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# MEMORANDUM

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Date: March 21, 2017

To: The Honorable Chair and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator

A handwritten signature in black ink, appearing to be "CHH", is written over the printed name "C.H. Huckelberry".

Re: **Tucson Electric Power Rate Increase**

Attached is information I received in discussions with Tucson Electric Power (TEP) officials regarding their Arizona Corporation Commission-approved rate increase. The new rates take effect on or before March 1, 2017; and the average customer's monthly bill is expected to increase by \$8.50. The attached information will assist you and your staff with constituent questions regarding this issue.

I have also attached information related to the Navajo Generating Station (NGS), its continued operation through 2019, and the impacts associated with closure of the NGS on the delivery of Central Arizona Project water, of which Tucson and our water utilities are customers.

TEP officials indicated that should you or any of your constituents have questions regarding this subject, please contact Ms. Adriana Marinez, TEP Government Relations/Local Affairs, at [amarinez@tep.com](mailto:amarinez@tep.com).

CHH/anc

Attachments

# ATTACHMENT 1

# New Electric Rates

Tucson Electric Power customers can choose from several new pricing plans under updated rates approved in February 2017 by the Arizona Corporation Commission (ACC).

After new rates take effect on or before March 1, 2017, a typical residential customer's average monthly bill is expected to increase by about \$8.50 compared to rates paid in November 2015, when TEP requested new rates.

Residential and small commercial customers will be able to choose new Time-of-Use, Peak Demand and Demand Time-of-Use plans as alternatives to a Basic plan. Time-of-Use plans offer lower rates most of the time but higher rates during on-peak hours. Demand plans combine even lower energy charges with a fee based on customers' highest hourly energy use.

The new Time-of-Use, Peak Demand and Demand Time-of-Use plans will feature a reduced monthly Basic Service Charge of \$10, compared to \$13 for the Basic plan. The new plans allow customers to reduce their bills by limiting their electric use during periods when customers typically use the most energy.

Our new rates offer:

- Fair, flexible pricing plans with new options for residential and small commercial customers.
- Larger discounts for limited-income customers.
- Incentives for new or existing businesses that create new jobs and meet other requirements. These temporary incentives are intended to help our communities attract new employers and encourage existing businesses to expand their operations.

Additional changes that could affect new users of private solar power systems will be considered by the ACC later this year. Public comments on these proposed changes will be heard on June 26, 2017 beginning at 10 a.m. in a hearing room at 400 W. Congress St. in Tucson.

## FAQs

### How will new rates affect residential customers' bills?

The changes that take effect on or before March 1 will add approximately \$8.50 to the average monthly bills of typical residential customers compared to rates paid in November 2015, when our original proposal was filed. This estimated impact will vary with individual customer usage.

### How will new rates affect the bills paid by limited-income customers?

TEP's new rates also offer expanded, simplified discounts for limited-income customers who participate in the company's Lifeline program. Instead of requiring the use of a dedicated pricing plan, TEP will provide [Lifeline participants](#) with a fixed monthly discount of at least \$15. This change more than doubles the resources directed to limited-income discounts.

Qualifying customers previously relied on dedicated rates to receive discounted service.

### Why did the ACC approve higher rates?

The company's previous rates were based on costs TEP incurred in 2011. Since then, the company has invested more than \$1 billion to cover the cost of new energy resources, upgraded distribution networks and other necessary upgrades to secure and expand TEP's energy grid.

With updated rate designs for today's technologies and energy use patterns, TEP can recover costs more equitably, helping the company maintain safe, reliable and affordable electric service for all customers.

### When will new rates take effect?

New rates took effect on or before March 1, 2017. Additional proceedings regarding compensation and requirements for new users of private solar power systems are scheduled to begin in June 2017.

### Do the new rates include a fee for customers who choose not to use an advanced meter?

Yes. Beginning on or before March 1, 2017, customers who have opted out of using an advanced meter will be charged a monthly \$26 fee to cover the higher cost of reading and maintaining meters that must be read manually. To avoid this fee, customers who have opted out must contact the TEP Customer Care team at 520-623-7711 before the due date of their next bill and agree to use an advanced meter. Customers who request the removal of an advanced meter will pay a \$47 removal fee.

