

ORIGINAL

NEW APPLICATION



0000113109

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

Arizona Corporation Commission

DOCKETED

JUL - 7 2010

2010 JUL - 1 P 3:40

AZ CORP COMMISSION  
DOCKET CONTROL

DOCKETED BY *[Signature]*

COMMISSIONERS

KRISTIN K. MAYES - CHAIRMAN  
GARY PIERCE  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BOB STUMP

IN THE MATTER OF THE APPLICATION OF )  
TUCSON ELECTRIC POWER COMPANY'S 2010 )  
RES IMPLEMENTATION PLAN APPLICATION )  
FOR APPROVAL OF NEW DISTRIBUTED )  
ENERGY INCENTIVE )

DOCKET NO. E-01933A-10-0278

APPLICATION FOR  
MODIFICATION OF  
RESIDENTIAL INCENTIVES

(EXPEDITED TREATMENT  
REQUESTED)

Tucson Electric Power Company ("TEP" or "Company"), through undersigned counsel, hereby requests that the Arizona Corporation Commission ("Commission") approve modifications to the Company's Residential Distributed Generation ("DG") up-front incentives ("UFIs") approved in Decision No. 71465 (January 26, 2010). Specifically, the Company requests to reduce the residential UFI for grid-tied PV systems from \$3.00 per watt to \$2.25 per watt, and to reduce the residential off-grid PV systems from \$2.50 per watt to \$2.00 per watt. The Company requests that these reductions take effect as of July 7, 2010.

The Company is requesting an expedited review and approval of its request because of a sudden increase in applications over the past two months (for both residential and small commercial UFIs), which was far greater than anticipated. At the current rate, without a reduction in incentive amounts for residential UFIs, the funds for these incentives will be depleted by mid August 2010.

Further, with respect to TEP's Small Commercial DG program, the Company is currently placing new applicants for small commercial UFIs on a waiting list. Because of the unprecedented amount of applications for small commercial UFIs, no funding remains for the remainder of 2010 for small commercial UFIs. To address this issue, TEP believes it could take one of the following steps: (i) re-

1 allocating some or all of the \$3 million available from its Commercial Performance Based Incentive  
2 Program towards providing UFIs for small commercial customers; (ii) seek authorizations to increase the  
3 rates and caps in TEP's RES adjustor; or (iii) take none of those measures and simply continue to place  
4 small commercial customers on a waiting list until funding becomes available in 2011. TEP has no  
5 preference, but seeks Commission direction and necessary approvals to take one or more of these actions  
6 for the remainder of 2010.

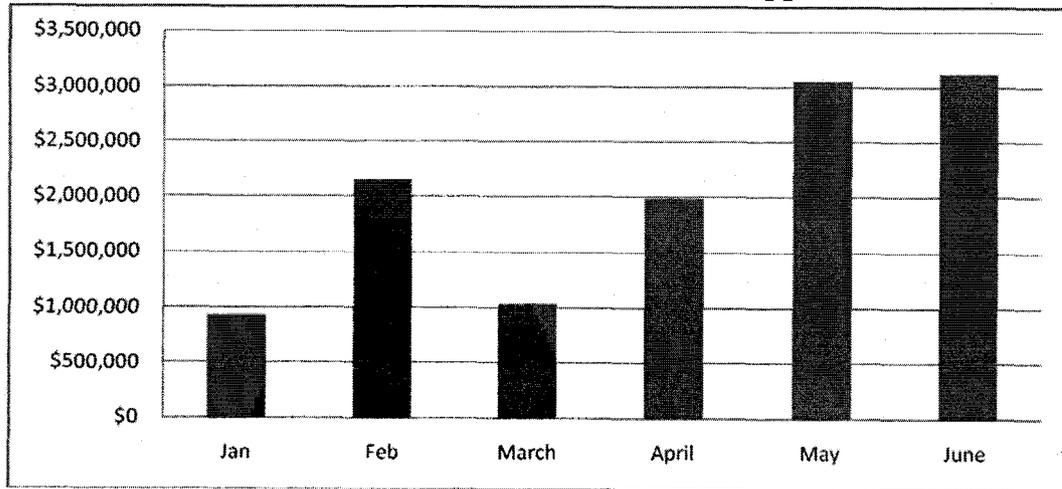
7 **I. BACKGROUND.**

8 The Commission approved the Company's initial Renewable Energy Standard and Tariff  
9 Implementation Plan ("REST Plan") in Decision No. 70314 (April 28, 2008). The Commission approved  
10 TEP's 2010 REST Plan in Decision No. 71465 (January 26, 2010). As part of that Decision, the  
11 Commission authorized TEP's budget for the Company's Residential and Small Commercial Distributed  
12 Generation ("DG") incentive programs (to pay UFIs to customers for eligible Distributed Renewable  
13 Energy Resources as defined in the Commission's REST Rules). This included approximately \$17  
14 million for residential UFIs. Those figures were based on historical participation in the Company's  
15 programs.

