Colorado 80302

18 Jeff Schlegel  
19 SWEEP Arizona Representative  
20 1167 W. Samalayuca Dr.  
21 Tucson, Arizona 85704-3224

22 Ellen Zuckerman  
23 SWEEP Senior Associate  
24 4231 E. Catalina Dr.  
25 Phoenix, Arizona 85018

26 Cynthia Zwick  
27 Arizona Community Action Association  
28 2700 North 3<sup>rd</sup> Street, Suite 3040  
29 Phoenix, Arizona 85004

30 Kevin Hengehold  
31 Arizona Community Action Association  
32 2700 N 3rd St., Suite 3040  
33 Phoenix, Arizona 85004

34 Bryan Lovitt  
35 3301 West Cinnamon Drive  
36 Tucson, Arizona 85741

37

1 Kevin M. Koch  
2 P.O. Box 42103  
3 Tucson, Arizona 85733

4 Karen White  
5 139 Barnes Drive  
6 Suite 1  
7 Tyndall Air Force Base, Florida 32401  
8 karen.white.13@us.af.mil

9 **Consented To Service By Email**

10 Kyle J. Smith  
11 9275 Gunston Road (JALS RL/IP)  
12 Suite 1300  
13 Fort Belvoir, Virginia 22060  
14 kyle.j.smith124.civ@mail.mil

15 **Consented To Service By Email**

16 Jeffrey W. Crockett  
17 Crockett Law Group PLLC  
18 2198 E. Camelback Road, Suite 305  
19 Phoenix, Arizona 85016

20 Bruce Plenk  
21 2958 N. St. Augustine Place  
22 Tucson, Arizona 85712  
23 bplenk@igc.org

24 **Consented To Service By Email**

25 Garry D. Hays  
26 Law Offices of Garry D. Hays, PC  
27 2198 E. Camelback Road, Suite 305  
Phoenix, Arizona 85016

28 Greg Patterson  
29 Munger Chadwick  
30 916 West Adams, Suite 3  
31 Phoenix, Arizona 85007

32 Camila Alarcon  
33 Gammage & Burnham, PLC  
34 Two N. Central Ave., 15<sup>th</sup> Floor  
35 Phoenix, Arizona 85004  
36 calarcon@gblaw.com

37 **Consented To Service By Email**

38

1 Michele L. Van Quathem  
2 Law Office of Michele Van Quathem, PLLC  
3 7600 N. 15<sup>th</sup> St., Suite 150-30  
4 Phoenix, Arizona 85020  
5 mvq@mvqlaw.com

**Consented To Service By Email**

6 By *Jaclyn Howard*  
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8  
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11  
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# **Attachment 1**

Tucson Electric Power Company  
 Summary of Revenues by Customer Class  
 Present and Proposed Revenues  
 Test Year Ended June 30, 2015

Rate Description	Total Adjusted Revenues - Pre Migration			Total Proposed Revenues - Post Migration			Proposed Revenues Percentage Changes From:			
	Margin	Fuel	Total	Margin	Fuel	Total	TY Adjusted Pre-Migration	TY Adjusted Post-Migration	TY Adjusted Post-Migration w/ Current PPFAC	TY Adjusted Post-Migration w/ Current PPFAC
Residential	\$275,887,975	\$135,724,786	\$411,612,761	\$327,768,312	\$122,880,197	\$450,648,508	9.5%	9.5%	11.9%	11.9%
General Service	\$184,448,887	\$78,695,943	\$263,144,831	\$180,501,853	\$62,408,888	\$242,910,741	-7.7%	7.1%	9.6%	9.6%
Large General Service	\$68,460,569	\$43,017,444	\$111,478,013	\$96,255,565	\$48,879,589	\$145,135,154	30.2%	2.4%	5.4%	5.4%
Large Power Service	\$52,159,816	\$49,685,275	\$101,845,092	\$56,404,499	\$39,823,018	\$96,227,517	-5.5%	-4.0%	1.9%	1.9%
Transmission Service Rate 138kV	\$16,563,182	\$15,338,804	\$31,901,985	\$17,177,856	\$13,884,777	\$31,062,633	-2.6%	-2.6%	2.0%	2.0%
Lighting	\$3,298,783	\$1,459,034	\$4,757,818	\$4,211,298	\$1,312,824	\$5,524,123	16.1%	16.1%	19.1%	19.1%
<b>TOTAL COMPANY</b>	<b>\$600,819,212</b>	<b>\$323,921,287</b>	<b>\$924,740,499</b>	<b>\$682,319,384</b>	<b>\$289,189,292</b>	<b>\$971,508,676</b>	<b>5.1%</b>	<b>5.9%</b>	<b>9.0%</b>	<b>9.0%</b>
Small General Service	\$184,448,887	\$78,695,943	\$263,144,831	\$80,549,301	\$27,643,860	\$108,193,161	-58.9%	8.2%	10.6%	10.6%
Medium General Service	\$0	\$0	\$0	\$99,952,552	\$34,765,028	\$134,717,581	N/A	5.8%	8.2%	8.2%

## **Attachment 2**



Tucson Electric Power

Tucson Electric Power Company  
Rules and Regulations

Original Sheet No.: 900  
Superseding: \_\_\_\_\_

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Filed By: Kenton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



Tucson Electric Power

Tucson Electric Power Company
Rules and Regulations

Original Sheet No.: 901
Superseding:

SECTION 1
APPLICABILITY OF RULES AND REGULATIONS AND DESCRIPTION OF SERVICE

- A. Tucson Electric Power Company ("Company") is an electric utility operating within portions of the state of Arizona. The Company will provide service to any person, institution or business located within its service area in accordance with the provisions of its Rates and the terms and conditions of these Rules and Regulations.
B. All electricity delivered to any Customer is for the sole use of that Customer on that Customer's premises only. Electricity delivered by the Company will not be redelivered or resold, or the use thereof by others permitted unless otherwise expressly agreed to in writing by the Company. However, those Customers purchasing electricity for redistribution to the Customer's own tenants (only on the Customer's premises) may separately meter each tenant distribution point for the purpose of prorating the Customer's actual purchase price of electricity delivered among the various tenants on a per unit basis.
C. These Rules and Regulations will apply to all electric service furnished by the Company to its Customers.
D. These Rules and Regulations are part of the Company's Rates on file with, and duly approved by, the Arizona Corporation Commission (ACC). These Rules and Regulations will remain in effect until modified, amended, or deleted by order of the ACC. No employee, agent or representative of the Company is authorized to modify the Company Rules.
E. These Rules and Regulations will be applied uniformly to all similarly situated Customers.
F. In case of any conflict between these Rules and Regulations and the ACC's rules, these Rules and Regulations will apply.
G. Whenever the Company and an Applicant or a Customer are unable to agree on the terms and conditions under which the Applicant or Customer is to be served, or are unable to agree on the proper interpretation of these Rules and Regulations, either party may request assistance from the Consumer Services Section of the Utilities Division of the ACC. The Applicant or Customer also has the option to file an application with the ACC for a proper order, after notice and hearing.
H. The Company's supplying electric service to the Customer and the acceptance thereof by the Customer will be deemed to constitute an agreement by and between the Company and the Customer for delivery, acceptance of and payment for electric service under the Company's Rules and Regulations and applicable Rates.

Filed By: Kentton C. Grant
Title: Vice President of Finance and Rates
District: Entire Electric Service Area

Effective:
Decision No.
Rules and Regulations

July 1, 2013 Pending
73042 Pending



Tucson Electric Power

Tucson Electric Power Company
Rules and Regulations

Original Sheet No.: 902
Superseding:

SECTION 2
DEFINITIONS

- A. In these Rules and Regulations, the following definitions will apply unless the context requires otherwise:
1. Applicant: A person requesting the Company to supply electric service.
2. Application: A request to the Company for electric service, as distinguished from an inquiry as to the availability or charges for this service.
3. Arizona Corporation Commission ("ACC" or "Commission"): The regulatory authority of the State of Arizona having jurisdiction over public service corporations operating in Arizona hereinafter referred to as the "Commission."
4. Billing Month: The period between any two regular readings of the Company's meters at approximately thirty (30) day intervals.
5. Billing Period: The time interval between two consecutive meter readings taken for billing purposes.
6. Company: Tucson Electric Power Company acting through its duly authorized officers or employees within the scope of their respective duties.
7. Competitive Services: All aspects of retail service except those services specifically defined as "Non-competitive Services" pursuant to R14-2-1601(27) of the ACC-approved Competition Rules, or noncompetitive services as defined by the Federal Energy Regulatory Commission.
8. Connected Load: The sum of the power rating of the Customer's electrical apparatus connected to the Company's system.
9. Contiguous Site: A single site not separated by private or public property, or public street, or right of way and operated as one integral unit under the same name and as a part of the same business.
10. Contributions in Aid of Construction ("Contribution"): Funds provided to the Company by the Applicant under the terms of a line extension agreement and/or service connection Rate, the value of which is not refundable.
11. Customer: The person(s) or entity(ies) in whose name service is rendered, as evidenced by the request for electric service by the Applicant(s), or by the receipt and/or payment of bills regularly issued in his name regardless of the identity of the actual user of the service.
12. Customer Charge: The amount the Customer must pay the Company for the availability of electric service, excluding any electricity used, as specified in the Company's Rates.
13. Day: Calendar Day

Filed By: Kentton C. Grant
Title: Vice President of Finance and Rates
District: Entire Electric Service Area

Effective:
Decision No.
Rules and Regulations

July 1, 2013 Pending
73042 Pending



**SECTION 2**  
**DEFINITIONS**  
(continued)

14. Demand: The rate at which power is delivered during any specified period of time. Demand may be expressed in kilowatts, kilovolt-amperes, or other suitable units.
15. Disabled: A person with a physical or mental condition which substantially contributes to the person's inability to manage his or her own resources, carry out daily living activities, or protect oneself from neglect or hazardous situations without assistance from others.
16. Distribution Lines: The Company's lines operated at distribution voltage, which are constructed along public roadways or other bona fide rights-of-way, including easements on Customer's property.
17. Elderly: A person who is 65 years of age or older.
18. Electronic Billing: Optional billing service whereby Customers may elect to receive, view and pay their bills electronically.
19. Energy: Electric energy, expressed in kilowatt-hours.
20. Illness: A medical ailment or sickness for which a residential Customer obtains a verified document from a licensed medical physician stating the nature of the illness and that discontinuance of service would be especially dangerous to the Customer's health.
21. Interruptible Electric Service: Electric service that is subject to interruption as specified in the Company's Rate.
22. Kilowatt ("kW"): A unit of power equal to 1,000 watts.
23. Kilowatt-Hour ("kWh"): The amount of electric energy delivered in one hour at a constant rate of one kilowatt.
24. Law: Any statute, rule, order or requirement established and enforced by government authorities.
25. Line Extension: The lines and equipment necessary to extend the electric distribution system of the Company to provide service to additional Customers.
26. Long-Term Rental Mobile Home Park: A park which is finish-graded and has permanently paved roadways, sewer and water connections, and which provides rental spaces to permanent and semi-permanent occupants, where the average length of stay is a minimum of six (6) months of mobile homes, manufactured homes, RVs, or travel trailers which are owned either by the occupant or by other persons.
27. Master Meter: A meter for measuring or recording the flow of electricity at a single location before distribution to tenants or occupants for their individual usage.
28. Megawatt ("MW"): Unit of power equal to 1,000,000 watts.

Filed By: Kentton C. Grant  
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Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



Tucson Electric Power

**Tucson Electric Power Company  
Rules and Regulations**

Original Sheet No.: 902-2  
Superseding: \_\_\_\_\_

**SECTION 2  
DEFINITIONS  
(continued)**

29. Meter: The instrument and any associated equipment used for measuring, indicating or recording the flow of electricity that has passed through it.
30. Meter Tampering: A situation in which a meter has been illegally altered, including, but not limited to: meter bypassing; use of magnets to slow the meter recording; and broken meter seals.
31. Minimum Charge: The amount the Customer must pay for the availability of electric service, including an amount of usage, as specified in the Company's Rates.
32. Month: The period between any two (2) regular readings of the Company's meters at approximately thirty (30) day intervals.
33. On-site Generation: Any and all power production generated on or adjacent to a Customer's property that is controlled, utilized, sold, or consumed by said Customer or its agent.
34. Pad Mounted Elbow Switchgear Cabinet ("PME Switchgear Cabinet"): A 3-phase pad mounted switchgear used within an underground distribution system.
35. Permanent Customer: A Customer who is a tenant or owner of a service location who applies for and receives permanent electric service.
36. Permanent Service: Service which, in the opinion of the Company, is of a permanent and established character. The use of electricity may be continuous, intermittent, or seasonal in nature.
37. Person: Any individual, partnership, firm, corporation, governmental agency, or other organization operating as a single entity.
38. Point of Delivery: In all cases, unless otherwise specified, "point of delivery" is the location on the Customer's building, structure, or premises where all wires, conductors, or other current-carrying devices of the Customer join or connect with wires, conductors, or other current-carrying devices of the Company. The Company will determine the point of delivery in accordance and based on the specific design specifications, relevant and appropriate technical standards and specifications, rate schedules and construction standards as applicable to the specific situation. Location and type of metering facilities will be determined by the Company and may or may not be at the same location as the point of delivery.
39. Power: The rate of generating, transferring and/or using electric energy, usually expressed in kilowatts.
40. Power Factor: The ratio of real or active power ("kW") to apparent or reactive power ("kVA").
41. Premises: All of the real property and apparatus employed in a single enterprise on an integral parcel of land undivided by public streets, alleys or railways.

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**SECTION 2**  
**DEFINITIONS**  
(continued)

- 42. Primary Service and Metering: Service supplied directly from the Company's high voltage distribution or transmission lines without prior transformation to a secondary level.
- 43. Rates: The charge(s), related term(s) and conditions of the Company's tariffs.
- 44. Residential Subdivision-~~Development~~: Any platted tract of land which has been divided into six or more contiguous lots with an average size of one acre or less for use for the construction of residential buildings or permanent ~~mobile~~ manufactured homes for either single or multiple occupancy.
- 45. Residential Use: Service to Customers using electricity for domestic purposes such as space heating, air conditioning, water heating, cooking, clothes drying, and other residential uses, including use in apartment buildings, ~~mobile~~ manufactured home parks, and other multi-unit residential buildings.
- 46. Rules and Regulations or Company Rules: These Rules and Regulations that are part of the Company's Tariffs and Rates.
- 47. Secondary Service: Service supplied at secondary voltage levels from the load side of step-down transformers connected to the Company's high voltage distribution lines.
- 48. Service Area: The territory in which the Company has been granted a certificate of convenience and necessity and is authorized by the Commission to provide electric service.
- 49. Service Classifications: Service classifications will be those provided by the filed rate schedules.
- 50. Service Drop: The overhead service conductors from the last Company-owned pole or other aerial support to and including the splices, if any, connecting to the Customer's service entrance conductors at a building or other structure.
- 51. Service Establishment Charge: The charge as specified in the Company's Rates which covers the cost of establishing a new account.
- 52. Service Lateral: The underground service conductors between the street main, including any risers at a pole or other structure or from transformers, and the first point of connection to the Customer's service entrance conductors in a terminal box or meter or other enclosure with adequate space, inside or outside the building wall.
- 53. Service Line: The last line extending from a distribution line or transformer to the Customer's premises or point of delivery.
- 54. Service Point: Unless otherwise stated, all references to "service point" in this agreement will refer to an installed service, identified by a Universal Node Identifier ("UNI").