# Proposed Changes for New Solar Customers

## Has TEP proposed other changes for new users of private solar arrays?

Yes. TEP is seeking to revise rates and rules for new users of solar power systems to increase recovery of the costs incurred to serve them and reduce cost burdens for other customers. Such changes will be considered later this year by the ACC as part of a second phase of TEP's rate case.

Those changes will include a revised method for compensating new solar customers for the excess energy their systems produce. Rather than providing energy credits through "net metering," TEP and other utilities will credit customers' bills based on the calculated value of that power.

Initially, that value will reflect prices recently paid for power from large community-scale systems. In future years, that value also could be calculated based on the costs that TEP and other utilities can avoid through the use of excess solar energy.

The amount TEP will pay for excess solar energy and other potential changes for new solar customers will be considered by the ACC later this year.

## Will customers who already have solar power systems be affected by proposed changes?

Customers who already use private solar arrays and those who request to connect a new system before ACC-approved changes take effect will be "grandfathered" under current rate designs and net metering rules for 20 years from the date their system was interconnected. All other customers would be subject to any newly approved rates and rules after they take effect.

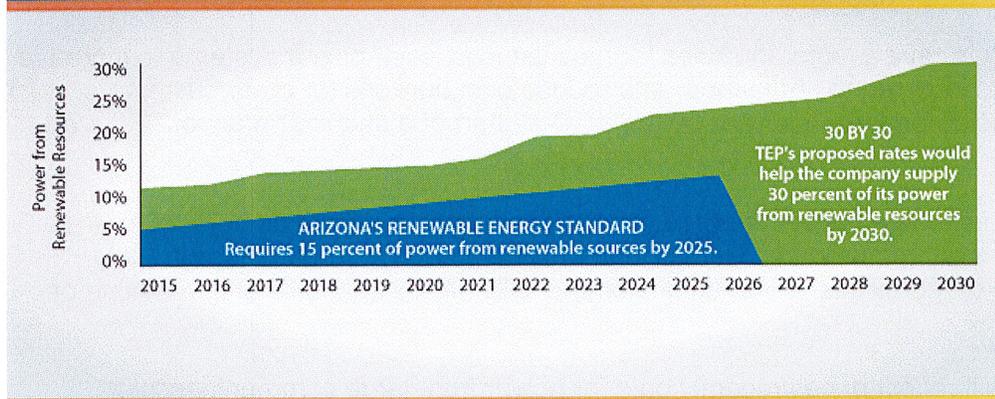
## Why is TEP seeking changes for new users of private solar power systems?

Under current rates and rules, users of private solar arrays can avoid charges other customers pay for electric service. But they are equally dependent on the local energy grid for safe, reliable around-the-clock electric service. Any service costs that solar power users avoid paying are ultimately shifted to other customers through bill surcharges and higher electric rates.

Reducing subsidies for expensive private solar power systems would limit rate increases for other customers while increasing the resources available for investments in larger, more cost-effective community-scale renewable resources.

Updated rates are an important part of TEP's plan to provide more renewable energy to our community for less money. Our goal is to supply at least 30 percent of TEP's energy from renewable resources by 2030 — doubling the level TEP must achieve by 2025 under Arizona's Renewable Energy Standard.

## 30 Percent Renewables by 2030



## Economic Development

### Will TEP's new rates promote economic development?

The new Economic Development Rate that will take effect on or before March 1, 2017 includes incentives designed to attract new business and encourage existing employers to expand their operations and add employment. Discounted rates are available for up to five years for qualifying businesses, lending support to local job creation efforts.

## Economic Development Rate

TEP's new Economic Development Rate is designed to help create jobs and expand our local economy. Commercial and industrial customers that expand or initiate operations may be eligible for discounts on a portion of their monthly electric bills.

