BEFORE THE ARIZONA CORPORATION COMMISSION

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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 ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. E-01933A-12-____ **APPLICATION**

Tucson Electric Power Company ("TEP" or "Company"), through undersigned counsel, and pursuant to A.R.S. §§ 40-250 and 40-251 and A.A.C. R14-2-103, hereby submits its Application for an increase in its non-fuel base rates of $127,760,000, or approximately 15.3% over adjusted test year retail revenues of $836,938,000, to be effective no later than August 1, 2013.

TEP is also seeking approval of: (i) an updated rate design; (ii) modifications to its Purchased Power and Fuel Adjustment Clause ("PPFAC"); (iii) a lost fixed cost recovery mechanism related to the Arizona Corporation Commission's ("Commission") Renewable Energy Standard ("REST") rules and Electric Energy Efficiency ("EE") rules; (iv) a new approach to funding cost-effective demand-side management and energy efficiency programs; (v) an environmental compliance cost recovery mechanism to smooth the rate impact of anticipated environmental mandates for TEP's generating facilities; and (vi) modifications to its Tariff, Rules and Regulations and certain existing compliance requirements.

The Company's request is fully supported by the testimony, exhibits, and schedules submitted concurrently with this Application.

I. SUMMARY.

TEP's current rates were established in Decision No. 70628 (December 1, 2008), based on a test year ending December 31, 2006, with rates effective on December 1, 2008. As part of the 2008 TEP Rate Case Settlement Agreement approved in Decision No. 70628 ("2008 Settlement Agreement"), TEP has been under a rate case moratorium that prevents the Company from filing a new rate case until June 30, 2012. As a result, the test year in this rate case ends December 31, 2011.

A. Impact of the Rate Case Moratorium. Since the previous test year, the Company has faced significant challenges from the economic downturn. Growth in TEP's service area has come to a virtual standstill and usage per customer has declined since the prior rate case. As a result, TEP's retail kWh sales have remained essentially flat on a year-to-year basis since 2006.

Other intervening events have exacerbated TEP's financial challenges. The Company is facing ever increasing distributed renewable energy and energy efficiency requirements, which result in further erosion of its retail kWh sales. Compliance with new environmental regulations creates further pressure on TEP's capital requirements and increases the Company's need to access the capital markets.

Over the same time, TEP has invested substantially in its utility plant in order to maintain safe and reliable electric service. Those capital investments have increased TEP's original cost rate base by approximately $500 million since the prior test year, from $1 billion to $1.5 billion. Moreover, despite its best efforts to control costs, TEP's operating and maintenance expenses ("O&M") also have increased over the past five years and are now approximately $29 million higher on annual basis than they were in 2006.

Given its current rate design, which relies heavily on volumetric energy charges, TEP is unable to fully cover its fixed costs of providing safe and reliable electric service. This factor, coupled with the increase in costs outlined above, does not provide TEP with an opportunity to earn a reasonable rate of return on its investment.

B. Need for Increased Revenue Requirement. Despite these challenges, TEP has faithfully adhered to its commitments in the 2008 Settlement Agreement while at the same time meeting the many new regulatory requirements impacting the Company. TEP has improved its ability to reliably serve customers through an increasingly diverse portfolio of energy resources, including renewable energy and EE. TEP has continued to make investments to improve its financial health. The Company also has succeeded in controlling its costs without compromising reliability or safety.

However, TEP has been unable to earn a reasonable rate of return on a retail jurisdictional basis, and, therefore, TEP's current rates are no longer just and reasonable. New and updated rates are needed to provide sufficient and predictable revenues in order to stabilize TEP's financial health, as well as provide TEP with access to the capital markets at reasonable rates, which is particularly important given TEP's upcoming capital requirements. The Company also needs a revenue increase to prevent TEP from losing the momentum it has gained in recent years with respect to its credit rating.

TEP is, therefore, filing this rate case to: (i) enable it to continue to provide safe and reliable service; (ii) recover its full cost of service, including an appropriate return on invested capital; and (iii) maintain or improve its credit rating, all of which will benefit TEP and its customers.

The Company remains, however, sensitive to the impact of increased rates on its customers. In its filing, TEP has proposed several measures to mitigate the rate increase. The Company estimates these mitigation measures have reduced the requested revenue requirement by approximately $37 million. TEP also has proposed several mechanisms to moderate the size of future rate increases as TEP continues to invest in its plant to maintain safe and reliable service and to fund infrastructure and programs necessary to meet governmental requirements.