16 Since then, participation in TEP's residential DG programs has greatly exceeded historical rates  
17 and those forecasted in the Company's 2010 REST Plan. TEP has observed a substantial increase in  
18 applications for TEP's Residential and Small Commercial DG programs, as shown in Figure 1. At current  
19 incentive levels, TEP believes that the funds for the Residential DG program will be depleted by mid-  
20 August 2010.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

**Figure 1. TEP's 2010 Up Front Incentive Applications**



A key factor driving this unprecedented participation is the rapid decline in the market price of PV panels. PV pricing for residential systems has declined 40% in the last five years. Under current incentive levels, a consumer could cover more than 50% of the cost of a residential PV system. In 2005, that same consumer could only have covered 25% of the cost for a residential PV system with the Company incentives.

Moreover, installation costs have continued to drop since the incentive levels were initially calculated. In TEP's service territory, installation prices have dropped from approximately \$12 per watt in 2006 to approximately \$8 per watt in 2008 to approximately \$5 per watt in mid-2010. TEP believes this trend will continue with installation costs approaching \$4 per watt by the end of 2011. This drastic reduction in costs was not anticipated when TEP submitted its 2010 REST Plans. Further, currently decline incentive levels in other service territories may be also be driving the surge in incentive applications. Since Arizona Public Service Company's recent incentive reductions (Decision No. 71686 (April 30, 2010)), TEP has experienced a substantial increase in DG incentive applications (as shown in Figure 1). As a result of the unanticipated increased participation in TEP's Residential and Small Commercial DG programs, funding available to provide UFIs has been depleted. Figures 2 and 3 show how most of the budgeted amount for UFIs has been expended:

1 **Figure 2. 2010 Up Front Incentive Reservation Status**

	Budget	Reservations	Remaining Funds
Residential Allocation	\$17,688,706	\$12,268,330	\$5,420,376

2  
3  
4 **Figure 3. Reservations as a Percent of the 2010 Budget**

Month	Amount Reserved	Cumulative Amount	Percent of the Budget Reserved
January	\$926,405	\$926,405	5%
February	\$2,149,776	\$3,076,181	17%
March	\$1,033,556	\$4,109,737	23%
April	\$1,986,931	\$6,096,668	34%
May	\$3,050,163	\$9,146,831	52%
June	\$3,121,499	\$12,268,330	69%

5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

Figures 4 and 5 show the increased demand for residential projects since 2001, and the decreasing cost of solar installations since 2006. As shown in Figure 1, the incentive applications have increased significantly as solar installers and leasing programs are now saturating the Tucson market to capitalize on the residential UFI of \$3.00 per watt. TEP expects this trend to continue. This means that at current levels TEP will likely deplete its funds for UFIs by mid-August. In order to continue to provide residential UFIs for the remainder of 2010 (and avoid placing all residential applicants on a waiting list), TEP must immediately reduce the residential UFIs it currently offers.

**Figure 4. 2010 Forecasted Installed Distributed Generation Projects**

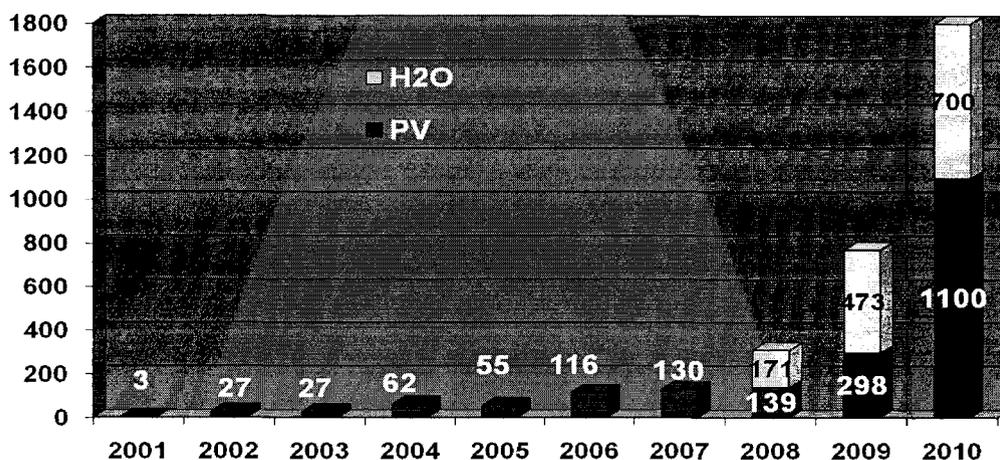
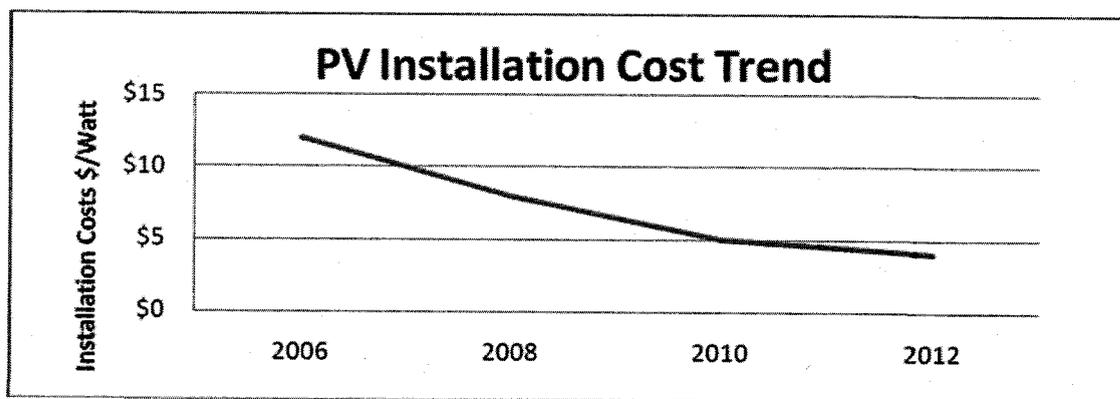