Filed By: Kentton C. Grant  
 Title: Vice President of Finance and Rates  
 District: Entire Electric Service Area

Effective: \_\_\_\_\_  
 Decision No. \_\_\_\_\_  
 Rules and Regulations

July 1, 2013 Pending  
73042 Pending



Tucson Electric Power

Tucson Electric Power Company  
Rules and Regulations

Original Sheet No.: 902-4  
Superseding: \_\_\_\_\_

**SECTION 2**  
**DEFINITIONS**  
(continued)

55. Service Reconnection Charge: The charge as specified in the Company's Rates which must be paid by the Customer prior to reestablishment of electric service each time the electricity is disconnected for nonpayment or whenever service is otherwise discontinued for failure to comply with the Company's Rates or Rules and Regulations.
56. Service Reestablishment Charge: A charge as specified in the Company's Rates for service at the same location where the same Customer had ordered a service disconnection within the preceding twelve-month period.
57. Single Family Dwelling: A house, apartment, or a ~~mobile~~ manufactured home permanently affixed to a lot, or any other permanent residential unit which is used as a permanent home.
58. Single-Phase Service: Two (2) or Three (3) wire service ~~(usually 120/240 volts)~~.
59. Tariffs: The terms and conditions of the services offered by the Company, including a schedule of the rates and charges for those services.
60. Temporary Service: Service to premises or enterprises which are temporary in character, or where it is known in advance that the service will be of limited duration. Service which, in the opinion of the Company, is for operations of a speculative character is also considered temporary service.
61. Three-Phase Service: Four (4) wire service ~~(usually 120/208 volts)~~.
62. Universal Node Identifier ("UNI"): A unique, permanent identification number assigned to each service Point of Delivery.
63. Weather Especially Dangerous to Health: That period of time commencing with the scheduled termination date when the local weather forecast, as predicted by the National Oceanic and Atmospheric Administration, indicates that the temperature will not exceed 32 degrees Fahrenheit for the next day's forecast.

Filed By: Kenton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73012 Pending



Tucson Electric Power

Tucson Electric Power Company
Rules and Regulations

Original Sheet No.: 903
Superseding:

SECTION 3
ESTABLISHMENT OF SERVICE

A. Information from New Applicants

- 1. The Company may obtain the following minimum information from each new application for service:
a. Name or names of Applicant(s);
b. Service address or location and telephone number;
c. Billing address and telephone number, if different than service address;
d. Social Security Number or Driver's License number and date of birth to be consistent with verifiable information on legal identification;
e. Address where service was provided previously;
f. Date Applicant will be ready for service;
g. Statement of whether premises have been supplied with electric service previously;
h. Purpose for which service is to be used;
i. Statement of whether Applicant is owner or tenant of, or agent for the premises;
j. Information concerning the energy and demand requirements of the Customer; and
k. Type and kind of life-support equipment, if any, used by the Customer or at the service address.
2. The supplying of electric service by the Company and the acceptance of that electric service by the Customer will be deemed to constitute an agreement by and between the Company and the Customer for delivery, acceptance and payment for electric service under the Company's applicable Rates and Rules and Regulations.
3. The term of any agreement not otherwise specified will become operative on the day the Customer's installation is connected to the Company's facilities for the purpose of taking electric energy.
4. The Company may require a written contract with special guarantees from Applicants whose unusual characteristics of load or location would require excessive-a substantial investment in facilities or whose requirements for service are of a special nature.
5. Signed contracts may be required for service to commercial and industrial establishments. Neither these contracts, nor any modifications to these contracts, will be binding upon the Company until executed by a duly authorized representative of the Company.
6. Where service is rendered to two (2) or more Customers whose names appear on the bill, as evidenced on the bill, the Company will have the right to collect the full amount owed it from any one of the Customers.
7. Where an occupant of the premises who owes a debt to the Company, but is not the Applicant or the Customer, the occupant shall also be jointly and severally liable for the bills rendered to the premises.

Filed By: Kentton C. Grant
Title: Vice President of Finance and Rates
District: Entire Electric Service Area

Effective:
Decision No.
Rules and Regulations

July 1, 2013 Pending
73042 Pending



Tucson Electric Power

Tucson Electric Power Company
Rules and Regulations

Original Sheet No.: 903-1
Superseding:

SECTION 3
ESTABLISHMENT OF SERVICE
(continued)

B. Deposits

- 1. The Company may require from any present or prospective Customer a deposit to guarantee payment of all bills. This deposit may be retained by the Company until service is discontinued and all bills have been paid, except as provided in Subsection 3.B.3 below. Upon proper application by the Customer, the Company will then return said deposit, together with any unpaid interest accrued thereon from the date of commencement of service or the date of making the deposit, whichever is later. The Company will be entitled to apply said deposit together with any unpaid interest accrued thereon, to any indebtedness for the same class of service owed to the Company for electric service furnished to the Customer making the deposit. When said deposit has been applied to any such indebtedness, the Customer's electric service may be discontinued until all such indebtedness of the Customer is paid and a like deposit is again made with the Company by the Customer. No interest will accrue on any deposit after discontinuance of the service to which the deposit relates.

The Company will not require a deposit from a new Applicant for residential service if the Applicant is able to meet any of the following requirements:

- a. The Applicant has had service of a comparable nature with the Company at another service location within the past two (2) years and was not delinquent in payment more than twice during the last twelve (12) consecutive months of service or was not disconnected for nonpayment; or
b. The Applicant can produce a letter of credit or verification from an electric utility where service of a comparable nature was last received by Applicant which states that the Applicant has had a timely payment history at time of service discontinuation; or
c. Instead of a deposit, the Company receives deposit guarantee notification from a social or governmental agency acceptable to the Company. A surety bond may be provided as security for the Company in an amount equal to the required deposit.

- 2. The Company may issue a non-assignable, non-negotiable receipt to the Applicant for the deposit. The inability of the Customer to produce his or her receipt will in no way impair the Customer's right to receive a refund of the deposit that is reflected on the Company records.

Cash deposits held by the Company twelve (12) months or longer will earn interest at the established one-year Treasury Constant Maturities rate, effective on the first business day of each year, as published on the Federal Reserve website.

2.

- 3. a. Residential Customers - The Company may require a residential Customer to establish or reestablish a deposit if the Customer becomes delinquent in the payment of three (3) two (2) or more bills within a twelve (12) consecutive month period, or has been disconnected from service during the last twelve (12) months, or the Company has a reasonable belief that the Customer is not credit worthy based on a rating from a credit agency utilized by the Company.

Filed By: Kenton C. Grant
Title: Vice President of Finance and Rates
District: Entire Electric Service Area

Effective:
Decision No.
Rules and Regulations

July 1, 2013 Pending
73042 Pending



Tucson Electric Power

Tucson Electric Power Company  
Rules and Regulations

Original Sheet No.: 903-2  
Superseding: \_\_\_\_\_

Deposits or other instruments of credit will automatically expire or be refunded or credited to the Customer's account, after ~~twelve~~ (12) consecutive months of service following full payment of deposit during which time the Customer has not been delinquent ~~more than two~~ (2) times or has not been disconnected for non-payment, unless the Customer has filed bankruptcy in the last a twelve (12)-months period.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

~~July 1, 2013~~ Pending  
~~73012~~ Pending



**SECTION 3**  
**ESTABLISHMENT OF SERVICE**  
(continued)

4. b. Non-Residential Customers – The Company may require a non-residential Customer to establish or reestablish a deposit if the Customer becomes delinquent in the payment of two (2) or more bills, or if the Customer has been disconnected for non-payment during the last twelve (12) months, or when the Customer's financial condition may jeopardize the payment of their bill.

Deposits and non-cash deposits on file with the Company will be reviewed or other instruments of credit will automatically expire or be refunded or credited to the Customer's account after twenty-four (24) consecutive months of service and will be returned provided during which the Customer has not been delinquent more than two (2) times or disconnected for non-payment in the most recent twelve (12) month period, unless the Customer's financial condition warrants extension of the deposit.

The Company may require a Customer to establish or reestablish a deposit if the Customer became delinquent in the payment of three (3) or more bills within a twelve (12) consecutive month period, or has been disconnected from service during the last twelve (12) months, or the Company has a reasonable belief that the Customer is not credit worthy based on a rating from a credit agency utilized by the Company. [Subsection 3.B.4 has not been deleted; it has been moved to Subsection 3.B.3.]

4. —

- 5. The Company may review the Customer's usage after service has been connected and adjust the deposit amount based upon the Customer's actual usage.
- 6. A separate deposit may be required for each meter installed.
- 7. Residential Customer deposits will not exceed two (2) times that Customer's estimated average monthly bill. Non-residential Customer deposits will not exceed two and one-half (2.5) times that Customer's maximum estimated monthly bill. If actual usage history is available, then that usage, adjusted for normal weather, will be the basis for the estimate.
- 8. The posting of a deposit will not preclude the Company from terminating service when the termination is due to the Customer's failure to perform any obligation under the agreement for service or any of these Rules and Regulations.

C. Conditions for Supplying Service

The Company reserves the right to determine the conditions under which service will be provided. Conditions for service and extending service to the Customer will be based upon the following:

- 1. Customer has wired his premises in accordance with the National Electric Code, City, County and/or State codes, whichever are applicable.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: \_\_\_\_\_  
Decision No. \_\_\_\_\_  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



Tucson Electric Power

**Tucson Electric Power Company  
Rules and Regulations**

Original Sheet No.: 903-4  
Superseding: \_\_\_\_\_

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2. If the Company determines that there is a reasonable basis to believe that the Customer's premises poses a safety risk to Company employees, then the Company may, at its option, install a meter or facilities with remote connect and/or disconnect capabilities.

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Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
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**SECTION 3**  
**ESTABLISHMENT OF SERVICE**  
(continued)

- 3. Customer has installed the meter loop in a suitable location approved by the Company.
- ~~4. In the case of a mobile home, the meter loop must be attached to a meter pole or to an approved support.~~
- ~~6.4. In case of temporary construction service, the meter loop must be attached to an approved support.~~
- 6.5. All meter loop installations must be in accordance with the Company's specifications and located at an outdoor location accessible to the Company.
- 7.6. Individual Customers may be required to have their property corner pins and/or markers installed to establish proper right-of-way locations.
- 8.7. Developers must have all property corner pins and/or markers installed necessary to establish proper locations to supply electric service to individual lots within subdivisions.
- 9.8. Where the installation requires more than one meter for service to the premises, each meter panel must be permanently marked (not painted) by the contractor or Customer to properly identify the portion of the premises being served.
- 10.9. \_\_\_\_\_ The identification will be the same as the apartment, office, etc., served by that meter socket. The identifying marking placed on each meter panel will be impressed into or raised from a tab of aluminum, brass or other approved non-ferrous metal with minimum one-fourth (1/4) inch-high letters. This tag must be riveted to the meter panel. The impression must be deep enough to prevent the identification(s) from being obscured by subsequent painting of the building and attached service equipment.

14. ~~10~~The Company may require the assistance of the Customer and/or the Customer's contractor to open the apartments or offices at the time the meters are set, in order to verify that each meter socket actually serves the apartment or office indicated by the marking tag. In the case of multiple buildings, the building or unit number and street address will be identified on the pull section in the manner described above.

D. Grounds for Refusal of Service

The Company may refuse to establish service if any of the following conditions exist:

- 1. When the Applicant or affiliate of the Applicant with common ownership has an outstanding amount due for the same class of electric service with the Company and the Applicant is unwilling to make satisfactory arrangements with the Company for payment, in such cases, the Company shall be entitled to transfer the balance due or credit owed on the terminated service to any other active account of the Customer for the same class of service. The failure of the Customer to pay the active account shall result in the suspension or termination of service.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



Tucson Electric Power

**Tucson Electric Power Company  
Rules and Regulations**

Original Sheet No.: 903-6  
Superseding: \_\_\_\_\_

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

~~July 1, 2013~~ Pending  
~~73012~~ Pending



Tucson Electric Power

Tucson Electric Power Company  
Rules and Regulations

Original Sheet No.: 903-7  
Superseding: \_\_\_\_\_

**SECTION 3**  
**ESTABLISHMENT OF SERVICE**  
(continued)

2. A condition exists which in the Company's judgment is unsafe or hazardous to the Applicant, the general population, or the Company's personnel or facilities.
3. ~~Refusal by~~The Applicant refuses to provide the Company with a deposit when the Customer has failed to meet the credit criteria for waiver of deposit requirements.
4. Customer is known to be in violation of the Company's Rates or Rules filed with and Regulations approved by the Commission.
5. ~~Failure of the~~Customer fails to furnish such the funds, service, equipment, and/or rights-of-way necessary to serve the Customer and which have been specified by the Company as a condition for providing service.
6. Customer fails to provide safe access to the meter that would be serving the Customer.
7. Applicant falsifies his or her identity for the purpose of obtaining service.
8. Service is requested by an Applicant and a prior Customer, who is either living with the Applicant, or who is an occupant of the premises who owes a debt to the Company from the same class of service from the same or a prior service address.
9. The Applicant is acting as an agent for a prior Customer who is deriving benefits from the energy supplied and who owes a delinquent bill from the same class of service from the same or a prior service address.
10. There is evidence of tampering or energy diversion.
- 40.11. Where the Company has a reasonable belief that the Applicant has common ownership with an affiliate that owes a delinquent bill for the same class of service.

E. Service Establishment, Reestablishment and Reconnection Charge

1. The Company will make a charge, as approved by the Commission for service transfer for meter reads only set forth as Fee No. 1 in the TEP Statement of Charges.
2. The Company will make a charge, as approved by the Commission for ~~service~~the establishment, ~~or reestablishment or reconnection of other than service reads~~ under usual operating procedures, for single-phase service only during regular business hours. The charge is set forth as Fee No. 4 in the TEP Statement of Charges.

Filed By: Kenton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



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**SECTION 3**  
**ESTABLISHMENT OF SERVICE**  
(continued)

3. Should single-phase service be established, ~~or reestablished~~ or reconnected during a period other than regular ~~businessworking~~ hours, at the Customer's request, the Customer will be required to pay an after-hours charge for the service connection set forth as Fee No. 5 in the TEP Statement of Charges. Where ~~the~~ the Company's scheduling will not permit service establishment, ~~reestablishment or reconnection of service~~ on the same day as requested, the Customer may elect to pay the after-hours charge for establishment that day or ~~his/her~~ service will be established on the next available business day ~~set forth as Fee No. 8 in the TEP Statement of Charges~~. Even so, a Customer's request to have the Company establish service after-hours is subject to the Company having ~~Staff~~ Staff available; there is no guarantee that the Company will have the staffing available for service establishment, reestablishment or reconnection of service outside of regular business hours.
4. The Company will make a charge, as approved by the Commission for service establishment or reestablishment other than service reads under usual operating procedures, for three-phase service only, during regular business hours set forth as Fee No. 6 in the TEP Statement of Charges.
5. Should three-phase service be established, ~~or reestablished~~ or reconnected during a period other than regular ~~businessworking~~ hours at the Customer's request, the Customer will be required to pay an after-hours charge for the service connection set forth as Fee No. 7 in the TEP Statement of Charges. Where ~~the~~ the Company's scheduling will not permit service establishment on the same day as requested, the Customer may elect to pay the after-hours charge for establishment, ~~reestablishment or reconnection of service~~ that day or ~~his/her~~ service will be established on the next available business day. Even so, a Customer's request to have the Company establish service after-hours is subject to the Company having Staff available; there is no guarantee that the Company will have the staffing available for service establishment, reestablishment or reconnection of service outside of regular business hours.
6. For the purpose of this Rule, the definition of service establishment is where the Applicant's facilities are ready and acceptable to the Company, the Applicant has obtained all required permits and/or inspections indicating that the Applicant's facilities comply with local construction safety and governmental standards and regulations, and the Company needs only to install a meter, read a meter, or turn the service on.
7. Reconnection Charge: Whenever the Company has discontinued service under its usual operating procedures because of any default by the Customer as provided herein, a reconnection charge not to exceed one of the charges for the reestablishment of service set forth as Fee Nos. 4-7 in the TEP Statement of Charges will be made and may be collected by the Company before service is restored. When, due to the behavior of the Customer, it has been necessary to discontinue service utilizing other than usual operating procedures, the Company will be entitled to charge ~~Fee No. 8 and collect, through verifiable means, actual costs~~ to restore service as set forth in the TEP Statement of Charges.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: \_\_\_\_\_  
Decision No. \_\_\_\_\_  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



**SECTION 3**  
**ESTABLISHMENT OF SERVICE**  
(continued)

F. Temporary Service

1. Applicants for temporary service may be required to pay Line Extension charges in accordance with ~~Subs~~Section 7.C.3-7.d. and Section 15 of the Rules.
2. Where the duration of service is to be less than one (1) month, the Applicant may also be required to advance a sum of money equal to the estimated bill for service.
3. Where the duration of service is to exceed one (1) month, the Applicant may also be required to meet the deposit requirements of the Company.
4. If at any time during the term of the agreement for service the character of a temporary Customer's operations changes so that, in the opinion of the Company, the Customer is classified as permanent, the terms of the Company's Line Extension rules will apply.