		Redevelopment of Existing Site				
	Discount	Year 1	Year 2	Year 3	Year 4	Year 5
		30%	25%	20%	10%	5%

		New Facility				
	Discount	Year 1	Year 2	Year 3	Year 4	Year 5
		20%	15%	10%	5%	2.5%

# ATTACHMENT 2

# Power Task Force Agenda Number 1.

The slide features a background image of a reservoir in a mountainous area. A large, curved, golden-brown graphic element separates the text on the left from the image on the right.

**Impact of NGS Closure on CAP**

Power Task Force  
February 16, 2017

Tom McCann  
Ron Lunt  
Brian Young

**PROTECT LAKE MEAD**

**CAP**  
CENTRAL ARIZONA PROJECT  
YOUR WATER. YOUR FUTURE.

## **2016 Case Study – CAP Repayment**

- SRP paid **\$27.6 million** for Navajo Surplus energy in 2016 under a long-term sales contract
- Western's sales of remaining Navajo Surplus energy in 2016 lost **\$15.6 million**
- Net revenues to the Development Fund from Navajo Surplus sales in 2016 were **\$12 million**
- **Without NGS, CAP would have had to collect an additional \$12 million for repayment**
  - M&I capital charge is the only current option



## 2016 Case Study – CAP Energy Costs

- CAP paid **\$81.2 million** in 2016 for pumping energy from NGS
- If that same energy had been purchased at the Palo Verde market rate, the cost would have been **\$42.7 million**
- **CAP would have saved a total of \$38.5 million in 2016 by buying energy on the market instead of from NGS**



Market costs were calculated based on CAP's actual 2016 on- and off-peak energy use. However, current CAP operations are dictated in many respects by NGS—e.g., minimum generation requirements and the need to create the Navajo Surplus block required under the SRP contract. Without NGS, CAP could pursue alternative pumping schedules that might result in even lower energy costs.

## 2016 Case Study – CAP Energy Rate

Savings if CAP had bought energy on the market instead of from NGS	<b>\$38.5 million</b>
Total CAP water deliveries in 2016	<b>1.43 MAF</b>
Energy rate savings	<b>\$27/AF</b>
CAP energy rate w/NGS	<b>\$76/AF</b>
CAP energy rate w/o NGS	<b>\$49/AF</b>



## 2016 Case Study – Impact to CAP

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- If NGS had been closed as of January 1, 2016, and CAP had purchased replacement energy at prevailing market prices, the net impact would have been:

\$38.5 million	Energy savings
<u>(\$12 million)</u>	Repayment assistance
<b>\$26.5 million</b>	<b>Net savings</b>



## **2016 Case Study – Impact to CAP Tribes**

Energy rate savings w/o NGS	<b>\$27/AF</b>
Total CAP water delivered to tribes (on-reservation and storage)	<b>357,758 AF</b>
Savings to CAP tribes	<b>\$9.6 million</b>



## **2016 Case Study – Impact to Agriculture**

Energy rate savings w/o NGS	<b>\$27/AF</b>
Total CAP water delivered to Ag Settlement Pool	<b>280,797 AF</b>
Total savings	<b>\$7.5 million</b>
- Savings to CAP	<b>\$5.3 million</b>
- Savings to Ag users	<b>\$2.2 million</b>