In this case, the Company is requesting a $127,760,000 non-fuel base rate increase. Based on this increase, the current monthly bill[1] would increase from $85.17 to $98.58 (a 15.7% increase) for an average TEP residential customer.

C. Need for Updated Rate Design. TEP is proposing to update its rate design and reduce customer confusion by simplifying its rate offerings. The current rate design, which relies heavily on volumetric rate elements to recover the majority of the Company's fixed costs, creates difficulties for TEP in recovering its authorized revenue requirement. TEP is proposing rates that will provide the Company with a better opportunity to recover its fixed costs and earn a reasonable return on its investment.

Moreover, TEP's current rate design and related tariffs also are unduly complicated. For example, TEP currently has over 50 different basic residential and commercial rates, including 33 different residential rates that result in over 340 residential rate variations. Many of these different rates apply to only a handful of customers. TEP is requesting that numerous "frozen" rates be eliminated and that other rates be consolidated into more understandable options for customers. These updated rates will reduce customer confusion and decrease administrative costs.

In order to simplify customer bills and improve customer price signals, TEP is also requesting to recover all of its fuel and purchased power costs through the Company's PPFAC. Currently, TEP's fuel and purchased power costs are split and recovered through base rates and through the PPFAC. Additionally, TEP further proposes to modify the PPFAC to provide for different PPFAC rates for different customer classes in order to more accurately allocate fuel and purchased power costs.

D. Need for New and Updated Adjustor Mechanisms. TEP is seeking the approval of certain adjustor mechanisms which will allow it to meet current and upcoming regulatory mandates without jeopardizing the financial stability of the Company. Those adjustors include: (i) a lost fixed cost recovery mechanism to address kWh sales lost as a result of the REST and

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[1] The current monthly bill includes the PPFAC rate that went into effect on April 1, 2012.

EE rules and (ii) an environmental compliance cost recovery mechanism designed to mitigate large future rate increases stemming from changes in environmental regulations. TEP is also proposing a new method for determining the demand side management and energy efficiency program costs that will be recovered through its existing Demand Side Management Surcharge ("DSMS").

E. Need for Timely Relief. Given the significant amount of time that has passed since the prior rate case and the economic and regulatory realities presently facing the Company, it is critical to adopt new rates and related relief in a timely fashion. Under the 2008 Settlement Agreement approved by the Commission, TEP, Commission Staff and other parties agreed as follows:

> TEP shall not submit a rate application sooner than June 30, 2012. On or after June 30, 2012, TEP may not submit a rate application that uses a test year ending earlier than December 31, 2011. The Signatories agree to use their best efforts to have post-moratorium rates in place no later than thirteen months after TEP's rate application is filed with the Commission. For purposes of this paragraph, Staff will be deemed to have used its "best efforts" if it endeavors to process TEP's rate application within the time frames set forth in A.A.C. R14-2-103. The Signatories recognize that Staff cannot ensure that the Commission will act on a rate application by any date certain.[2]

Therefore, TEP requests that this Application be processed within thirteen months and that new rates and other related relief go into effect no later than August 1, 2013 consistent with the "best efforts" provision of the 2008 Settlement Agreement.

II. <u>KEY ELEMENTS OF THE RATE CASE.</u>

A. Revenue Requirement.

The Company is requesting a $127,760,000 million non-fuel base rate increase, which represents a 15.3% increase over adjusted test year revenues, including fuel and purchased power costs. As a result of this increase, the current monthly bill for an average TEP residential customer would increase from $85.17 to $98.58.

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[2] 2008 Settlement Agreement, Section 10.2.

TEP's revenue requirement increase is based on an Original Cost Rate Base ("OCRB") of $1.5 billion and a Replacement Cost New Less Depreciation ("RCND") rate base of $3.0 billion, resulting in Fair Value Rate Base ("FVRB") of $2.3 billion using a traditional 50/50 weighting of OCRB and RCND.

TEP proposes the continued use of a pro forma capital structure in determining the weighted average cost of capital ("WACC"), as approved by the Commission in TEP's last rate case. This proposed capital structure is comprised of 54% long-term debt and 46% common equity. TEP's actual test year capital structure is 56.5% debt and 43.5% equity, which contains a higher common equity weighting than the pro forma capital structure of 57.5% debt and 42.5% equity adopted in TEP's last rate case, thus reflecting TEP's ongoing commitment to improve its balance sheet and credit ratings.