G. Identification of Load and Premises:

Upon request of the Company, the ~~Applicant must identify the~~ electric load and premises to be served by the Company must be clearly identified by the Customer at the time of application. If the service address is not recognized in terms of commonly-used identification system, the ~~Applicant~~Customer may be required to provide specific written directions and/or legal descriptions before the Company will be required to act upon a request for electric service.

~~H. Identification of Responsible Party: Any person applying on behalf of another Applicant for service to be connected in the name of or in care of another Applicant must furnish to the Company written approval from that Applicant guaranteeing payment of all bills under the account. The Customer is responsible in all cases for service supplied to the premises until the Company has received proper notice of the effective date of any change. The Customer will also promptly notify the Company of any change in physical or electronic billing address.~~

~~H.~~ Tampering With or Damaging Company Equipment

1. The Customer agrees, when accepting service that no one except authorized Company employees or agents of the Company will be allowed to remove or replace any Company-owned equipment installed on Customer's property.
2. No person, except an employee or agent acting on behalf of the Company will alter, remove, or make any connection to the Company's meter or service equipment.
3. No meter seal may be broken or removed by anyone other than an employee or agent acting on behalf of the Company; however, the Company may give its prior consent to break the seal by an approved electrician employed by a Customer when deemed necessary by the Company.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



Tucson Electric Power

Tucson Electric Power Company  
Rules and Regulations

Original Sheet No.: 903-10  
Superseding:

SECTION 3  
ESTABLISHMENT OF SERVICE  
(continued)

- 4. The Customer will be held responsible for any broken seals, tampering, or interfering with the Company's meter(s) or any other Company-owned equipment installed on the Customer's premises. In cases of tampering with meter installations, interfering with the proper working thereof, or any tampering, interfering, theft, or service diversion, including the falsification of Customer-read meter readings, Customer will be subject to immediate discontinuance of service. The Company will be entitled to collect from the Customer ~~whose name~~ or other person benefiting from the service is in, under the appropriate ~~Rate~~, for all power and energy not recorded on the meter as the result of such tampering, or other theft of service, and also additional security deposits as well as all expenses incurred by the Company for property damages, investigation of the illegal act, and all legal expenses and court costs incurred by the Company.
- 5. The Customer will be held liable for any loss or damage occasioned or caused by the Customer's negligence, want of proper care or wrongful act or omission on the part of any Customer's agents, employees, licensees or contractors.

I. Access

- 1. The Customer is responsible for providing safe access to Company facilities. The Company's authorized agents shall have satisfactory unassisted twenty-four (24) hour a day, seven (7) days a week access to the Company's equipment located on Customer's premise for the purpose of service connection, service disconnection, operation, maintenance, repair and service restoration work that the Company may need to perform.
- 2. If additional resources are required to gain safe access to perform service establishment, disconnection, meter reading, or routine maintenance, due to an affirmative, wrongful, and/or criminal act by the Customer, the Company will be entitled to collect from the Customer all expenses incurred by the Company for additional resources including: investigation of access, all legal expenses, and court costs.

J. Customer-Specific Information

Customer-specific information shall not be released without specific prior Customer authorization unless the information is requested by law enforcement or other public agency, or is requested by the Commission or its staff, or is reasonably required for legitimate account collection activities, or is necessary to provide safe and reliable service to the Customer. Such Customer authorization may be obtained electronically, in writing, or orally, as long as the oral authorization is recorded.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



Tucson Electric Power

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Original Sheet No.: 904  
Superseding: \_\_\_\_\_

**SECTION 4**  
**MINIMUM CUSTOMER INFORMATION REQUIREMENTS**

A. Information for Customers

1. The Company will make available upon Customer request not later than sixty (60) days from the date of the request, a concise summary of the rate schedule applied for by the Customer. The summary will include the following:
  - a. The monthly minimum or Customer charge, identifying the amount of the charge and the specific amount of usage included in the minimum charge, where applicable;
  - b. Rate blocks, where applicable;
  - c. Any adjustment factor(s) and method of calculation; and
  - d. Demand charge, where applicable.
2. Upon request of the Customer, either at the time of application or after, the Company will use its best efforts to assist the Customer in choosing an appropriate Rate. However, upon application for service or upon request for assistance, the Applicant or the Customer will elect the applicable Rate best suited to his requirements. The Company may assist in making this election, but will not be held responsible for notifying the Customer of the most favorable Rate and will not be required to refund the difference in charges under different Rates. The Customer is solely responsible for selecting the Rate the Customer believes is appropriate. If no Rate is selected, the Customer will be placed on the most common Rate for the class of service and the Company will not be liable to refund the difference in charges had the Customer been placed on different Rates.
3. Upon written notification of any material changes in the Customer's installation or load conditions, the Company will assist in determining if a change in Rates is desirable, but not more than one (1) such change at the Customer's request will be made within any twelve-month period.
4. The supply of electric service under a residential rate ~~schedule~~ to a dwelling involving some business or professional activity will be permitted only where such activity is of only occasional occurrence, or where the electricity used in connection with such activity is small in amount and used only by equipment which would normally be in use if the space were used as living quarters. Where the portion of a dwelling is used regularly for business, professional or other gainful purposes, and any considerable amount of electricity is used for other than domestic purposes, or electrical equipment not normally used in living quarters is installed in connection with such activities referred to above, the entire premises must be classified as non-residential and the appropriate general service rate will be applied.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73842 Pending



Tucson Electric Power

Tucson Electric Power Company  
Rules and Regulations

Original Sheet No.: 904-1  
Superseding: \_\_\_\_\_

**SECTION 4**  
**MINIMUM CUSTOMER INFORMATION REQUIREMENTS**  
(continued)

5. Upon Customer request the Company will make available within sixty (60) days from date of service commencement, a concise summary of the Company's Rates or the Commission's Rules and Regulations concerning:
  - a. Deposits;
  - b. Termination of service;
  - c. Billing and collection; and
  - d. Complaint handling.
  
6. Upon request of a Customer, the Company will transmit a written statement of actual consumption for each billing period during the prior twelve (12) months unless this data is not reasonably ascertainable. But the Company will not be required to accept more than one such request from each Customer in a calendar year. ~~Even so, the Company will charge the Customer for consumption history requests a fee as set forth as Fee No. 17 in the TEP Statement of Charges, consistent with its ACC approved Rates and/or these Rules and Regulations for providing consumption, interval or other data to the Customer. This charge will apply for each interval history request made or when Customers request their consumption history more than once in a 12-month period.~~
  
7. The Company will inform all new Customers of their right to obtain the information specified above.

**B. Information Required Due to Changes in Rates**

1. The Company will transmit to affected Customers a concise summary of any change in the Company's Rates affecting those Customers.
2. This information will be transmitted to the affected Customer within sixty (60) days of the effective date of the change.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: \_\_\_\_\_  
Decision No. \_\_\_\_\_  
Rules and Regulations

July 4, 2013 Pending  
73042 Pending



Tucson Electric Power

**Tucson Electric Power Company  
Rules and Regulations**

Original Sheet No.: 905  
Superseding: \_\_\_\_\_

**SECTION 5  
MASTER METERING**

- A. Mobile Home Parks - New Construction/Expansion
1. The Company will refuse service to all new construction and/or expansion of existing permanent residential mobile home parks unless the construction and/or expansion are individually metered by the Company. Line extensions and service connections to serve this new construction and/or expansion will be governed by these Rules and Regulations.
  2. ~~For the purpose of this rule, permanent residential mobile home parks will mean mobile home parks where, in the opinion of the Company, the average length of stay for an occupant is a minimum of six months.~~
  - 3.2. For the purpose of this rule, expansion means the acquisition of additional real property for permanent residential spaces in excess of that existing at the effective date of this rule.
- B. Residential Apartment Complexes, Condominiums, and other Multi-unit Residential Buildings
1. Master metering will not be allowed for new construction of apartment complexes and condominiums unless the building(s) will be served by a centralized heating, ventilation and/or air conditioning system and the contractor can provide to the Company an analysis demonstrating that the central unit will result in a favorable cost/benefit relationship.
  2. At a minimum, the cost/benefit analysis will consider the following elements for a central unit as compared to individual units:
    - a. Equipment and labor costs;
    - b. Financing costs;
    - c. Maintenance costs;
    - d. Estimated kWh usage;
    - e. Estimated kW demand on a coincident demand and non-coincident demand basis (for individual units);
    - f. Cost of meters and installation; and
    - g. Customer accounting cost (one account vs. several accounts).

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73012 Pending



Tucson Electric Power

**Tucson Electric Power Company  
Rules and Regulations**

Original Sheet No.: 906  
Superseding: \_\_\_\_\_

**SECTION 6  
SERVICE LINES AND ESTABLISHMENTS**

- A. Priority and Timing of Service Establishments
1. After an Applicant has complied with the Company's application requirements and has been accepted for service by the Company and obtained all required easements, permits and/or inspections indicating that the Customer's facilities comply with local construction, safety and governmental standards or regulations, the Company will schedule that Customer for service establishment.
  2. All charges are due and payable before the Company will schedule the Customer for service establishment.
  3. Service establishments will be scheduled for completion within five (5) business days of the date the Customer has been accepted for service, except in those instances when the Customer requests service establishment beyond the five (5) business day limitation.
  4. When the Company has made arrangements to meet with a Customer for service establishment purposes and the Company or the Customer cannot make the appointment during the prearranged time, the Company will reschedule the service establishment to the satisfaction of both parties.
  5. The Company will schedule service establishment appointments within a maximum range of four (4) hours during normal working hours, unless another time frame is mutually acceptable to the Company and the Customer.
  6. Service establishments must only be made by the Company.
  7. For the purposes of this rule, service establishments are where the Customer's facilities are ready and acceptable to the Company and the Company needs only to install or read a meter or turn the service on.
- B. Service Lines
1. Customer-provided Facilities
    - a. Each Applicant for service will be responsible for all inside wiring, including the service entrance, meter socket and conduit. For three-phase service, the Customer will provide, at his expense, all facilities, including conductors and conduit, beyond the Company-designated point of delivery.
    - b. Meters and service switches in conjunction with the meter must be installed in a location where the meters will be readily and safely accessible for reading, testing and inspection and where such activities will cause the least interference and inconvenience to the Customer. Location of metering facilities will be determined by the Company and may or may not be at the same location as the point of delivery. However, the meter locations will not be on the front exterior wall of the home, or in the carport or garage, unless mutually agreed to between the home builder or Customer and the Company. Without cost to the Company, the Customer must provide, at a suitable and easily accessible location, sufficient and proper space for installation of meters.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73012 Pending



Tucson Electric Power

**Tucson Electric Power Company  
Rules and Regulations**

Original Sheet No.: 906-1  
Superseding: \_\_\_\_\_

**SECTION 6  
SERVICE LINES AND ESTABLISHMENTS  
(continued)**

- c. Where the meter or service line location on the Customer's premises is changed at the request of the Customer or due to alterations on the Customer's premises, the Customer, at his expense, must provide and have installed all wiring and equipment necessary for relocating the meter and service line connection. The Company will assess a charge for moving the meter and/or service line.
  - d. Customer will provide access to the main switch or breaker for disconnecting load to enable safe installation and removal of Company meters.
2. Overhead Service Connections - Secondary Service
- a. For the initial service drop: where the Company's distribution pole line is located on the Customer's premises or on a street, highway, lane, alley, road or private easement immediately contiguous thereto, the Company will, at its own expense, furnish and install a single span of service drop line (up to 500 feet in total) from its pole to the Customer's point of attachment, provided such attachment is at the point of delivery and is of a type and so located that the service drop wires may be installed in a manner approved by the Company in accordance with good engineering practice, and in compliance with all applicable laws, ordinances, rules and regulations, including those governing clearance and points of attachment.
  - b. Whenever any of the clearances required by the applicable laws, ordinances, rules or regulations of public authorities or standards of the Company from the service drops to the ground or any object becomes impaired by reason of any changes made by the owner or tenant of the premises, the Customer will, at his own expense, provide a new and approved support, in a location approved by the Company, for the termination of the Company's service drop wires and will also provide all service entrance conductors and equipment necessitated by the change of location.
  - c. For each overhead service connection, the Customer will furnish, at his own expense, a set of service entrance conductors that will extend from the point of delivery at the point of termination of the Company's service drop on the Customer's support to the Customer's main disconnect switch. These service entrance conductors will be of a type and be in an enclosure which meets with the approval of the Company and any inspection authorities having jurisdiction.
  - d. The cost of any service line footage, in excess of that allowed at no charge, will be paid for by the Customer as set forth in the TEP Statement of Charges and will be treated as a contribution in aid of construction.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



Tucson Electric Power

Tucson Electric Power Company  
Rules and Regulations

Original Sheet No.: 906-2  
Superseding: \_\_\_\_\_

**SECTION 6**  
**SERVICE LINES AND ESTABLISHMENTS**  
(continued)

- 3. Underground Service Connections – Secondary Service
  - a. In areas where the Company maintains an underground distribution system, individual services will be underground.
  - b. Whenever the Company's underground distribution system is not complete to the point designated by the Company where the service lateral is to be connected to the distribution system, the system may be extended in accordance with Section 7.
  - c. For an initial underground service connection of single-phase service, the Company will install a service lateral from its distribution line to the Customer's Company-approved termination facilities under the following conditions (unless otherwise agreed to by the Company and the Applicant):
    - i. The Customer, at his expense, will provide the necessary trenching, conduit, conduit installation, backfill, landscape restoration and paving and will furnish, install, own and maintain termination facilities on or within the building to be served.
  - d. The Company, at its expense (up to 500 feet in total), will furnish, install, own, and maintain the underground single-phase service cables to the Customer's Company-approved termination facilities.
  - e. The Company will determine the minimum size and type of conduit and conductor for the single-phase service. The Customer will furnish and install the conduit system, including pull ropes. The ownership of this conduit or duct will be conveyed to the Company, and the Company will thereafter maintain this conduit or duct. The maximum length of any service conductor will be determined by the Company in accordance with accepted engineering practice in determining voltage drop, voltage flicker, and other relevant considerations.
  - f. The cost of any underground service line footage, in excess of that allowed at no charge, will be paid for by the Customer as set forth in the TEP Statement of Charges and will be treated as a contribution in aid of construction.
  - g. For three-phase service, the Customer will also provide, at his expense, all facilities, including conductors and conduit, beyond the Company-designated point of delivery

C. Easements and Rights-of-Way

- 1. At no cost to the Company, each Customer must grant adequate easements and rights-of-way satisfactory to the Company to ensure that Customer's proper service connection. Failure on the part of the Customer to grant adequate easements and rights-of-way will be grounds for the Company to refuse service.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: \_\_\_\_\_  
Decision No. \_\_\_\_\_  
Rules and Regulations

July 1, 2013 Pending  
73012 Pending



Tucson Electric Power

Tucson Electric Power Company  
Rules and Regulations

Original Sheet No.: 906-3  
Superseding: \_\_\_\_\_

**SECTION 6**  
**SERVICE LINES AND ESTABLISHMENTS**  
(continued)

2. When the Company discovers that a Customer or his agent is performing work, has constructed facilities, or has allowed vegetation to grow adjacent to or within an easement or right-of-way and such work, construction, vegetation or facility poses a hazard or is in violation of federal, state or local laws, ordinances, statutes, rules or regulations, or significantly interferes with the Company's access to equipment, the Company will notify the Customer or his agent and will take whatever actions are necessary to eliminate the hazard, obstruction or violation at the Customer's expense.

D. Number of Services to be Installed

Unless otherwise provided herein, or in a rate schedule or contract, the Company will not install more than one service, either overhead or underground, for any one building or group of buildings on a single premise. Separate services may be installed for separate buildings or group of buildings where necessary for the operating convenience of the Company, where provided for in Rates, or where required by law or local ordinance.

E. Multiple Service Points

Unless otherwise expressly provided herein, or in a rate schedule or contract, any person, firm, corporation, agency or other organization or governmental body receiving service from the Company at more than one location or for more than one separately-operated business will be considered as a separate Customer at each location and for each business. If several buildings are occupied and used by a Customer in the operation of a single business, then the Company, upon proper application, will furnish service for the entire group of buildings through one service connection at one point of delivery, provided all of these buildings are at one location on the same lot or tract, or on adjoining lots or tracts forming a contiguous site (not separated by any public streets) wholly owned, or controlled, and occupied by the Customer in the operation of this single business. Dwelling units will be served, metered and billed separately, except at the option of the Company.