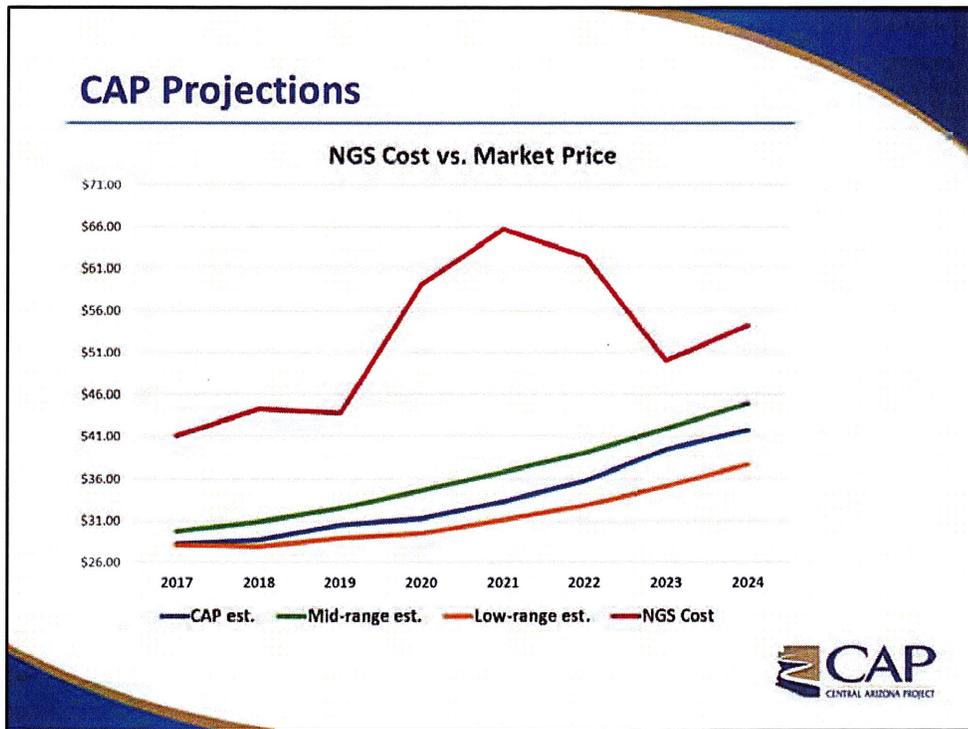
CAP currently provides an incentive to ag users of up to \$19/AF using a portion of its general ad valorem taxing authority. The 2016 energy rate w/o NGS would eliminate the need for that incentive. Thus \$5.3 million of the savings is attributed to CAP, and the remainder to ag users. Ag Settlement Pool users would have realized an effective energy rate of \$49/AF instead of the \$57/AF they paid in 2016.

## 2016 Case Study – Impact to M&I

Energy rate savings w/o NGS	<b>\$27/AF</b>
Total CAP water delivered to M&I users (includes Indian leases)	<b>792,355 AF</b>
Energy savings to M&I users	<b>\$21.3 million</b>
Additional cost to M&I users for repayment	<b><u>(\$12 million)</u></b>
Net savings to M&I users	<b>\$9.3 million</b>



This slide assumes that the \$12 million in repayment revenue shortfall without NGS is made up entirely through M&I capital charges. As noted on the previous slide, CAP would realize a \$5.3 million savings in tax revenue by eliminating the need for the ag incentive. Whether those tax savings are applied to repayment or to restore CAP's strategic revenues or for any other purpose would be a decision for the CAP Board at the appropriate time.



Because cost of generation at NGS is expected to remain higher than market for a number of years, the net impacts to CAP identified in the 2016 Case Study should be representative of impacts going forward.

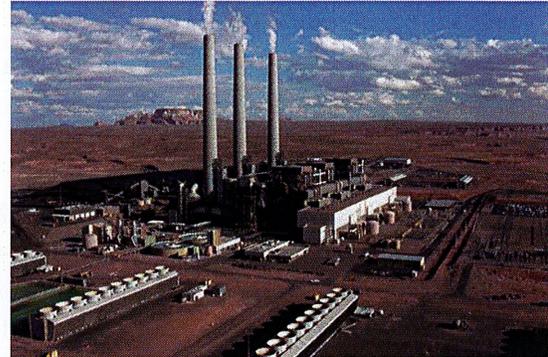


February 13, 2017

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## TEP Supports Extending Navajo Generating Station Operations Through 2019

Tucson Electric Power (TEP) joined other owners of the Navajo Generating Station today in voting to continue operations at the plant through December 2019 if a lease extension agreement can be reached with the Navajo Nation.



The three-unit, 2,250-megawatt (MW) facility is located in Northern Arizona near Page on land leased from the Navajo Nation. Phoenix-based Salt River Project operates the plant and owns 43 percent of its output. Other owners include the U.S. Bureau of Reclamation, Arizona Public Service and NV Energy. TEP is the plant's smallest stakeholder with ownership of 7.5 percent, or 168 MW.

Without the lease extension, owners would be forced to shut down the coal-fired plant later this year to allow enough time for decommissioning work to be completed before the current lease expires.