TEP's cost of debt is 5.18%. The Company proposes a cost of equity of 10.75%, which is less than the level that TEP believes it can justify, but reflects TEP's efforts to mitigate the rate increase in this case. The Company's WACC, based on these cost rates and the test year capital structure, is 7.74%.

TEP is further proposing a fair value rate of return ("FVROR") of 5.68%. This FVROR is based on the methodology used by the Commission in several recent rate cases. The FVROR also reflects a return on the fair value increment of fair value rate base that is less than what TEP believes it can justify.

B. Rate Design.

TEP is proposing significant changes to its rate design. First, the Company is proposing rates that more accurately reflect the current cost of service for each customer class. These changes include increases in the monthly customer charge for all customer classes, which allows for recovery of a greater share of the Company's fixed costs through fixed charges. This approach will assist TEP in promoting conservation, will reduce the future magnitude of lost fixed cost recovery, and facilitate greater revenue stability.

Second, TEP also is requesting to simplify its tariffs through consolidation of multiple tariffs and elimination of tariffs that have been frozen. The Company currently has over 50 different basic rates and there are multiple options within many of those rates. TEP is now proposing to have fewer rates and has designed those rates to give customers accurate and timely price signals to help them better manage their energy expenses. Fewer rates also mean less confusion for customers and lower administrative burden on the Company.

Third, the Company is proposing to eliminate the recovery of any fuel or purchased power costs through base rates and to recover those costs solely through the PPFAC.

Finally, TEP is proposing to modify its low-income Lifeline program; again through consolidation and simplification of tariffs.

C. PPFAC.

TEP is proposing several modifications to its PPFAC. First, as noted above, the Company proposes to recover all of its fuel and purchased power costs through the PPFAC and to eliminate the current fuel component recovered through base rates. In order to offer rates that better match costs to revenues and to send more accurate price signals to customers, TEP has developed 16 different PPFAC rates based on the voltage at which a customer receives service, on-peak and off-peak usage and winter and summer periods. Although the Company currently has a single PPFAC rate applicable to all customers at all times, it also currently has 83 fuel component rates contained within base rates. Therefore, TEP's proposal will reduce the 83 fuel component rates to 16 PPFAC rates.

Second, the Company is requesting to recover some additional costs through the PPFAC, including credit support costs, wholesale energy broker fees, greenhouse gas costs and incremental lime costs above those included in base rates. The levels of these costs are tied directly to the acquisition of fuel and wholesale power and should be recovered through the PPFAC. The cost of obtaining and maintaining credit with trade counterparties is a real cost of doing business in the wholesale markets for fuel and purchased power. Moreover, although some broker fees are currently being recovered in base rates, it is more appropriate to recover those expenses through the PPFAC because these costs are associated with purchased power and vary with the amount of energy purchased. Further, lime costs are incurred when removing sulfur dioxide or SO2, and are directly linked to fuel consumption, specifically coal usage. Finally, any future greenhouse gas costs will likely be tied directly to fuel costs. In anticipation of potential federal regulatory or congressional (or state) action, TEP is requesting that such costs, if any, be recovered through the PPFAC. In connection with these additional costs, TEP is proposing that if the cost of lime incremental to the amount included in the test year is recovered through the PPFAC, it will credit 100% of the revenues from sales of SO2 emission allowance to the PPFAC (currently, TEP credits 50 percent of the SO2 sales revenues to customers).

Third, TEP is proposing several procedural changes to its Plan of Administration ("POA") for the PPFAC.

D. Lost Fixed Cost Recovery Mechanism ("LFCR").

The Company is proposing a lost fixed cost recovery mechanism that is very similar to the mechanism approved for UNS Gas, Inc. in Decision No. 73142 (May 1, 2012) and Arizona Public Service Company ("APS") in Decision No. 73183 (May 24, 2012). The LFCR is not a full decoupling mechanism; rather it is a mechanism narrowly tailored to provide TEP an opportunity to recover non-fuel costs, costs that would otherwise go unrecovered due to lost kWh sales from compliance with the REST rules and EE rules. The Company is also including a fixed rate, or "opt-out", option as part of its LFCR proposal.

The Company needs such a mechanism, or a similar alternative mechanism (such as a full decoupling mechanism), to mitigate the negative financial impacts to the Company of complying with the EE rules and the rising number of distributed generation ("DG") resources in TEP's service territory resulting from the REST rules, and to provide TEP a reasonable opportunity to recover its authorized revenue requirement while pursuing these Commission mandates.