F. Temporary Service

For service that is temporary in nature or for operations of a speculative character or questionable permanency the Customer will be charged the cost of establishing and removing the temporary service. Refer to Section 15 of the Rules for additional information regarding temporary service.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: \_\_\_\_\_  
Decision No. \_\_\_\_\_  
Rules and Regulations

July 1, 2013 Pending  
73012 Pending



Tucson Electric Power

Tucson Electric Power Company  
Rules and Regulations

Original Sheet No.: 906-4  
Superseding: \_\_\_\_\_

**SECTION 6**  
**SERVICE LINES AND ESTABLISHMENTS**  
(continued)

G. Customer-Owned Cable

When a residential Customer's privately owned underground service cable has failed, the Customer has two (2) options:

1. The Customer can have their cable repaired by a private electrical contractor which must comply with local governmental codes and ordinances; or
2. The Customer can bring their service entrance up to current Company standards. The Customer will be required to provide a service trench, conduit, conduit installation, backfill, landscape restoration and paving. The Company will furnish, install, own and maintain its underground single-phase cables to the Customer's Company-approved Point of Delivery.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013Pending  
73042Pending



Tucson Electric Power

**Tucson Electric Power Company  
Rules and Regulations**

Original Sheet No.: 907  
Superseding: \_\_\_\_\_

**SECTION 7  
LINE EXTENSIONS**

Introduction

The Company will construct, own, operate and maintain lines along public streets, roads and highways which the Company has the legal right to occupy, and on public lands and private property across which rights-of-way and easements satisfactory to the Company may be obtained without cost to or condemnation by the Company.

A request for electric service often requires the construction of new distribution lines of varying distances. The distances and costs vary widely depending upon Customer's location and load size. With such a wide variation in extension requirements, it is necessary to establish conditions under which the Company will extend its electric facilities.

All extensions (single-phase, three-phase or feeder) are subject to the availability of adequate capacity, voltage and Company facilities at the beginning point of an extension, as determined by the Company.

A standard policy has been adopted to provide service to Customers whose requirements are deemed by the Company to be ordinary in nature.

A. General Requirements

1. Upon an Applicant's request for a line extension, the Company will prepare, without charge, a preliminary electric design and a rough estimate of the cost of installation to be paid by said Applicant.
2. Any Applicant for a line extension requesting the Company to prepare detailed plans, specifications, or cost estimates will be required to deposit with the Company an amount equal to the estimated cost of preparation. The Company will, upon request, make available within ninety (90) days after receipt of the deposit referred to above, these plans, specifications, or cost estimates of the proposed line extension. Where the Applicant authorizes the Company to proceed with construction of the extension, the deposit will be credited to the cost of construction; otherwise the deposit will be nonrefundable. If the extension is to include oversizing of facilities to be done at the Customer's expense, appropriate details will be set forth in the plans, specifications and cost estimates. Subdivision developers providing the Company with approved plats will be provided with plans, specifications, or cost estimates within forty-five (45) days after receipt of the deposit referred to above.
3. The Company will provide a copy of the line extension policy prior to the Applicant's acceptance of the utility's extension agreement.
4. All line extension agreements requiring payment by the Applicant will be in writing and signed by each party.

Filed By: Kentton C. Grant  
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District: Entire Electric Service Area

Effective: \_\_\_\_\_  
Decision No. \_\_\_\_\_  
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July 1, 2013 Pending  
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5. The provisions of this rule apply only to those Applicants who, in the Company's judgment, will be permanent Customers of the Company. Applications for temporary service will be governed by the Company's rules concerning temporary service applications. The Company reserves the right to delay the extension of facilities until the satisfactory completion of required site improvements, as determined by the Company, and an approved service entrance to accept electric service has been installed.

**B. Minimum Written Agreement Requirements**

1. Each line extension agreement will, at a minimum, include the following information:
  - a. Name and address of Applicant(s);
  - b. Proposed service address or location;
  - c. Description of requested service;
  - d. Description and sketch of the requested line extension;
  - e. A cost estimate which includes a cost break down of materials, labor, and other costs as necessary;
  - f. Payment terms;
  - g. A concise explanation of any refunding provisions, if applicable;
  - h. The Company's estimated commencement and completion dates for construction of the line extension; and
  - i. A summary of the results of the economic feasibility analysis performed by the Company to determine the amount of advance required from the Applicant for the proposed line extension where applicable.
2. Each Applicant will be provided with a copy of the written line extension agreement.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
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July 1, 2013 Pending  
73042 Pending



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C. Line Extension Requirements

1. Overhead Extensions to Individual Applicants

a. Line Extension Allowance

Upon the Applicant's satisfactory completion of required site improvements, the Company will make extensions from its existing facilities of proper voltage and adequate capacity at the Company's expense up to five hundred (500) feet except where excluded in Section 7.C.1.d., Section 7.C.7., and Section 15. The distance of five hundred (500) feet is to be measured by the shortest feasible route along public streets, roads, highways, or suitable easements from the existing facilities to the Applicant's nearest point of delivery and inclusive of the service drop and is for initial site improvements, as determined by the Company, only.

b. Extensions in Excess of Line Extension Allowance Distance

The Company will make extensions in excess of five hundred (500) feet per Customer upon receipt of a non-interest bearing, refundable cash deposit with the Company to cover costs of construction computed at the rates shown in the TEP Statement of Charges (for voltages up to 14kV) for each foot of single-phase line extension or for each foot of three-phase line extension in excess of the allowance length and in accordance with Subsection 7.C.2.a.v. (unless otherwise agreed to by the Company and the Applicant).

The foregoing charges shown in the TEP Statement of Charges are based on the Company's current average cost of construction of 14kV distribution lines. The Company will review its costs periodically and will file a Rate revision when such costs have changed by more than ten percent (10%) since the last revision of costs. Such revisions will be subject to approval by the Commission before becoming effective.

The Company will install, own and maintain, on an individual project basis, the distribution facilities necessary to provide permanent service.

c. Method of Refund

- i. After a period of twelve (12) months from the date the Company is initially ready to render service from an extension, seventy-five percent (75%) of any revenue received from the Customer in excess of the footage allowance during that period will be applied toward refunding the line extension deposit.

Filed By: Kentton C. Grant  
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Effective: \_\_\_\_\_  
Decision No. \_\_\_\_\_  
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July 1, 2013 Pending  
73012 Pending



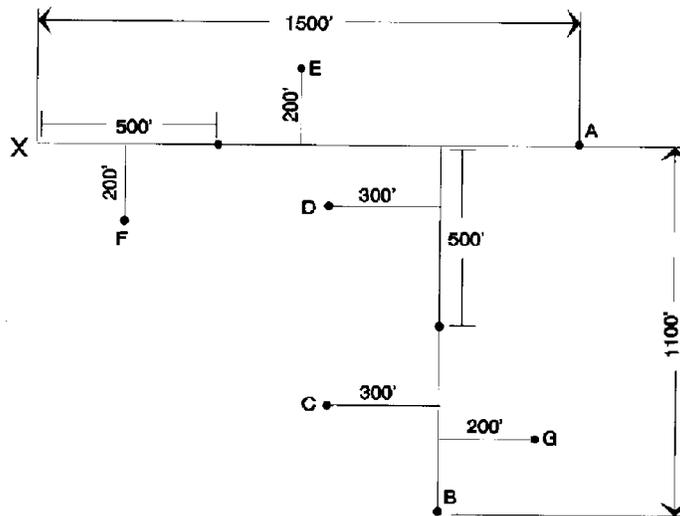
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- ii. Deposit refunds will be made to a depositor when separately metered Customers are served directly from the 14kV line extension originally constructed to serve said depositor, providing the new line extension is less than five hundred (500) feet in distance, and the Customer to be served occupies a permanent structure designed for continued occupancy for either residential or business purposes, meeting established municipal, county or state codes as applicable.

The amount of the deposit refund will be equal to the applicable TEP Statement of Charges rates per foot multiplied by five hundred (500) feet less the actual footage of the new line extension required to serve the new Customer.

In no event will the total of the refund payments made by the Company to a depositor be in excess of the deposit amount advanced.

A pictorial explanation of the method of refund for a single-phase line extension is as follows:



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Effective:  
Decision No.  
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73942 Pending



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Applicant "A" – Customer makes refundable advance of \$20,530 for footage over 500' at \$20.53/foot.

Applicant "B" – Customer makes refundable advance of \$12,318 for footage over 500' at \$20.53/foot. No refund to A for B's connection because B is over 500'.

Applicant "C" – Customer gets line at no cost. Refund goes to B at \$20.53 x 200', or \$4,106.00 because C ties directly into B's line and is less than 500'.

Applicant "D" – Customer gets line at no cost. Refund goes to B at \$20.53 x 200', or \$4,106.00, because it ties directly into B's line and is less than 500'.

Applicant "E" – Customer gets line at no cost. Refund goes to A at \$20.53 x 300', or \$6,159.00 because E ties directly into A's line and is less than 500'.

Applicant "F" – Customer gets line at no cost. Refund goes to A at \$20.53 x 300', or \$6,159.00 because F ties directly into A's line and is less than 500'.

Applicant "G" – Customer gets line at no cost. Refund goes to B at \$20.53 x 300', or \$6,159.00; B receives \$4,106.00 since this is the remaining balance of the initial deposit.

Note: The dollars in the example above are illustrative. This method requires that: a) The deposit advance made for an initial line extension cannot be refunded to the depositor unless a new line extension required to serve a new separately metered Customer is directly connected to the initial line extension; and b) the new line extension is less than 500 feet in length.

- iii. Payment of eligible refunds will be made within ninety (90) days following receipt of notification to the Company that a qualifying permanent Customer has commenced receiving service from an extension.
- iv. A Customer may request an annual survey to determine if additional Customers have been connected to and are using service from the extension.
- v. After a period of six (6) years from the date the Company is initially ready to render service from an extension, the Company will review the deposit and make appropriate refunds then due, if any. Any unrefunded amount remaining thereafter will become the property of the Company and will no longer be eligible for refund and will become a contribution in aid of construction.

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Effective: July 1, 2013  
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d. Extensions to Large General Service and Large Light and Power Customers

i. For line extensions with voltages less than or equal to 14kV, the Company will install, own and maintain, on an individual project basis, the distribution facilities necessary to provide permanent service to a large general service or large light and power Customer. Prior to the installation of facilities, the Customer will be required to make a cash advance to the Company for any portion of the capital expenditures not justified by the estimated two year revenue of the new facilities. Such advance, if any, will be in the amount determined by subtracting two (2) times the estimated annual revenue from the total estimated installation costs based in the TEP Statement of Charges. If the total of such charge is less than one hundred dollars (\$100.00), the charge will be waived by the Company. Adjustments to the advance will be made after the initial twenty-four (24) month billing period, and the Company will refund to the amount by which the estimated advance exceeds the actual installation cost less the actual twenty-four (24) month billing. In no event shall the total of the refund payments made by the Company to the depositor be in excess of the deposit amount advanced.

500 foot line extension allowance does not apply.

ii. For line extensions with voltages greater than 14kV and less than or equal to 46kV, the installation costs will be the actual costs of construction. The Company will install, own and maintain, on an individual project basis, the facilities necessary to provide permanent service. Prior to the installation of facilities, the Customer will be required to pay the estimated cost of the construction of the distribution or transmission facilities. Upon completion of construction, the Company will compare the actual cost to the estimated cost and any difference will be either billed or refunded within 60 days to the Customer.

500 foot line extension allowance and adjustments for annual revenues do not apply.

LLP Customers with line voltages greater than 46kV will necessitate a special line extension agreement as required per Subsection 7.C.7.e.

2. Overhead or Underground Distribution Facilities Up to and Within a New Duly Recorded Residential Subdivision

a. General

Required distribution facilities up to and within a new duly recorded residential subdivision, including subdivision plats which are activated subsequent to their recordation, for permanent service to single and/or multi-family residences and/or unmetered area lighting, will be constructed, owned, operated and maintained by the Company in advance of applications for service by permanent Customers only after the Company and the Applicant have entered into a written contract which (unless otherwise agreed to by the Company and the Applicant) provides that:

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Effective:
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73042 Pending



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- i. The total estimated installed cost of such overhead distribution facilities, exclusive of meters, services and exclusive of other costs as may be deemed as reasonable by the Company, will be advanced to the Company as a refundable non-interest bearing cash deposit to cover the Company's cost of construction. In the event that the advance has not met the requirements for total refunding on or before the end of two (2) years from the date of installation of the Company's facilities, the advance will further be utilized for reimbursement of the Company's cost of ownership as provided in Subsection 7.C.2.b. In lieu of the refundable cash deposit, the Applicant may elect to execute a Deferred Construction Deposit Agreement, secured by a bond or letter of credit in a form acceptable to the Company, equal to the deferred cash deposit, which guarantees the posting by the Applicant of the full cash deposit one (1) to six (6) years subsequent to the completion of construction of the Company's facilities. Letters of credit and bonds will not be acceptable where the original cash deposit would be less than one thousand dollars (\$1,000).
- ii. Refundable advances will become non-refundable at such time and in such manner provided in Subsection 7.C.2.b.
- iii. The Applicant will be responsible for ownership costs at such time and in such manner as provided in Subsection 7.C.2.b.
- iv. Where applicable, if distribution facilities must be constructed in excess of an average of five hundred (500) feet per new permanent Customer within a duly recorded residential subdivision, a nonrefundable cash amount equal to that portion of the total estimated installed cost represented by those required line facilities in excess of five hundred (500) feet per Customer average will be paid to the Company.
- v. Underground Installations – Extensions of single-phase underground distribution lines necessary to furnish permanent electric service to new residential buildings or ~~mobile~~ manufactured homes within a subdivision, in which facilities for electric service have not been constructed, for which applications are made by a developer will be installed underground in accordance with the provisions set forth in this regulation except where it is not feasible from an engineering, operational, or economic standpoint. Extensions of single-phase underground distribution lines necessary to furnish permanent electric service within a new single family and/or multi-family residential subdivision will be made by the Company in advance of receipt of applications for service by permanent Customers in accordance with the following provisions (unless otherwise agreed to by the Company and the Applicant):
  - 1) The subdivider or other Applicant will provide and install all of the required underground duct system (including all or a portion of the necessary trenching, backfilling, conduits, ducts, transformer and equipment pads, manholes, and pull boxes) in accordance with the Company's specifications and subject to the Company's inspection and approval. Upon acceptance and approval by the Company, the Applicant will grant to the Company the exclusive right to use and occupy said duct system or, at the option of the Company, will transfer ownership thereof to the Company.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
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- 2) Underground service will be installed, owned, operated and maintained as provided in Section 6 of these Rules and Regulations.
- 3) Any underground electric distribution system requiring more than single-phase service is not governed by this Subsection 7.C.2, but rather will be constructed pursuant to Subsection 7.C.4.
- vi. Underground extensions up to the duly recorded Subdivision will be owned, operated and maintained by the Company, provided the Applicant pays a non-refundable sum equal to the estimated difference between the cost of the underground extension and an equivalent overhead extension at the rate indicated by the Underground Differential on Schedule 18.
- b. Method of Refund
  - i. For Line Extensions Within A New Duly Recorded Residential Subdivision ("Subdivision Agreements")

On or after two (2) years subsequent to the installation of the Company's facilities, and thereafter every six (6) months, the Company will review the status of a subdivision to determine the percentage ratio that the number of lots or service locations occupied by permanent Customers bears to the number of lots identified in each Subdivision Agreement specified as the basis for refund. Refunds will be made prior to the actual occupancy by a permanent Customer if the lot or service location has been substantially completed so that in the judgment of the Company permanent occupancy will occur within a reasonable time. Such periodic review will continue until either: i) the calculated ratio equals a maximum of seventy-five percent (75%) at which time the total refund will be made to the Applicant; or ii) a six (6) year period subsequent to the completion of installation of the Company's facilities elapses. For purposes of computation of all charges and refundable deposit requirements under these Rules and Regulations, the installation of the Company's facilities will be that date upon which the construction is determined to be completed and the facilities are entered into the Company records of Plant and Property. The ratio determined at the time of each review multiplied by the total refundable advance associated with the line extension agreement, less applicable cost of ownership charges previously deducted, if any, will represent that portion of the advance qualified for refund. If the foregoing calculation indicates a refund is due, an appropriate refund of cash deposit, or reduction of the cash deposit requirement at the end of the deferral period in those cases where a Deferred Construction Deposit Agreement has been executed, will be made.