A lease extension would continue power production, maintain plant employment and preserve revenues for the Navajo Nation and Hopi Tribe, providing continued support for the area economy.

"We recognize the Navajo Generating Station's value and support a lease extension that would allow operations to continue through 2019 as we continue to explore options for the plant's future," said David G. Hutchens, TEP's President and CEO.

"We look forward to working toward a long-term solution for NGS that balances the needs of the plant's many stakeholders and serves the best interests of our customers and the community we serve."

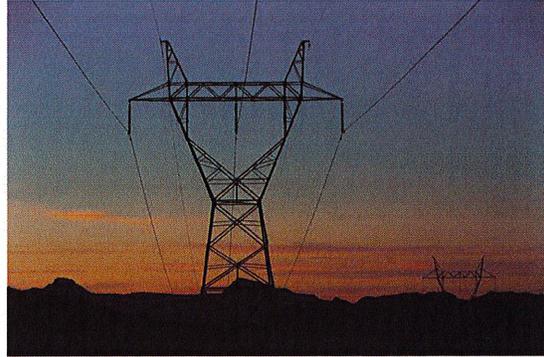
TEP provides safe, reliable electric service to approximately 417,000 customers in Southern Arizona. For more information, visit [tep.com](http://tep.com). TEP and its parent company, UNS Energy, are subsidiaries of Fortis Inc., which owns utilities that serve more than 3 million customers across Canada and in the United States and the Caribbean. To learn more, visit [fortisinc.com](http://fortisinc.com).

## New Pricing Plans, Updated Rates Approved for TEP Customers

Tucson Electric Power (TEP) customers will be able to choose from several new pricing plans

under revised rates approved today by the Arizona Corporation Commission (ACC).

A typical residential customer's average monthly bills are expected to increase by about \$8.50 compared to rates paid in November 2015, when TEP requested new rates. The increase covers the cost of new energy resources, upgraded distribution networks and other necessary upgrades to secure and expand TEP's energy grid.



When the changes take effect on or before March 1, residential and small commercial customers will be able to choose new Time-of-Use (TOU), Peak Demand and Demand TOU plans as alternatives to a Basic plan. Time-of-Use plans offer lower rates most of the time but higher rates during on-peak hours. Demand plans combine even lower energy charges with a fee based on customers' highest hourly energy use.

The new TOU, Peak Demand and Demand TOU plans will feature a reduced basic service charge of \$10, compared to \$13 for the Basic plan. The new plans allow customers to reduce their bills by limiting their electric use during periods when customers typically use the most energy. Additional details about the new plans will be posted on [tep.com](http://tep.com) and provided to customers in coming months.

"Our new rates include a new suite of pricing plan options for customers that offer new savings opportunities and contribute to the long-term sustainability of our local energy grid," said David G. Hutchens, TEP's President and CEO. "These new rates also support our ongoing investments in cost-effective energy resources that help us provide safe, reliable service."

TEP's new rates also offer expanded, simplified discounts for limited-income customers who participate in the company's Lifeline program. Instead of requiring the use of a dedicated pricing plan, TEP will provide Lifeline participants with a fixed monthly discount of at least \$15. This change more than doubles the resources directed to limited-income discounts.

The ACC also approved a new economic development incentive designed to attract new business and encourage existing employers to expand their operations and add employment. Temporary incentives are available for qualifying businesses, lending support to local job creation efforts.

Residential and small commercial customers with new private solar arrays will pay a new monthly fee to cover the costs of the second electric meter used to measure solar output. That fee will be \$2.05 for residential customers and 35 cents for small commercial customers. Customers with existing systems are exempt from this new fee.

The ACC is expected to consider other proposed changes for new users of private solar power systems later this year, including revised rates and compensation for any excess energy they produce.

TEP provides safe, reliable electric service to approximately 417,000 customers in southern Arizona. To learn more, visit [tep.com](http://tep.com). TEP and its parent company, UNS Energy, are

subsidiaries of Fortis Inc., which owns utilities that serve more than 3 million customers across Canada and in the United States and the Caribbean. To learn more, visit [fortisinc.com](http://fortisinc.com).

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