E. Proposals to Moderate Future Rate Impacts.

A continuation of slow customer growth and flat energy sales experienced over the past few years, combined with an anticipated increase in regulatory and environmental compliance costs, could contribute to the need for a steep rate increase in TEP's next general rate case. Therefore, the Company is proposing several mechanisms in this rate case designed to "smooth out" rate increases over time and avoid potential rate shock to our customers. TEP believes that these mechanisms will help customers to better manage their energy expenses. Finally, these proposals can assist TEP to synchronize recovery of costs, improve its opportunity to earn the authorized rate of return, and manage its capital expenditures and related financing needs, thus reducing the borrowing costs ultimately borne by its customers.

1. Energy Efficiency Resource Plan ("EE Resource Plan").

TEP is proposing its EE Resource Plan as an innovative solution for funding the cost of meeting the EE rules requirements. Under this proposed pilot program, the Commission would approve a three-year EE program budget for TEP. The program costs would be treated as a regulatory asset that would be amortized over four years. This proposal will result in a gradually-inclining rate in the DSMS – also to be set by the Commission in this rate case - while increasing program offerings each year to meet the rising EE Standard. Because TEP would amortize its EE costs over a four-year period, the EE Resource Plan would allow DSMS surcharges to be significantly lower from 2014-2016 than they would be if those annual expenses were fully recovered each year under the current practice. Under TEP's proposal, the Company would determine the most cost-effective EE option appropriate for its particular system, invest its capital to procure that resource and recover the associated costs – including the amortization expense and an appropriate return on investment – through the DSMS surcharge. This capital investment and recovery model is similar to that used for any other supply-side resource. The specific mechanics for the EE Resource Plan are set forth in a POA.

As a result, the EE Resource Plan would reduce and stabilize the rate impacts to our customers, better synchronize the benefits of EE with their associated costs, provide a base level of certainty to program offerings, and eliminate the need to provide a performance incentive. This will result in DSM/EE contractors having more certainty regarding program funding levels, and will provide TEP with more certainty as to the amount and timing of energy savings it can rely on in its resource and system planning, while also reducing the burden on Commission Staff now tasked with annually reviewing implementation plans and the DSMS.

2. Environmental Compliance Adjustor ("ECA").

The Company is proposing a mechanism, the Environmental Compliance Adjustor, to provide more timely recovery of substantial upcoming capital expenditures necessary to meet several new government mandated environmental regulations. These costs will include investments in pollution control equipment and efficiency projects at the Company's power plants. Specifically, TEP will likely be required to invest significant capital at the following locations to comply with one or more of the federal rules:

- San Juan Generating Station –approximately $200 million in capital costs and $3-6 million in annual O&M costs to comply with the Regional Haze mandates;
- Navajo Generating Station – approximately $86 million in capital costs and $2-4 million in annual O&M costs to comply with the Regional Haze and the Environmental Protection Agency ("EPA") Mercury and Air Toxics Standard ("MATS") rule mandates;
- Four Corners Power Plant – approximately $36 million in capital costs and $2 - $4 million in annual O&M costs to comply with the Regional Haze and the MATS rule mandates; and
- Springerville Generating– approximately $5 million in capital costs and $3 million in annual O&M costs to comply with the MATS rule.

In the aggregate, TEP is likely to invest approximately $300 million over the next five years and incur annual O&M expenses in the tens of millions. Depending on the final outcome of certain proposed regulations, TEP's total capital outlays could approach $400 million. TEP is not able to stagger or control the timing of these costs, as the compliance deadlines are mandated exclusively by the EPA and judicial rulings. Given the magnitude of the costs relative to TEP's existing rate base and capitalization, TEP cannot afford to wait several years to recover these costs in the next general rate case. Moreover, accumulating such large capital investments until the next general rate case would contribute to a sharp spike in TEP's rate base and a correspondingly sharp increase in rates. Recovering these environmental costs as they are incurred through an adjustor moderates their impact on our customers.

The proposed ECA is similar to the APS Environmental Improvement Surcharge (EIS) recently approved by the Commission in Decision No. 73183. However, the ECA is tailored to meet the needs of TEP and its customers, as the amount of investment required to comply with environmental regulations is significantly higher relative to existing rate base for TEP than APS. Specifically, the ECA is tailored to recover narrowly-defined costs (defined as "Qualified Investments" in the ECA POA) to comply with environmental mandates from the federal government (amongst other entities) that are known and measurable and eligible for recovery in accordance with Arizona law. By providing timely recovery of such costs between full rate cases (that is, the "Qualified Investments" including carrying costs for construction work in progress), the ECA will allow TEP to secure the necessary capital at a reasonable cost, with TEP passing through savings from avoided carrying costs to its customers. This also mitigates future rate impacts to customers and reduces the frequency of and costs associated with a full rate case.