Filed By:	Kentton C. Grant	Effective:	July 1, 2013
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Refunds of cash deposits, less applicable cost of ownership charges, if any, will also be made by the Company within ninety (90) days following receipt of written notice from the developer requesting payment of earned refund. Furthermore, if at any time a maximum of seventy-five percent (75%) or more of the total refundable advance qualifies for refund, any balance of the advance remaining, after applicable cost of ownership charges, if any, have been deducted, will be refunded. No payment will be made by the Company in excess of the total refundable advance less applicable cost of ownership charges, if any, nor after a period of six (6) years subsequent to the completion of construction of the Company's facilities. Any un-refunded amount remaining at the end of the six (6) year period will become the property of the Company and a nonrefundable contribution in aid of construction.

- ii. For Line Extensions To The Perimeter of New Duly Recorded Residential Subdivisions ("Feeder Agreements")

On or after two (2) years subsequent to the installation of the Company's facilities, and thereafter every six (6) months, the Company will review the status of Customers added as a result of the extension and within connected subdivisions in excess of the Customer level identified in each subdivision's agreement to determine the percentage that the number of lots or service locations occupied by permanent Customers bears to the number of lots identified in the Feeder Agreement specified as the basis for refund. Refunds will be made prior to the actual occupancy by a permanent Customer if the lot or service location has been substantially completed so that in the judgment of the Company permanent occupancy will occur within a reasonable time. Such periodic review will continue until either: i) the calculated ratio equals the level identified in the Feeder Agreement at which time the total refund will be made to the Applicant; or ii) a six (6) year period subsequent to the completion of installation of the Company's facilities elapses. For purposes of computation of all charges and refundable deposit requirements under these Rules and Regulations, the installation of the Company's facilities will be that date upon which the construction is determined to be completed and the facilities are entered into the Company records of Plant and Property. The ratio determined at the time of each review multiplied by the total refundable advance associated with the line extension agreement, less applicable cost of ownership charges previously deducted, if any, will represent that portion of the advance qualified for refund. If the foregoing calculation indicates a refund is due, an appropriate refund of cash deposit, or reduction of the cash deposit requirement at the end of the deferral period in those cases where a Deferred Construction Deposit Agreement has been executed, will be made.

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Filed By:	Kentton C. Grant	Effective:	July 1, 2013
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Refunds of cash deposits, less applicable cost of ownership charges, if any, will also be made by the Company within ninety (90) days following receipt of written notice from the developer requesting payment of earned refund. Furthermore, if at any time a maximum of seventy-five percent (75%) or more of the total refundable advance qualifies for refund, any balance of the advance remaining, after applicable cost of ownership charges, if any, have been deducted, will be refunded. No payment will be made of the Company in excess of the total refundable advance less applicable cost of ownership charges, if any, nor after a period of six (6) years subsequent to the completion of construction of the Company's facilities. Any unrefunded amount remaining at the end of the six (6) year period will become the property of the Company and will be treated as a nonrefundable contribution in aid of construction.

- iii. In the event that any portion of an advance has not qualified for refund at the time of each review, the developer will be responsible for the Company's cost of ownership charges based on the average (mean) of the electric facilities represented by:
  - 1) that portion of the advance not qualified for refund at the time of current review, and
  - 2) that portion of the advance not qualified for refund at the time of the last periodic review.

When the advance is in the form of a cash deposit, the semi-annual cost of ownership charges will be equal to the average of (i) and (ii) above multiplied by five and one-half percent (5-1/2%). When the advance is in the form of a Deferred Construction Deposit, the semi-annual cost of ownership charges will be equal to (i) and (ii) above multiplied by the sum of five and one-half percent (5-1/2%) plus one-half of the original cost equivalent of the rate of return, expressed as a percent, last allowed to the Company by the Commission. Payment of such cost of ownership charges, which will be computed and paid at the time of each review after the initial review, will be made in the following manner:

When the advance is in the form of a cash deposit, a deduction of cost of ownership charge will be made by the Company from the cash deposit.

When the advance is in the form of a Deferred Construction Deposit, the Company will bill and developer will pay to Company said cost of ownership charge. In the event that the Applicant fails to pay the cost of ownership charge when due, the Company will exercise its rights provided for in the Deferred Construction Deposit, and will call the bond or letter of credit.

The portion of the original advance on which cost of ownership charges are computed will not be reduced for purposes of that computation by amounts deducted previously for cost of ownership charges.

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3. Underground Extensions to Individual Applicants

a. General

Underground line extensions will generally be made only where mutually agreed upon by the Company and the Applicant, or in areas where the Company does maintain underground distribution facilities for its operating convenience.

- i. Underground extensions will be owned, operated and maintained by the Company, provided the Applicant pays in advance a non-refundable sum equal to the estimated difference between the cost, exclusive of meters and services, of the underground extension and an equivalent overhead extension at the rate indicated by the Underground Differential in the TEP Statement of Charges (for voltages up to 14kV).
- ii. In addition to the non-refundable sum, the Applicant will (unless otherwise agreed to by the Company and the Applicant) make such refundable deposit as shown in the TEP Statement of Charges (for voltages up to 14kV) and in accordance with Subsection 7.C as otherwise would have been required under these Rules and Regulations if the extension had been made by overhead construction.
- iii. The Applicant will provide and install all of the required underground duct system (including all or a portion of the necessary trenching, backfilling, conduits, ducts, transformer and equipment pads, manholes, and pull boxes) in accordance with the Company's specifications and subject to the Company's inspection and approval. Upon acceptance and approval by the Company, the Applicant will grant to the Company the exclusive right to use and occupy said duct system or, at the option of the Company, will transfer ownership thereof to the Company.
- iv. Refunds of cash deposits will be made in the same manner as provided for overhead extensions to individual Applicants for service, in accordance with the applicable provisions of Subsection 7.C.
- v. Underground services will be installed, owned, operated and maintained as provided in Section 6 of these Rules and Regulations.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: \_\_\_\_\_  
Decision No. \_\_\_\_\_  
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July 1, 2013 Pending  
73842 Pending



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4. Replacement of Overhead with Underground Distribution Facilities

Where a Customer has requested that existing overhead distribution facilities be replaced with underground distribution facilities, the total cost of such replacement will be paid by the Customer.

5. Conversion from Single-Phase to Three-Phase Service

Where it is necessary to convert all or any portion of an existing underground distribution system from single-phase to three-phase service to a Customer, the total cost of such conversion will be paid by the Customer.

6. Long Term Rental Mobile Home Park, Townhouses, Condominiums and Apartment Complexes

Line extensions to long term rental mobile home parks, townhouses, condominiums and apartment complexes, where the property is not platted and subdivided into individual lots containing single family dwellings, will be made by the Company under terms and conditions provided in Subsection 7.C.1. The Company will, ~~when requested by the Customer,~~ install, own and maintain internal distribution facilities and individual metering for all new or expansion of said development in accordance with the provisions of Subsection 7.C.1. and 7.C.3. pertaining to duly recorded real estate subdivisions as stated in Any said development meeting the definition of a Residential Subdivision will follow Subsection 7.C.2, hereof.

7. Special Conditions

a. Contracts

Each sub divider or other Applicant for service requesting an extension over the allowable footage allowance, or in advance of applications for service to permanent Customers, or in advance of completion of required site improvements will (unless otherwise agreed to by the Company and the Applicant) be required to execute contracts covering the terms under which the Company will install lines at its own expense, or contracts covering line extensions for which advance deposits will (unless otherwise agreed to by the Company and the Applicant) be made in accordance with the provisions of these Rules and Regulations or of the applicable rate schedules.

b. Primary Service and Metering

The Company will provide primary service to a point of delivery, such point of delivery to be determined by the Company. The Customer will provide the entire distribution system (including transformers) from the point of delivery to the load. The system will be treated as primary service for the purposes of billing. The Company reserves the right to approve or require modification to the Customer's distribution system prior to installation, and the Company will determine the voltage available for primary service. Instrument transformers, metering riser poles and associated equipment to be installed and maintained by the Company will be at the Customer's expense.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73942 Pending



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c. Advances under Previous Rules and Contracts

Amounts advanced under the conditions established by a rule previously in effect will be refunded in accordance with the requirements of such contract under which the advance was made.

d. Extensions for Temporary Service

Extensions for temporary service or for operations of a speculative character or questionable permanency will be charged the applicable estimated charges for the installation and removal of temporary facilities. Temporary facilities will remain in service for a maximum of two (2) years. Refer to Section 15 of the Rules for additional information regarding temporary service.

e. Exceptional Cases

Where unusual terrain, location, soil conditions, or other unusual circumstances make the application of these line extension rules impractical or unjust to either party or in the case of extension of lines of other than standard distribution voltage, service under such circumstances will be negotiated under special agreements specifying terms and conditions covering such extensions.

f. Special or Excess Facilities

Under this rule, the Company will install only those facilities which it deems are necessary to render service in accordance with the rate schedules. Where the Customer requests facilities which are in addition to, or in substitution for, the standard facilities which the Company normally would install, the extra cost thereof will be paid by the Customer.

g. Unusual Loads

Line extensions to unusually small loads ~~not consisting of a not serving a permanent structure designed for continued occupancy for either residential or business purposes~~ permanent building (e.g. individual lights, wells, signs, recreational vehicles, travel trailers, etc.) and where 75% of the estimated one year annual revenue does not exceed the per foot line extension charge (See Fee No. 9 and Fee No. 10 of the TEP Statement of Charges) multiplied by 500 feet, will not be granted the five hundred (500) foot allowance. These line extensions ~~but~~ will instead be required to advance a non-interest bearing, refundable cash deposit with the Company for any costs of service in excess of their estimated ~~two~~ one years annual revenue. Refunding will be according to Subsections 7.C.1.c.ii. and ~~and~~ 7.C.3.a.iv. For line extensions to unusually small loads defined above and where 75% of the estimated one year revenue exceeds the per foot line extension charge multiplied by 500 feet, refer to Section 7.C for costs and refunds.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: July 1, 2013  
Decision No. Pending  
Rules and Regulations

73042 Pending



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Original Sheet No.: 907-13  
Superseding: \_\_\_\_\_

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D. Construction / Facilities Related Income Taxes

1. Collection of Income Tax Gross Up

- a. Any federal, state or local income taxes resulting from the receipt of a contribution or advance in aid of construction in compliance with this rule is the responsibility of the Company and will be recorded as a deferred tax asset and reflected in the Company's rate base for ratemaking purposes.
- b. However, if the estimated contribution or advance for any service line or distribution main extension (as determined for each individual extension agreement) exceeds \$500,000, the Company may require the Applicant to include in the contribution, advance or deferred construction deposit agreement an amount (the "gross up amount") equal to the estimated federal, state or local income tax liability of the Company resulting from the contribution or advance computed as follows:

$$\text{Gross Up Amount} = \frac{\text{Advance or Contribution}}{(1 - \text{Statutory combined income tax rate})} - \text{Advance or Contribution}$$

- c. After the Company's tax returns for the year of receipt of the advance or contribution are completed, if the statutory combined income tax rate is less than the rate used to calculate the gross-up, the Company shall refund to the Applicant an amount equal to such excess.
- d. When a gross-up amount is to be collected in connection with an extension agreement, the contract will state the tax rate used to compute the gross up amount, and will also disclose the gross-up amount separately from the estimated cost of facilities.

2. Refund of Income Tax Gross Up

- a. In the case of construction advance refunds made pursuant to Subsection 7.C.1.d (Large Light & Power Extensions), a pro rata portion of the gross up will be refunded when the amount of the underlying ~~contribution~~ advance is refunded. Any remaining gross-up will be refunded on November 1 of each year as tax depreciation deductions are taken on the Company's tax returns. At the end of five years from installation, the remaining gross up will be refunded at an amount that reflects the net present value of the Company's remaining tax depreciation deductions on the underlying advance discounted at the Company's authorized rate of return.
- b. In the case of all other advances or deferred construction deposit agreements, the gross up will be refunded, or the amount of required deferred construction deposit will be reduced, as follows:

Filed By: Kentton C. Grant  
 Title: Vice President of Finance and Rates  
 District: Entire Electric Service Area

Effective:  
 Decision No.  
 Rules and Regulations

July 1, 2013 Pending  
 73942 Pending



Tucson Electric Power

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Original Sheet No.: 907-14  
Superseding: \_\_\_\_\_

**SECTION 7**  
**LINE EXTENSIONS**  
(continued)

- i. If the full amount of the advance is refunded prior to September 30<sup>th</sup> of the year following the year in which the advance is received, the entire amount of the gross-up will be refunded.
- ii. For any amount of the advance not refunded as of September 30<sup>th</sup> of the year following the year in which the advance is received, on November 1<sup>st</sup> of each year a portion of the gross-up will be refunded based on the amount of the tax depreciation deductions taken by the Company on its federal and state income tax returns.
- iii. When any advance is refunded after depreciation refunds pursuant to clause ii have begun, a pro rata portion of the gross up will be refunded reduced by the amount of depreciation refunds previously made for that portion of the gross up.
- iv. For any advance that is not refunded at the end of the contract period, the remaining gross up will be refunded at an amount that reflects the net present value of the Company's remaining tax depreciation deductions on the underlying advance discounted at the Company's authorized rate of return.

3. Non-refundable Income Tax Gross Up for Contribution in Aid of Construction

a. At the option of the Customer, a non-refundable gross-up may be calculated as follows:

$$\text{Non-refundable Gross Up Amount} = \frac{(\text{Contribution Amount} - \text{Net Present Value of Tax Depreciation})}{(1 - \text{Current Tax Rate})} - \text{Contribution Amount}$$

4. Alternate Income Tax Gross Up for Advances in Aid of Construction

a. At the option of the Customer, a gross-up may be calculated as in Section 7.D.3.a. when an advance is received. When the Customer has received its final advance refund the alternate gross-up will be recomputed as follows:

$$\frac{\text{Alternate Gross Up Amount}}{\text{Amount}} = \frac{(\text{Advance Amount} - \text{Net Present Value of (Advance Refunds + Tax Depreciation on Advances Not Refunded)})}{(1 - \text{Current Tax Rate})} - \text{Advance Amount}$$

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: July 1, 2013  
Decision No. 73042  
Rules and Regulations

Pending  
Pending



Tucson Electric Power

**Tucson Electric Power Company  
Rules and Regulations**

Original Sheet No.: 908  
Superseding: \_\_\_\_\_

**SECTION 8  
PROVISION OF SERVICE**

**A. Company Responsibility**

1. The Company will be responsible for the safe transmission and distribution of electricity until it passes the point of delivery to the Customer.
2. The Company will be responsible for maintaining in safe operating condition all meters, equipment and fixtures installed on the Customer's premises by the Company for the purpose of delivering electric service to the Customer. The Company, however, will not be responsible for the condition of meters, equipment, and fixtures damaged or altered by the Customer.
3. The Company may, at its option, refuse service until the Customer has obtained all required permits and/or inspections indicating that the Customer's facilities comply with local construction and safety standards, including any applicable Company specifications.
4. The Company will determine, in its sole discretion, the type of service (including voltage and Point of Delivery) to be furnished for utilization by the Customer. This includes determinations involving (1) requirements to take Primary Service and Metering and (2) service voltage (including for any new on-site generation installations or generation retrofits at the Customer's premises).

**B. Customer Responsibility**

1. Each Customer will be responsible for maintaining in safe operating condition all Customer facilities on the Customer's side of the point of delivery.
2. Each Customer will be responsible for safeguarding all Company property installed in or on the Customer's premises for the purpose of supplying utility service to that Customer.
3. Each Customer will exercise all reasonable care to prevent loss or damage to Company property, excluding ordinary wear and tear. The Customer will be responsible for loss of or damage to Company property on the Customer's premises arising from neglect, carelessness, misuse, diversion or tampering and will reimburse the Company for the cost of necessary repairs or replacements.
4. Each Customer, ~~regardless of who owns the meter,~~ will be responsible for payment for any equipment damage and/or estimated unmetered usage and all reasonable costs of investigation resulting from unauthorized breaking of seals, interfering, tampering or bypassing the utility meter.
5. Each Customer will be responsible for notifying the Company of any equipment failure identified in the Company's equipment.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: \_\_\_\_\_  
Decision No. \_\_\_\_\_  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



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Original Sheet No.: 908-1  
Superseding: \_\_\_\_\_

**SECTION 8  
PROVISION OF SERVICE  
(continued)**

6. The Customer will be responsible for informing the Company of, and meeting the Company's requirements regarding, on-site or distributed generation (including distributed renewable resources and combined heat and power facilities) that the Customer or its agent intends to interconnect to the Company's transmission or distribution system. This includes compliance with all requirements contained within the Company's most current Interconnection Requirements for Distributed Generation, and the terms and conditions of the Company's Agreement for the Interconnection of Customer's Facility. Customer must also agree to enter into the Interconnection Agreement with the Company. Further, any interconnection must be in accordance with any applicable Commission regulation and order governing interconnection, as well as applicable laws.
7. The Customer, at his expense, may install, maintain and operate check-measuring equipment as desired and of a type approved by the Company, provided that such equipment will be installed so as not to interfere with operation of the Company's equipment, and provided that no electric energy will be re-metered or sub-metered for resale to another or to others, except where such re-metering will be done in accordance with the applicable orders of the Commission.

C. Continuity of Service

The Company will make reasonable efforts to supply a satisfactory and continuous level of service. However, the Company will not be responsible for any damage or claim of damage attributable to any interruption, fluctuation, or discontinuation of service resulting from:

1. Any cause against which the Company could not have reasonably foreseen or made provision for (*i.e.*, force majeure);
2. Intentional service interruptions to make repairs or perform routine maintenance; or
3. Curtailment, including brownouts or blackouts.

D. Service Interruptions

1. The Company will make reasonable efforts to reestablish service within the shortest possible time when service interruptions occur.
2. When the Company plans to interrupt service for more than four (4) hours to perform necessary repairs or maintenance, the Company will attempt to inform affected Customers at least twenty-four (24) hours in advance of the scheduled date, and these repairs will be completed in the shortest possible time to minimize the inconvenience to the Customers of the Company.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



Tucson Electric Power

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Original Sheet No.: 908-2  
Superseding: \_\_\_\_\_

**SECTION 8**  
**PROVISION OF SERVICE**  
(continued)

- 3. In the event of a national emergency or local disaster resulting in disruption of normal service, the Company may, in the public interest, interrupt service to other Customers to provide necessary service to civil defense or other emergency service agencies on a temporary basis until normal service to these agencies can be restored.
- 4. The Commission will be notified of interruption in service affecting the entire system or any major division thereof. The interruption of service and cause will be reported by telephone to the Commission within four (4) hours after the responsible representative of the Company becomes aware of said interruption. A written report to the Commission will follow.

E. Interruption of Service and Force Majeure

- 1. The Company will make reasonable provision to supply a satisfactory and continuous electric service, but does not guarantee a constant or uninterrupted supply of electricity. The Company will not be liable for any damage or claim of damage attributable to any temporary, partial or complete interruption or discontinuance of electric service attributable to a force majeure condition as set forth at Subsections 8.E.4. and 8.E.5. or to any other cause which the Company could not have reasonably foreseen and made provision against, or which, in the Company's judgment, is necessary to permit repairs or changes to be made in the Company's electric generating, transmission or distribution equipment or to eliminate the possibility of damage to the Company's property or to the person or property of others.
- 2. Whenever the Company deems that a condition exists to warrant interruption or limitation in the service being rendered, this interruption or limitation will not constitute a breach of contract and will not render the Company liable for damages suffered thereby or excuse the Customer from further fulfillment of the contract.
- 3. The use of electric energy upon the premises of the Customer is at the risk of the Customer. The Company's liability will cease at the point where its facilities are connected to the Customer's wiring.
- 4. Neither the Company nor the Customer will be liable to the other for any act, omission or circumstances (including, with respect to the Company, but not limited to, inability to provide service) occasioned by or in consequence of the following:
  - a. flood, rain, wind, storm, lightning, earthquake, fire, landslide, washout or other acts of the elements;
  - b. accident or explosion;
  - c. war, rebellion, civil disturbance, mobs, riot, blockade or other act of the public enemy;
  - d. acts of God;
  - e. interference of civil and/or military authorities;
  - f. strikes, lockouts or other labor difficulties;
  - g. vandalism, sabotage or malicious mischief;

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: \_\_\_\_\_  
Decision No. \_\_\_\_\_  
Rules and Regulations

July 1, 2013 Pending  
73942 Pending



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Original Sheet No.: 908-3  
Superseding:

**SECTION 8**  
**PROVISION OF SERVICE**  
(continued)

- h. usurpation of power, or the laws, rules, regulations or orders made or adopted by any regulatory or other governmental agency or body (federal, state or local) having jurisdiction of any of the business or affairs of the Company or the Customer, direct or indirect;
  - i. breakage, failure, or accidents to equipment or facilities;
  - j. lack, limitation or loss of electrical or fuel supply; or
  - k. any other casualty or cause beyond the reasonable control of the Company or the Customer, whether or not specifically provided herein and without limitation to the types enumerated, and which by the exercise of due diligence such party is unable to prevent or overcome.
5. A failure to settle or prevent any strike or other controversy with employees or with anyone purporting or seeking to represent employees will not be considered to be a matter within the control of the Company.
  6. Nothing contained in this Section will excuse the Customer from the obligation of paying for electricity delivered or services rendered.

F. General Liability

1. The Company will not be responsible for any third-party claims against the Company that arise from Customer's use of the Company's electricity.
2. Customer will indemnify, defend and hold harmless the Company (including the costs of reasonable attorney's fees) against all claims (including, without limitation, claims for damages to any business or property, or injury to, or death of, any person) arising out of any act or omission of the Customer, or the Customer's agents, in connection with the Company's service or facilities.
3. Except in the case of the Company's willful misconduct or gross negligence, the liability of the Company will not be liable to Customer or any other party for damages of any nature arising from errors, mistakes, omissions, interruptions, or delays of the Company, its agents, servants, or employees, in the course of, or related to, establishing, furnishing, rearranging, moving, terminating, or changing the service or facilities or equipment, except that for an interruption of service to a Customer, to the extent resulting from error, mistake, omission, interruption or delay by the Company, the Company's liability, if any, to the Customer shall will not exceed an amount equal to the charges for service applicable under the Company's Rates (calculated on a proportionate basis where appropriate) for the period of service interruption during which the error, mistake, omission, interruption or delay occurs.
4. In no event will the Company be liable for any incidental, indirect, special, or consequential damages (including lost revenue or profits) of any kind whatsoever regardless of the cause or foreseeability thereof.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: July 1, 2013  
Decision No. Pending  
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Original Sheet No.: 908-4  
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5. The Company will not be responsible in an occasion for any loss or damage caused by the negligence or wrongful act of the Customer or any of his agents, employees or licensees in installing, maintaining, using, operating or interfering with any electric facilities.

**SECTION 8**  
**PROVISION OF SERVICE**  
(continued)

G. Construction Standards and Safety

The Company will construct all facilities in accordance with the provision of the ANSI C2 Standards (National Electric Safety Code, 2007 edition, and other amended editions as are adopted by the Commission), the 2007 ANSI B.31.1 Standards, the ASME Boiler and Pressure Vessel Code, and other applicable American National Standards Institute Codes and Standards, except for such changes as may be made or permitted by the Commission from time to time. In the case of conflict between codes and standards, the more rigid code or standard will apply.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
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July 1, 2013 Pending  
73042 Pending



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Original Sheet No.: 909  
Superseding: \_\_\_\_\_

**SECTION 9  
CHARACTER OF SERVICE – VOLTAGE, FREQUENCY AND PHASE**

- A. Electric energy furnished under these Rules and Regulations will be alternating current, sixty (60) hertz single or three-phase, at the standard, nominal voltages specified by the Company. The following nominal voltages are available on the Company's system:
1. Residential Customers: 120/240 volts single-phase
  2. General Service or Light and Power Customers:
    - a. Single-Phase: 120/240 volts (all areas)
    - b. Three-Phase:
      - i. 120/240 volts 4 wire delta (from overhead system only and not for new service, upgrades only)\*
      - ii. 240/480 volts 4 wire delta (from overhead system only)\*
      - iii. 120/208 volts 4 wire wye
      - iv. 277/480 volts 4 wire wye
- \* This may be available in some existing underground areas.
- B. The primary voltage supplied will depend on the Customer's load and the system voltage available at that location; it will be specified by the Company. Normally, this will be one of the following nominal distribution or sub-transmission voltages: 7970/13800 volts 4 wire wye, or 46,000 volts 3 wire delta. The actual standard nominal voltages available to a specific Customer will depend on location, load, and type of system in the area and will be specified by the Company.
- C. A Customer must meet certain minimum load requirements in order to qualify for three-phase service under Section 7 and within the Electrical Service Requirements.
- D. The Company does not guarantee the constancy of its voltage or frequency, nor does it guarantee against its loss of one or more phases in a three-phase service. The Company will not be responsible for any damage to the Customer's equipment caused by any or all of these occurrences brought about by circumstances beyond its control.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73942 Pending



Tucson Electric Power

**Tucson Electric Power Company  
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Original Sheet No.: 909-1  
Superseding: \_\_\_\_\_

**SECTION 9  
CHARACTER OF SERVICE – VOLTAGE, FREQUENCY AND PHASE  
(continued)**

**E. Motor Protection**

The following protective apparatus, to be provided by the Customer, is required on all motor installations:

1. **No-Voltage Protection:** Motors that cannot be safely subjected to full voltage at starting must be provided with a device to insure that upon failure of voltage, the motors will be disconnected from the line. Said device should be provided with a suitable time delay relay.
2. **Overload Protection:** All motors whose voltage does not exceed 750 volts are to be provided with approved fuses of proper rating. Where the voltage exceeds 750 volts, protective devices are to be provided. In these cases it will be found desirable to install standard switching equipment. The installation of overload relays and no-voltage releases is recommended on all motors, not only as additional protection, but as a means of reducing the cost of refusing.
3. **Phase Reversal:** Reverse phase relays and circuit breakers or equivalent devices are recommended on all polyphase installations to protect the installation in case of phase reversal or loss of one phase.

**F. Load Fluctuation and Balance**

1. **Interference with Service:** The Company reserves the right to refuse to supply loads of a character that may seriously impair service to any other Customers. In the case of hoist or elevator motors, welding machines, furnaces and other installations of like character where the use of electricity is intermittent or subject to violent fluctuations, the Company may require the Customer to provide at the Customer's own expense suitable equipment to reasonably limit those fluctuations.
2. The Company has the right to discontinue electric service to any Customer who continues to use appliances or other devices, equipment and apparatus detrimental to the service after the Company notifies the Customer of his or her causing detriment to the service.
3. **Allowable Instantaneous Starting Current Values:** The instantaneous starting current (determined by tests or based on limits guaranteed by manufacturers) drawn from the line by any motor must not exceed a value (as determined by the Company) that may be deemed detrimental to the normal operation of the system. If the starting current of the motor exceeds that value, a starter must be used or other means employed to limit the current to the value specified. A reduced voltage starter may be required for polyphase motors.
4. When three-phase service supplied under a power rate includes incidental lighting, the Customer will supply any necessary lighting transformers and arrange its lighting to give a substantially balanced three-phase load.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73012 Pending



Tucson Electric Power

**Tucson Electric Power Company  
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Original Sheet No.: 909-2  
Superseding: \_\_\_\_\_

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**SECTION 9  
CHARACTER OF SERVICE – VOLTAGE, FREQUENCY AND PHASE  
(continued)**

G. Customer Responsibility for Equipment Used in Receiving Electric Energy

No statement or requirement in these Rules and Regulations can be construed as the assumption of any liability by the Company for any wiring of electrical equipment or the operation of same, installed in, upon, or about the Customer's premises, nor will the Company be responsible for any loss or damage occasioned or caused by the negligence, want of proper care or wrongful act of the Customer, or any of the Customer's agents or employees or licenses on the part of the Customer in installing, maintaining, using, operating, or interfering with any such wiring, machinery or apparatus.

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Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



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Original Sheet No.: 910  
Superseding: \_\_\_\_\_

**SECTION 10  
METER READING**

- A. Company or Customer Meter Reading
1. The Company may, at its discretion, allow for Customer reading of meters.
  2. It will be the responsibility of the Company to inform the Customer how to properly read his or her meter.
  3. Where a Customer reads his or her own meter, the Company will read the Customer's meter at least once every four (4) months.
  4. Where the Company must read the meter every four (4) months, the Customer shall pay Fee No. 3 as set forth in the TEP Statement of Charges for every read.
  5. The Company will provide the Customer with postage-paid cards or other methods to report the monthly reading to the Company.
  6. The Company will specify the timing requirements for the Customer to submit his or her monthly meter reading to conform to the Company's billing cycle.
  7. Meter readings will be scheduled for periods of not less than twenty-five (25) days or more than thirty-five (35) days. In the event the Customer fails to submit a reading within this ten (10) day period, the Company may issue the Customer an estimated bill.
  8. In the event the Customer fails to submit monthly reads as designated above, the Company may estimate the usage for up to three (3) months.
  9. The Company and the Customer shall mutually agree on a method to submit meter reads.
  10. Where the Customer is providing their own meter reads, the Customer is responsible for all applicable charges as calculated from the point the Company last read the Customer's meter.
  11. Meters will be read monthly on as close to the same day as practical.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



Tucson Electric Power

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Original Sheet No.: 910-1  
Superseding: \_\_\_\_\_

**SECTION 10**  
**METER READING**  
(continued)

B. Measuring of Service

1. All energy sold to Customers and all energy consumed by the Company, except that sold according to fixed charge schedules, will be measured by commercially acceptable measuring devices owned and maintained by the Company. This Subsection will not apply where it is impractical to install meters, such as street lighting or security lighting, or where otherwise authorized by the Commission.
2. When there is more than one meter at a location, the metering equipment will be so tagged or plainly marked as to indicate the circuit metered or metering equipment in accordance with Subsection 3.C.8.
3. Meters which are not direct reading will have the multiplier plainly marked on the meter.
4. ~~All charts taken from recording meters will be marked with the date of the record, the meter number, Customer, and chart multiplier.~~ The Company may employ meter reading technology that records interval data and displays total consumption.
5. Metering equipment will not be set "fast" or "slow" to compensate for supply transformer or line losses.

C. Customer Requested Rereads

1. The Company will, at the request of a Customer, reread that Customer's meter within ten (10) business days after the request by the Customer.
2. Any reread may be charged to the Customer at a rate set forth as Fee No. 2 in the TEP Statement of Charges, if the original reading was not in error.
3. When a reading is found to be in error, the Company will not charge the Customer for the reread

D. Access to Customer Premises

At all times, the Company will have the right of safe ingress to and egress from the Customer's premises at all reasonable hours for any purpose reasonably connected with the Company's property used in furnishing service and the exercise of any and all rights secured to it by law or these Rules.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: \_\_\_\_\_  
Decision No. \_\_\_\_\_  
Rules and Regulations

July 1, 2013 Pending  
73012 Pending



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Original Sheet No.: 910-2  
Superseding: \_\_\_\_\_

**SECTION 10**  
**METER READING**  
(continued)

E. Meter Testing and Maintenance Program

1. The Company will replace any meter found to be damaged or associated with an inquiry into its accuracy, whether initiated by the Customer or Company, and which has been in service for more than sixteen (16) years. Replaced meters will be tested for accuracy and will be acceptable if found to have an error margin within plus or minus three percent ( $\pm 3\%$ ).
2. The Company will file an annual report with the Commission summarizing the results of the meter maintenance and testing program for that year. At a minimum, the report should include the following data:
  - a. Total number of meters tested at Company initiative or upon Customer request; and
  - b. Number of meters tested which were outside the acceptable error allowance of  $\pm 3\%$ .

F. Customer Requested Meter Tests

The Company will test a meter upon Customer request and the Company will be authorized to charge the Customer for the meter test. The charge for the meter test is set forth as Fee No. 13 in the TEP Statement of Charges. However, if the meter is found to be in error by more than three percent (3%), then no meter testing fee will be charged to the Customer.