3. TEP Solar Ownership Plan (Bright Tucson Solar Buildout Plan).

The Company is requesting authorization to invest up to $30 million annually for the development of TEP-owned renewable energy resources and allow TEP to receive recovery of related expenses through the REST surcharge including: return on investment, depreciation, property taxes, and O&M expenses. This authorization is similar to the authority previously provided by the Commission in connection with the Company's currently approved REST Implementation Plans. The Company is requesting this recovery mechanism between 2014 and 2017 (four years) or until the next rate case, to provide it with a more balanced, comprehensive and efficient renewable energy procurement process, particularly because it is not practical to procure such resources on a year-to-year timeframe as contemplated under the current REST rules.

Moreover, the Company proposes to transfer into rate base its renewable generation assets previously approved under its REST Implementation Plan's Bright Tucson Solar Buildout Program. TEP has been recovering the carrying cost of this plant through the REST surcharge, but is now able to move those facilities into its rate base and treat them the same as other generation plant going forward.

4. Post-Test Year Plant.

The Company is proposing to adjust TEP's rate base to include approximately $40 million of used and useful solar projects and other plant additions as post-test year plant that will be in service by December 31, 2012. Not only will the addition of such plant reduce the level of future rate increases, it will also enable TEP to recover the cost of investing in renewable generation that will be in service when new rates are established for TEP and help mitigate increases of the REST surcharge. Further, it more closely aligns the recovery of costs with the benefits that are currently being provided to existing customers, while also lowering the cost to customers by limiting the amount of Allowance for Funds Used During Construction charged to the assets, thereby reducing the future depreciation and carrying costs associated with this plant.

F. Depreciation Rates.

TEP is submitting an updated depreciation study and is requesting approval of new depreciation rates in this case.

G. Rules and Regulations.

The Company is proposing modifications to its Rules and Regulations and to its Tariffs. These modifications are intended to modernize TEP's Rules and Regulations and to clarify areas in the Rules and Regulations that have caused undue customer confusion. The Company is also seeking to eliminate or modify various compliance requirements from previous Commission decisions.

III. APPLICATION.

In support of this Application, TEP respectfully states as follows:

A. The Company is a corporation duly organized, existing and in good standing under the laws of the State of Arizona. Its principal place of business is 88 East Broadway Boulevard, Tucson, Arizona 85701

B. The Company is a public service corporation principally engaged in the generation, transmission and distribution of electricity for sale in Arizona pursuant to Certificates of Convenience and Necessity issued by the Commission.

C. All communications and correspondence concerning this Application, as well as communications and pleadings with respect thereto filed by other parties, should be served upon the following:

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D. The Commission has jurisdiction to conduct public hearings to determine the fair value of the property of a public service corporation, to fix a just and reasonable rate of return thereon, and thereafter, to approve rate schedules designed to develop such return. Further, the Commission has jurisdiction to establish the practices and procedures to govern the conduct of such hearing, including, but not limited to, such matters as notice, intervention, filing, service, exhibits, discovery, and other prehearing and hearing matters.

E. Accompanying this Application are the standard filing requirements and rate design schedules described in A.A.C. R14-2-103. The Company also provides pre-filed direct testimonies and related exhibits from the following witnesses for TEP supporting the requests made within the Application and schedules:

Paul J. Bonavia	State of the Company; challenges facing TEP and proposed solutions to those challenges; and why approval of the rate application is critical to TEP's customers and shareholders.
David G. Hutchens	Overview of TEP's rate application and primary proposals, including the LFCR, the ECA, the EE Resource Plan and the Solar Buildout Plan; and modifications to the PPFAC.
Michael J. DeConcini	Overview of TEP operations, capital spending, customer service and environmental compliance requirements.
Kevin P. Larson	Overview of TEP's financial condition, including capital expenditures, anticipated capital needs, financings, credit rating and ratings agency concerns; and capital structure.
Kentton C. Grant	Cost of long-term debt; cost of credit support for fuel and purchased power procurement; acquisition of Sundt 4; and Springerville leases.
John J. Reed (consultant)	Cost of equity, fair value rate base and fair value rate of return.
Karen G. Kissinger	Adjustments to rate base and operating income and expense.
Dr. Ronald E. White (consultant)	Depreciation rates.
Mark C. Mansfield	Decommissioning of generating plants.
James I. Warren (consultant)	Tax issues related to Net Operating Losses.

Dallas J. Dukes	Revenue requirement; RCND; adjustments to rate base and operating income and expense; and rate base and income statement pro formas.
Lindy L. Sheehey	Revisions to TEP's Rules and Regulations.
Craig A. Jones	Cost of service study; proposed rate design; Plans of Administration for PPFAC, LFCR, ECA and EE Resource Plan; and revisions to tariffs.
David F. DesLauriers (consultant)	Rate design.

F. TEP respectfully requests that this Commission set a date for a hearing on this Application such that new rates for the Company will become effective no later than August 1, 2013. At the hearing conducted pursuant to this rate request, TEP will establish, among other things, that:

(1) its current rates and charges do not permit the Company to earn a fair return on the fair value of its assets devoted to public service, and that as a result, its current rates and charges are not just and reasonable;

(2) the requested revenue increase is the minimum amount necessary to allow the Company an opportunity to earn a fair return on the fair value of its assets devoted to public service, for preservation of the Company's financial integrity and for the attraction of new capital on reasonable terms, and is in the public interest;

(3) the Company's request for a permanent base revenue increase of $127,760,000 based on annualized test period sales is reasonable and necessary in order for the Company to continue to provide adequate and reliable electric service to its customers as required by law, and is in the public interest;

(4) the proposed LFCR mechanism is in accordance with Commission policy, so that the Company can recover lost revenues associated with compliance with

Commission renewable energy DG and EE requirements, and is in the public interest;

(5) the proposed ECA addresses the need to timely recover significant investment in pollution control and other facilities to respond to government mandates for environment standards, and is in the public interest;

(6) the proposed EE Resource Plan provides a more cost effective and stable approach to implementing DSM and EE programs, and is in the public interest;

(7) transferring into base rates those costs of Company-owned renewable generation resources and approving its plan to more cost-effectively to comply with the REST is in the public interest;

(8) including post-test year plant that will be in service by December 31, 2012 in rate base is in the public interest;

(9) modifying the Company's PPFAC to allow for recovery of additional costs and for price differentiation by customer class is in the public interest;

(10) the proposed rate design will better align the fixed and variable costs of service with the rates paid by the customers causing those costs and is in the public interest; and

(11) the proposed revisions to the Company's Tariff, Rules and Regulations and certain compliance requirements are in the public interest.

G. In addition to setting a hearing date, TEP asks that the Commission issue a procedural order setting forth the prescribed public notice for the Application, establishing procedures for intervention, and providing for appropriate discovery. TEP further requests that the Company be authorized to serve all discovery requests, answers and objections electronically. Finally, TEP requests that a procedural schedule be established, including a settlement track option, so that a final order in this case can be rendered and new rates can be effective by August 1, 2013.

WHEREFORE, TEP respectfully requests that the Commission:

(1) issue a procedural order establishing a date for hearing evidence concerning the Application, prescribing the time and form of public notice to TEP customers, establishing procedures for intervention and discovery as described above, and providing for a settlement track option for the docket;

(2) issue a final order finding and concluding that the Company's rate application is just and reasonable and granting the Company the permanent rate increase of $127,760,000 million to allow it to recover its expenses and a reasonable opportunity to earn its authorized rate of return on its investment;

(3) issue a final order approving the new or modified rate and service schedules included with the Company's Application with an effective date no later than August 1, 2013;

(4) issue a final order approving the Company's proposed revisions to its Purchased Power and Fuel Adjustment Clause;

(5) issue a final order approving the Company's proposed Lost Fixed Cost Recovery Mechanism;

(6) issue a final order approving the Company's proposed Environmental Compliance Adjustor;

(7) issue a final order approving the Company's proposed Energy Efficiency Resource Plan;

(8) issue a final order approving the proposed rate design described in the testimony accompanying this Application;

(9) issue a final order approving the Company's proposed depreciation rates as set forth in Dr. White's testimony;

(10) issue a final order approving the Company's revised Rules and Regulations and modified compliance requirements; and

(11) grant the Company such additional relief as the Commission deems just and proper.

RESPECTFULLY SUBMITTED this 2nd day of July 2012.

TUCSON ELECTRIC POWER COMPANY

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Original and 13 copies of the foregoing filed this 2nd day of July 2012, with:

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