G. Demands

1. The Customer's demand may be measured by a demand meter, under all ~~Rates schedules~~ involving billings based on demand, unless appropriate investigation or tests indicate that the Customer's demand will not be such as to require a demand meter for correct application of the ~~Rate schedule~~. In cases where billings under a ~~Rate schedule~~ requiring determination of the Customer's demand must be made before a demand meter can be installed, such billings may be made on an estimated demand basis pending installation of the demand meter; provided, however, that billings made on the basis of estimated demands will be appropriately adjusted, if indicated to be greater or less than the actual demands recorded after the demand meter is installed.
2. Demand meters may be installed at any metering location if the nature of the Customer's equipment and operation is such as to indicate that a demand meter is required for correct application of the rate schedule.
3. All demands used for billing purposes will be recorded, or computed to the nearest whole kW.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73012 Pending



Tucson Electric Power

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Original Sheet No.: 910-3  
Superseding: \_\_\_\_\_

**SECTION 10  
METER READING  
(continued)**

H. Automated Meter Opt-Out

Residential Electric Service (TRRES) Customers may request meters that do not transmit data wirelessly and the Company will accommodate such requests to the extent practicable. For Customers who choose to not have an automated meter installed or wish to replace an automated meter with a non-transmitting meter, the Special Meter Reading Fee set forth as Fee No. 3 in the TEP Statement of Charges will be a monthly recurring charge. The Automated Meter Opt-Out Set-Up Fee set forth as Fee No. 4 in the TEP Statement of Charges will only apply to those Customers who request the removal of an automated meter.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013Pending  
73012Pending



Tucson Electric Power

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Original Sheet No.: 911

Superseding: \_\_\_\_\_

**SECTION 11  
BILLING AND COLLECTION**

A. Frequency and Estimated Bills

1. The Company will bill monthly for services rendered. Meter readings will be scheduled for periods of not less than twenty-five (25) days or more than thirty-five (35) days.
2. If the Company is unable to obtain the meter read on the scheduled meter read date, the Company will estimate the consumption for the billing period as set forth in the Company's Bill Estimation Methodologies Tariff.
3. After the second consecutive month of estimating the Customer's bill, the Company will attempt to secure an accurate reading of the meter.
4. Failure on the part of the Customer to comply with a reasonable request by the Company for access to its meter may lead to the discontinuance of service.
5. Estimated bills will be issued only under the following conditions:
  - a. Failure of a Customer who read his own meter to deliver his meter reading card to the Company, in accordance with the requirements of the Company billing cycle.
  - b. Severe weather conditions, emergencies or work stoppages that prevent the Company from reading the meter.
  - c. Circumstances that make it dangerous or impossible to read the meter, including locked gates, blocked meters, vicious or dangerous animals, or any force majeure condition as listed in Subsections 8.E.4 and 8.E.5.
  - d. When an electronic meter reading is obtained, but the data cannot be transferred to a Customer Information System.
  - e. A meter failure or malfunction with no reliable information retained by the meter.
  - f. A failure of the meter communication network preventing receipt of reliable information.
  - g. Meter tampering or energy diversion results in a lack of accurate metered consumption information.
  - h. In the event the Customer fails to submit the reading within the designated ten (10) day meter reading window.
  - i. In the event the Customer fails to submit monthly reads as designated above, the Company may estimate the usage for up to three (3) months.
6. Each bill based on estimated usage will indicate that it is an estimated bill.
7. Estimates due to equipment malfunctions may exceed ~~one~~ two months if the malfunction could not be reasonably discovered and/or corrected before additional bills were estimated.
8. A bill is not considered an estimated bill when the end read is based on an actual read.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73942 Pending



Tucson Electric Power

**Tucson Electric Power Company  
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Original Sheet No.: 911-1

Superseding: \_\_\_\_\_

**SECTION 11  
BILLING AND COLLECTION  
(continued)**

**B. Combining Meters, Minimum Bill Information**

1. Each meter at a Customer's premises will be considered separately for billing purposes, and the readings of two (2) or more meters will not be combined unless otherwise provided for in the Company's Rates.
2. Each bill for residential service will contain the following minimum information:
  - a. Date and meter reading at the start of billing period or number of days in the billing period;
  - b. Date and meter reading at the end of the billing period;
  - c. Billed usage and demand (if applicable);
  - d. Rate schedule number;
  - e. Company telephone number;
  - f. Customer's name;
  - g. Service account number;
  - h. Amount due and due date;
  - i. Past due amount;
  - j. Adjustment clause costs, where applicable;
  - k. Other ACC-approved charges;
  - l. All applicable taxes; and
  - m. The address for the Arizona Corporation Commission.

**C. Billing Terms**

1. All bills for the Company's services are due and payable no later than ten (10) days from the date the bill is rendered. Any payment not received within this time frame will be considered past due.
2. For purposes of this rule, the date a bill is rendered may be evidenced by:
  - a. The postmark date for bills sent via U.S. Postal Service; or
  - b. The mailing date; or
  - c. The billing date shown on the bill. However, the billing date will not differ from the postmark or mailing date by more than two (2) days.
  - d. An Electronic Bill will be considered rendered at the time it is electronically sent to the Customer.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



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(continued)

- 3. All past due bills for the Company's services are due and payable within fifteen (15) days. Any payment not received within this time frame will be considered delinquent and will incur a late payment finance charge.
- 4. All delinquent bills for which a valid payment has not been received within five (5) days will be subject to the provisions of the Company's termination procedures.
- 4.5. The amount of the late payment penalty as set forth as Fee No. 15 in the TEP Statement of Charges will not exceed one and one-half percent (1.5%) of the delinquent bill, applied on a monthly basis.
- 5.6. All payments of current amounts ~~may~~ must be made at or sent via U.S. Postal Service to the office of the Company or to the Company's duly authorized representative by a payment method authorized by the Company.
- 6.7. A bill will be rendered in a form prescribed by the Company. If the Customer requests a bill in a form other than the one prescribed by the Company, the Company in its sole discretion may consider such request and charge the Customer any associated costs.

D. Applicable Rates, Time-of-Use Meters, Prepayment, Failure to Receive, Commencement Date, Taxes

- 1. Each Customer will be billed under the applicable Rate indicated in the Customer's application for service.
- 2. For a Customer taking service under a TEP Time-of-Use ("TOU") rate, the Company may charge a fee based on the incremental cost of a TOU meter versus a non-TOU meter.
- 3. Customers may pay for electrical service by making advance payments.
- 4. Failure to receive bills or notices which have been properly placed in the U.S. Postal Service or posted electronically will not prevent those bills from becoming delinquent nor relieve the Customer of his obligations therein.
- 5. Charges for service commence when the service is installed and connection made, whether used or not.

E. Billing and Meter Error Corrections

- 1. If, after testing, any meter is found to be more than three percent (3%) in error, either fast or slow, proper correction between three percent (3%) and the amount of the error will be made to previous readings and adjusted bills will be rendered according to the following terms:
  - a. For the period of three (3) months immediately preceding the removal of such meter from service for test or from the time the meter was in service since last tested, but not exceeding three (3) months since the meter will have been shown to be in error by such test.
  - b. From the date the error occurred, if the date of the cause can be definitely fixed.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



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- No adjustment will be made by the Company except to the Customer last served by the meter tested.

**SECTION 11**  
**BILLING AND COLLECTION**  
(continued)

F. Responsibility for Payment of Bills

- The Customer is responsible for the payment of bills until service is ordered discontinued and the Company has had reasonable time to secure a final meter reading for those services involving energy usage, or if non-metered services are involved until the Company has had reasonable time to process the disconnect request.
- When an error is found to exist in the billing rendered to the Customer, the Company may correct such an error to recover or refund the difference between the original billing and the correct billing. The TEP Bill Estimation Methodologies tariff shall be applied when the Company cannot obtain a complete and valid meter read. Situations that result in an estimated meter read include inclement weather, lack of access to a Customer's meter, energy diversion, labor unavailability and equipment malfunction.
- Except as specified below, corrected charges for under-billings shall be limited to three (3) months for residential accounts and six (6) months for non-residential accounts.
  - Where the account is billed on a special contract or non-metered rate, corrected charges for under-billings shall be billed in accordance with the contract or rate requirements and is not limited to three (3) or six (6) months as applicable.
  - Where service has been established but no bills have been rendered, or a bill is rendered, but shows no consumption, corrected charges for under-billings shall go back to the date service was established.
  - Where there is evidence of meter tampering or energy diversion, corrected charges for under-billings shall go back to the date meter tampering or energy diversion began, as determined by the Company.
  - Where lack of access to the meter (caused by the Customer) has resulted in estimated bills, corrected charges for under-billings shall go back to the billing month of the last Company obtained meter read date.
  - When a Customer signs up for service in error at the wrong premises or requests disconnection in error at the wrong premises, corrected charges for under-billings and/or credits for over-billings shall go back to the date of the error.

G. Returned Payments

- The Company will be allowed to recover a fee, as set forth as Fee No. 14 in the TEP Statement of Charges, for each instance where a Customer tenders payment for electric service with a payment returned unpaid. This fee will also apply when an electronic funds transfer ("EFT") is denied for any reason.
- When the Company is notified by the Customer's bank or other financial institution that a payment has been returned unpaid, or denied for any reason, the Company may require the Customer to make payment in cash, by

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Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
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money order, ~~certified check~~, or other ~~means~~ approved methods which guarantee the Customer's payment to the Company.

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Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

~~July 1, 2013~~ Pending  
~~73042~~ Pending



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3. A Customer, who tenders a payment which is returned unpaid, regardless of the reason or method used to pay, will not be relieved of the obligation to render payment to the Company under the original terms of the bill nor defer the Company's provision for termination of service for nonpayment of bills.
4. A Customer with two (2) returned payments within a twelve (12) month period may be required to pay with guaranteed funds, (i.e., cash, money order, or other approved method~~cashier's check~~) for any subsequent billing for twelve (12) months.

H. Budget Billing Plan

1. The Company may, at its option, offer its Customers a budget billing plan.
2. ~~If the Company offers a budget billing plan, the Company will develop, upon Customer request, an estimate of the Customer's budget billing for a~~ The Company will provide, upon Customer request, an estimate of the Customer's budget billing amount for a twelve-month period based upon:
  - a. Customer's actual consumption history, which may be adjusted for abnormal conditions such as weather variations.
  - b. For new Customers, the Company will estimate consumption based on the Customer's anticipated load requirements.
  - c. The Company's Rate approved by the Commission applicable to that Customer's class of service.
3. The Company will provide the Customer, upon Customer request, a concise explanation of how the budget billing estimate was developed, the impact of budget billing on a Customer's monthly electric bill, and the Company's right to adjust the Customer's billing for any variation between the Company's estimated billing and actual billing.
4. For those Customers being billed under a budget billing plan, the Company will show, at a minimum, the following information on the Customer's monthly bill:
  - a. Actual consumption;
  - b. Amount due for actual consumption;
  - c. Budget billing amount due; and
  - d. Accumulated variation in actual versus budget billing amount.
5. ~~The Company may adjust the Customer's budget billing in the event the Company's estimate of the Customer's usage and/or cost should vary significantly from the Customer's actual usage and/or cost. This review to adjust the amount of the budget billing may be initiated by the Company or Customer.~~ The Company may adjust the Customer's budget billing in the event the Company's estimate of the Customer's usage and/or cost varies significantly from the Customer's actual usage and/or cost. This review to adjust the amount of the budget billing may be initiated by the Company or the Customer.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



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6. While on the budget billing plan, the Customer shall pay the monthly plan amount, notwithstanding the current charges shown on the bill.

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**BILLING AND COLLECTION**  
(continued)

7. Any other charges incurred by the Customer shall be paid when due in addition to the monthly plan amount.
8. Interest will not be charged to the Customer on accrued debit balances nor paid by the Company on accrued credit balances.

I. Deferred Payment Plan

1. The Company may, prior to termination of service, offer to qualifying residential Customers a deferred payment plan for the Customer to retire unpaid delinquent bills for electric service.
2. Each deferred payment agreement entered into by the Company and the Customer, due to the Customer's inability to pay an outstanding bill in full, will provide that service will not be discontinued if:
- a. Customer agrees to pay a reasonable amount of the outstanding bill at the time the parties enter into the deferred payment agreement.
  - b. Customer agrees to pay all future bills for electric service in accordance with the Company's Rates.
  - c. Customer agrees to pay a reasonable portion of the remaining outstanding balance in installments over a period not to exceed six (6) months.
3. For the purpose of determining a reasonable installment payment schedule under these rules, the Company and the Customer will give consideration to the following conditions:
- a. Size of the delinquent account;
  - b. Customer's ability to pay;
  - c. Customer's payment history;
  - d. Length of time the debt has been outstanding;
  - e. Circumstances which resulted in the debt being outstanding; and
  - f. Any other relevant factors related to the circumstances of the Customer.
4. Any Customer who desires to enter into a deferred payment agreement must do so before the Company's scheduled termination date for nonpayment of bills. The Customer's failure to execute a deferred payment agreement prior to the scheduled service termination date will not prevent the Company from terminating service for nonpayment.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



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5. Deferred payment agreements may be in writing and may be signed by the Customer and an authorized Company representative.

**SECTION 11**  
**BILLING AND COLLECTION**  
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6. A deferred payment agreement ~~may include a finance charge in an amount equal to the Company's actual or average cost of providing such arrangements~~ does not relieve the unpaid balance from being assessed a monthly late charge as set forth as Fee No. 15 in the TEP Statement of Charges, in accordance with the current late payment fee percentage rate.
7. If a Customer has not fulfilled the terms of a deferred payment agreement, the Company has the right to disconnect service pursuant to the Company's Termination of Service Rules in Section 12 and, under these circumstances, it will not be required to offer subsequent negotiation of a deferred payment agreement prior to disconnection.

J. Change of Occupancy

1. The Customer must give the Company at least three (3) business days advance notice via the website, e-mail, in writing or by telephone, to discontinue service or to change occupancy.
2. The outgoing Customer will be responsible for all electric services provided and/or consumed up to the scheduled turn-off date.
3. The outgoing Customer or property owner, in the case of a known landlord/tenant situation, is responsible for providing access to the meter so that the Company may obtain a final meter reading. If access is unavailable, due to the action or inaction of the Customer or property owner, the outgoing Customer or owner/landlord will be responsible for the services consumed until such time as access is provided and services can be disconnected/turned off.

K. Electronic Billing

1. Electronic Billing is an optional billing service whereby Customers may elect to receive, view and pay their bills electronically. The Company may modify its Electronic Billing services from time to time. A Customer electing an electronic billing service may receive an electronic bill in lieu of a paper bill.
2. Customers electing an electronic billing service may be required to complete additional forms and agreements.
3. Electronic Billing may be discontinued at any time by Company or the Customer.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



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- 4. An Electronic Bill will be considered rendered at the time it is electronically sent to the Customer. Failure to receive bills or notices that have been properly sent by an Electronic Billing system does not prevent these bills from becoming delinquent and does not relieve the Customer of the Customer's obligations therein.
5. Any notices that the Company is required to send to the Customer who has elected an Electronic Billing service may be sent by electronic means at the option of the Company.
6. Except as otherwise provided in this subsection, all other provisions of the Company's Rules and Regulations and other applicable Rates are applicable to Electronic Billing.

SECTION 11
BILLING AND COLLECTION
(continued)

- 7. The Customer must provide the Company with a current email address for electronic bill delivery. If the electronic bill is electronically sent to the Customer at the email address that the Customer provided to the Company, then the Electronic Bill will be considered properly sent. Further, the Customer will be responsible for updating the Company with any changes to this email address. Failure to do so will not excuse the Customer from timely paying the Company for electric service.

L. Collections

- 1. All unpaid closed accounts may be referred to a collection agency for collections.
2. If a collection agency referral is warranted for collection of unpaid final bills, Customer will be responsible for associated collection agency fees incurred assessed by the Company or its Agent. If the unpaid bill is referred to a credit bureau, the Company will not be held responsible to notify the Credit Bureau of any payment status.

M. Refunds

Customers will not be eligible for refunds, rebates or other Company program payments if the Customer has a delinquent Company balance.

N. Refund of Credit Balance Following Discontinuance of Service

Upon discontinuance of service, the Company shall refund the Customer any credit balance remaining on the account. With the consent of the Customer (when available), any credit balance remaining on the account that is less than \$5.00, shall be donated to a low-income assistance program to be determined by the Company or as may be required by law.

Filed By: Kentton C. Grant
Title: Vice President of Finance and Rates
District: Entire Electric Service Area

Effective:
Decision No.
Rules and Regulations

July 1, 2013 Pending
73042 Pending



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Original Sheet No.: 912  
Superseding: \_\_\_\_\_

**SECTION 12  
TERMINATION OF SERVICE**

- A. Nonpermissible Reasons to Disconnect Service
1. The Company will not disconnect service for any of the reasons stated below:
    - a. Delinquency in payment for service rendered to a prior Customer at the premises where service is being provided, except in the instance where the prior Customer continues to reside on the premises;
    - b. Failure of the Customer to pay for services or equipment which are not regulated by the ACC;
    - c. Nonpayment of a bill related to another class of service; or
    - d. Failure to pay a bill to correct a previous underbilling due to an inaccurate meter or meter failure if the Customer agrees to pay over a reasonable period of time.
  2. The Company will not terminate residential service where the Customer has an inability to pay and:
    - a. The Customer can establish through medical documentation that, in the opinion of a licensed medical physician, termination would be especially dangerous to the Customer's health or the health of a permanent resident residing on the Customer's premises;
    - b. Life supporting equipment used in the home that depends on electric service for its operation; or
    - c. Where weather will be especially dangerous to health as defined herein or as determined by the ACC.
  3. Residential service to ill, elderly, or handicapped persons who have an inability to pay will not be terminated until all of the following have been attempted:
    - a. The Customer has been informed of the possible availability of funds from various government and social assistance agencies of which the Company is aware; and
    - b. A third party previously designated by the Customer has been notified and has not made arrangements to pay the outstanding electric bill.
  4. A Customer utilizing the provisions of subsections 2 or 3 above may be required to enter into a deferred payment agreement with the Company within ten (10) days after the scheduled termination date.
  5. Failure to pay the bill of another Customer as guarantor thereof.
  6. Disputed bills where the Customer has complied with the ACC's rules on Customer bill disputes.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: \_\_\_\_\_  
Decision No. \_\_\_\_\_  
Rules and Regulations

July 1, 2013 Pending  
73012 Pending



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Original Sheet No.: 912-1  
Superseding: \_\_\_\_\_

**SECTION 12  
TERMINATION OF SERVICE  
(continued)**

**B. Termination of Service Without Notice**

1. Electric service may be disconnected without advance written notice under the following conditions:
  - a. The existence of an obvious safety or health hazard to the consumer, the general population or the Company's personnel or facilities;
  - b. The Company has evidence of meter tampering or fraud; or
  - c. The Company has evidence of unauthorized resale or use of electric service; or
  - d. Customer makes payment to avoid/stop disconnection for non-payment with a dishonored or fraudulent payment. The Company will not be required to restore service until the repayment of those funds and all other delinquent amounts are paid by cash, money order, cashier's check, certified funds or verified electronic payment; or
  - e. Customer makes payment to reconnect service with a dishonored or fraudulent payment. The Company will not be required to restore service until the repayment of those funds and all other delinquent amounts are paid by cash, money order, cashier's check, certified funds or verified electronic payment; or
  - f. Failure of a Customer to comply with the curtailment procedures imposed by the Company during supply shortages.
2. The Company will not be required to restore service until the conditions that led to the termination have been corrected to the satisfaction of the Company.
3. The Company will maintain a record of all terminations of service without notice for a minimum of one (1) year and will be available for inspection by the Commission.

**C. Termination of Service With Notice**

1. The Company may disconnect service to any Customer for any reason stated below provided that the Company has met the notice requirements described in Subsection 12.E. below:
  - a. Customer violation of any of the Company's Rates;
  - b. Failure of the Customer to pay a delinquent bill for electric service;
  - c. Failure of a prior Customer to pay a delinquent bill for electric service where the prior Customer continues to reside on the premise;
  - d. Failure of the Customer to meet agreed-upon deferred payment arrangements;
  - e. Failure to meet or maintain the Company's deposit requirements;
  - f. Failure of the Customer to provide the Company reasonable safe access to its equipment and property;

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73012 Pending



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- g. Returned or invalid payments;
  - h. Customer breach of a written contract for service between the Company and Customer;
  - i. When necessary for the Company to comply with an order of any governmental agency having such jurisdiction;
  - j. When a hazard exists that is not imminent, but in the Company's opinion, may cause property damage;
  - k. Customer facilities that do not comply with Company requirements or specifications;
  - l. Failure to provide or retain rights-of-way or easements necessary to serve the Customer; or
  - m. The Company learns of the existence of any condition in Section 3.D., Grounds for Refusal of Service.
2. The Company will maintain a record of all terminations of service with notice for one (1) year and be available for Commission inspection.
- D. The Company will not be obligated to renotify the Customer of the termination of service, even if the Customer – after receiving the required termination of service notification – has made payment, yet the payment is returned within three (3) to five (5) business days of receipt for any reason. The original notification will apply.
- E. Termination Notice Requirements
- 1. The Company will not terminate service to any of its Customers without providing advance written notice to the Customer of the Company's intent to disconnect service, except under those conditions specified in Subsection 12.B. where advance written notice is not required.
  - 2. This advance written notice will contain, at a minimum, the following information:
    - a. The name of the person whose service is to be terminated and the address where service is being rendered.
    - b. The Company's Rate that was violated and explanation of the violation or the amount of the bill that the Customer has failed to pay in accordance with the payment policy of the Company, if applicable.
    - c. The date on or after which service may be terminated.
    - d. A statement advising the Customer to contact the Company at a specific phone number for information regarding any deferred payment or other procedures that the Company may offer or to work out some other mutually agreeable solution to avoid termination of the Customer's service.

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Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: \_\_\_\_\_  
Decision No. \_\_\_\_\_  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



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**SECTION 12  
TERMINATION OF SERVICE  
(continued)**

- e. A statement advising the Customer the Company's stated reason(s) for the termination of services may be disputed by contacting the Company at a specific address or phone number, advising the Company of the dispute and making arrangements to discuss the cause for termination with a responsible employee of the Company in advance of the scheduled date of termination. The responsible employee will be empowered to resolve the dispute and the Company will retain the option to terminate service after affording this opportunity for a meeting and concluding that the reasons for termination is just and advising the Customer of his right to file a complaint with the Commission.
3. Where applicable, a copy of the termination notice will be simultaneously forwarded to designated third parties.
- F. Timing of Terminations With Notice
1. The Company will give at least a five (5) day advance written notice prior to the termination date.
  2. This notice will be considered to be given to the Customer when a copy of the notice is left with the Customer or posted first class via the U.S. Postal Service, addressed to the Customer's last known address.
  3. If, after the period of time allowed by the notice has elapsed and the delinquent account has not been paid nor arrangements made with the Company for payment of the bill – or in the case of a violation of the Company's rules the Customer has not satisfied the Company that this violation has ceased – then the Company may terminate service on or after the day specified in the notice without giving further notice.
  4. The Company will have the right (but not the obligation) to remove any or all of its property installed on the Customer's premises upon the termination of service. Upon the termination of service the Company may, without liability for injury or damage, dismantle and remove its line extension facilities within two (2) years after termination of service. The Company will give the Customer thirty (30) days written notice before removing its facilities should the Company decide to do so, or else waive any reestablishment charge within the next one (1) year for the same service to the same Customer at the same location.
- G. Landlord/Tenant Rule
1. In situations where service is rendered at an address different from the mailing address of the bill or where the Company knows that a landlord/tenant relationship exists and the landlord is the Customer of the Company, and where the landlord as a Customer would otherwise be subject to disconnection of service, the Company may not disconnect service until the following actions have been taken:
    - a. Where it is feasible to so provide service, the Company, after providing notice as required in these rules, will offer the occupant the opportunity to subscribe for service in his or her own name. If the occupant then declines to so subscribe, the Company may disconnect service pursuant to the rules.
    - b. The Company will not attempt to recover from a tenant or condition service to a tenant, upon the prepayment of any outstanding bills or other charges due upon the outstanding account of the landlord.

Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



Tucson Electric Power

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Original Sheet No.: 913  
Superseding: \_\_\_\_\_

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**SECTION 13  
RECONNECTION OF SERVICE**

When service has been discontinued for any of the reasons set forth in these Rules and Regulations, the Company will not be required to restore service until the following conditions have been met by the Customer:

- A. Where service was discontinued without notice:
  - 1. The hazardous condition must be removed and the installation will conform to accepted standards.
  - 2. All bills for service and/or applicable investigative costs due the Company by reason of fraudulent or unauthorized use, diversion or tampering must be paid and a deposit to guarantee the payment of future bills may be required.
  - 3. Required arrangements for service must be made.
  
- B. Where service was discontinued with notice:
  - 1. The Customer must make arrangements for the payment of all bills and these arrangements must be satisfactory to the Company.
  - 2. The Customer must furnish a satisfactory guarantee to pay all future bills.
  - 3. The Customer must correct any and all violations of these Rules and Regulations.

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Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending



Tucson Electric Power

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Original Sheet No.: 914

Superseding: \_\_\_\_\_

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**SECTION 14  
ADMINISTRATIVE AND HEARING REQUIREMENTS**

A. Customer Service Complaints

1. The Company will make a full and prompt investigation of all service complaints made by its Customers, either directly or through the Commission.
2. The Company will respond to the complainant and/or the Commission representative within five (5) business days as to the status of the Company's investigation.
3. The Company will notify the complainant and/or the Commission representative of the final disposition of each complaint. Upon request of the complainant or the Commission representative, the Company will report the findings of its investigation in writing.
4. The Company will inform the Customer of his right of appeal to the Commission.
5. The Company will keep a record of all written service complaints received that must contain, at a minimum, the following data:
  - a. Name and address of complainant;
  - b. Date and nature of the complaint;
  - c. Disposition of the complaint; and
  - d. A copy of any correspondence between the Company, the Customer, and/or the Commission.
6. This record will be maintained for a minimum period of one (1) year and will be available for inspection by the Commission.

B. Customer Bill Disputes

1. Any utility Customer who disputes a portion of a bill rendered for electric service must pay the undisputed portion of the bill and notify the Company's designated representative that any unpaid amount is in dispute prior to the delinquent date of the bill.

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Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73912 Pending



Tucson Electric Power

**Tucson Electric Power Company  
Rules and Regulations**

Original Sheet No.: 914-1  
Superseding: \_\_\_\_\_

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**SECTION 14  
ADMINISTRATIVE AND HEARING REQUIREMENTS  
(continued)**

2. Upon receipt of the Customer notice of dispute, the Company will:
    - a. Notify the Customer within five (5) business days of the receipt of a written dispute notice.
    - b. Initiate a prompt investigation as to the source of the dispute.
    - c. Withhold disconnection of service until the investigation is completed and the Customer is informed of the results.
    - d. Upon request of the Customer, the Company will report the results of the investigation in writing.
    - e. Inform the Customer of his right of appeal to the Commission.
  3. Once the Customer has received the results of the Company's investigation, the Customer will submit payment within five (5) business days to the Company for any disputed amounts. Failure to make full payment may be grounds for termination of service.
  4. The Company will inform the Customer of his right of appeal to the Commission.
- C. Commission resolution of service and bill disputes
1. In the event the Customer and the Company cannot resolve a service or bill dispute the Customer must file a written statement of dissatisfaction with the Commission; by submitting this statement to the Commission, the Customer will be deemed to have filed an informal complaint against the Company.
  2. Within 30 days of the receipt of a written statement of Customer dissatisfaction related to a service or bill dispute, a designated representative of the Commission will endeavor to resolve the dispute by correspondence or telephone with the Company and the Customer. If resolution of the dispute is not achieved within 20 days of the Commission representative's initial effort, the Commission will hold an informal meeting to arbitrate the resolution of the dispute. This informal meeting will be governed by the following rules:
    - a. Each party may be represented by legal counsel, if desired.
    - b. All informal meetings may be recorded or held in the presence of a stenographer.
    - c. All parties will have the opportunity to present written or oral evidentiary material to support the positions of the individual parties.
    - d. All parties and the Commission's representative will be given the opportunity to cross-examine the various parties.

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Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective: \_\_\_\_\_  
Decision No. \_\_\_\_\_  
Rules and Regulations

July 1, 2013 Pending  
73942 Pending



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**Tucson Electric Power Company  
Rules and Regulations**

Original Sheet No.: 914-2  
Superseding: \_\_\_\_\_

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**SECTION 14  
ADMINISTRATIVE AND HEARING REQUIREMENTS**  
(continued)

- e. The Commission's representative will render a written decision to all parties within five business days after the date of the informal meeting. This written decision of the arbitrator is not binding on any of the parties and the parties may still make a formal complaint to the Commission.
3. The Company may implement its termination procedures if the Customer fails to pay all bills rendered during the resolution of the dispute by the Commission.
4. The Company will maintain a record of written statements of dissatisfaction and their resolution for a minimum of one (1) year and make these records available for Commission inspection.

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Filed By: Kenton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013Pending  
73042Pending



Tucson Electric Power

Tucson Electric Power Company  
Rules and Regulations

Original Sheet No.: 915  
Superseding: \_\_\_\_\_

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**SECTION 15**  
**TEMPORARY SERVICE OR CYCLICAL USAGE**

- A. For electric service of a temporary nature [less than two (2) years], the line extension charges will be the cost of establishing and removing the temporary service ~~may apply as set forth in the TEP Statement of Charges~~, in addition to the regular charges for service which will be billed under the applicable rate schedule. Emergency, supplementary, breakdown or other standby service is not considered temporary and is subject to the provisions of Section 16. Permanent or semi-permanent businesses whose characteristics of operation result in infrequent cyclical usage of energy (e.g., asphalt batch plants, lettuce cooling plants) will require separate contracts with the Company to assure full recovery of the Company's annual ownership cost on the total facilities installed to provide service to the Applicant.

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Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73812 Pending



Tucson Electric Power

**Tucson Electric Power Company  
Rules and Regulations**

Original Sheet No.: 916  
Superseding: \_\_\_\_\_

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**SECTION 16  
STANDBY SERVICE**

- A. Emergency, breakdown, supplementary or other standby service will be supplied by the Company at its option only under special contracts specifying the rates, terms and conditions governing such service.

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Filed By: Kentton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73942 Pending



Tucson Electric Power

**Tucson Electric Power Company  
Rules and Regulations**

Original Sheet No.: 917

Superseding: \_\_\_\_\_

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**SECTION 17  
POWER FACTOR**

- A. The Company may require the Customer by written notice to either maintain a specified minimum lagging power factor or the Company may after thirty (30) days install power factor corrective equipment and bill the Customer for the total costs of this equipment and installation.
  
- B. In the case of apparatus and devices having low power factor, now in service, which may hereafter be replaced, and all similar equipment hereafter installed or replaced, served under general commercial schedules, the Company may require the Customer to provide, at the Customer's own expense, power factor corrective equipment to increase the power factor of any such devices to not less than ninety-five percent (95%) ~~percent~~.
  
- C. If the Customer installs and owns the capacitors needed to supply his reactive power requirements, then the Customer must equip them with suitable disconnecting switches, so installed that the capacitors will be disconnected from the Company's lines whenever the Customer's load is disconnected from the Company's facilities.
  
- D. Gaseous tube installations totaling more than one thousand (1,000) volt-amperes must be equipped with capacitors of sufficient rating to maintain a minimum of ninety-five percent (95%) ~~percent~~ lagging power factor.
  
- E. Company installation and removal of metering equipment to measure power factor will be at the discretion of the Company.

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Filed By: Kenton C. Grant  
Title: Vice President of Finance and Rates  
District: Entire Electric Service Area

Effective:  
Decision No.  
Rules and Regulations

July 1, 2013 Pending  
73042 Pending

## **Attachment 3**

## **Compliance Requirements to be Eliminated**

### **Tucson Electric Power Company**

1. All Reporting Requirements related to the Retail Electric Competition Rules, A.A.C. R14-2-1601 et seq.
2. Filing of Report every 5 years listing potential improvements to Springerville 4 that reduce emissions and costs associated with the improvements by Decision No. 65347 (Nov. 1, 2002).
3. Filing of Annual Cost Containment Report required initially by Decision No. 59594 (March 29, 1996).
4. Filing of a Full Decoupling Report in connection with LFCR annual adjustment required by Decision No. 73912 (June 27, 2013).
5. Filing of Annual Letter on TEP's Code of Conduct required by Decision No. 62767 (August 2, 2000).
6. Filing of Annual Summer Preparedness Report Cyprus Sierrita CEC required by Decision No. 69680 (June 28, 2007).
7. Filing of Annual Sign Replacement Report, Cyprus Sierrita CEC required by Decision No. 69680 (June 28, 2007).
8. Filing of Annual Self-Certification Letter, Gateway Substation CEC required by Decision No. 64356 (January 15, 2002).
9. Develop a data base of existing renewable energy resources within its service area within six months from the effective date of the Decision. The inventories shall be revised annually and submitted to Staff each year as part of the historical data filings required under the IRP rules (R14-2-703. A&B) required by Decision No. 58643 (June 01, 1994).