Figure 5. Installed Cost Trend



1  
2  
3  
4  
5  
6  
7  
8  
9 **II. A REDUCTION TO THE RESIDENTIAL UFI IS NECESSARY TO ADDRESS**  
10 **DECREASING COSTS AND INCREASING APPLICATIONS.**

11 TEP proposes to reduce the residential UFI for grid-tied PV systems from \$3.00 per watt to \$2.50  
12 per watt, and to reduce the residential off-grid PV systems from \$2.50 per watt to \$2.25 per watt. The  
13 Company requests that these reductions take effect as of July 7, 2010. For any applications received  
14 starting after close of business on July 7, 2010, TEP will provide notice to customers regarding its pending  
15 request to reduce rebate levels for residential PV systems, retroactive to July 7, 2010, but will not confirm  
16 any applications before the Commission renders a decision on this Application. Should the Commission  
17 approve an incentive level that differs from TEP's proposal, then TEP will confirm all reservations  
18 received between July 7, 2010 and the date the Commission approves this Application at the incentive  
19 level authorized. Absent approval of these proposed reductions, TEP's budget for residential UFIs will be  
20 completely expended by mid-August 2010. TEP believes reduced incentives will not adversely affect the  
21 residential customer interest in installing eligible Distributed Renewable Energy Resources, particularly  
22 PV systems. To the contrary, TEP believes not reducing the incentives may adversely impact the solar  
23 industry (because customers could not receive UFIs for the remainder of 2010 once funding expires).

24 **III. TEP SEEKS GUIDANCE AS TO WHETHER AND HOW TO ADDRESS THE**  
25 **DEPLETION OF FUNDS AVAILABLE FOR SMALL COMMERCIAL UFIS.**

26 TEP's Small Commercial DG Program has experienced the same rush of applications for UFIs as  
27 it has seen for residential UFIs. TEP allocated approximately \$5 million in funds for small commercial

1 UFI in 2010; those funds are completely expended. TEP is currently placing new applicants for small  
2 commercial UFIs on a waiting list. TEP seeks guidance from the Commission to address this issue with  
3 the Small Commercial DG program. Specifically, the Company believes it could take one of the following  
4 steps: (i) re-allocating some or all of the \$3 million available from its Commercial Performance Based  
5 Incentive Program towards providing UFIs for small commercial customers; (ii) seek authorizations to  
6 increase the rates and caps in RES adjustor; or (iii) take none of those measures and simply continue to  
7 place small commercial customers on a waiting list until funding becomes available in 2011. TEP has no  
8 preference, but seeks Commission direction and necessary approvals to take one or more of these actions  
9 for the remainder of 2010.

10 **IV. CONCLUSION.**

11 Based on the foregoing, TEP respectfully requests approval to reduce current incentive levels from  
12 \$3.00 per watt to \$2.25 per watt for residential grid-tied solar electric PV systems, and from \$2.50 per  
13 watt to \$2 per watt for residential off-grid systems. TEP requests that these reductions take effect as of  
14 July 7, 2010. These reductions will ensure that funding for TEP's Residential Program is not completely  
15 expended by mid-August 2010.

16 TEP also seeks guidance from the Commission regarding its Small Commercial DG Program,  
17 since funds for small commercial UFIs are already depleted. TEP seeks Commission direction and  
18 necessary approvals for one or more of the following actions: (i) re-allocating some or all of the \$3  
19 million available from its Commercial Performance Based Incentive Program towards providing UFIs for  
20 small commercial customers; (ii) seek authorizations to increase the rates and caps in RES adjustor; or  
21 (iii) take none of those measures and simply continue to place small commercial customers on a waiting  
22 list until funding becomes available in 2011.

1 RESPECTFULLY SUBMITTED this 7<sup>th</sup> day of July 2010.

2 TUCSON ELECTRIC POWER COMPANY

3  
4 By 

5 Michael W. Patten  
6 Roshka DeWulf & Patten, PLC  
7 400 East Van Buren Street, Suite 800  
8 Phoenix, Arizona 85004

9 and

10 Philip J. Dion, Esq.  
11 Melody Gilkey, Esq.  
12 Tucson Electric Power Company  
13 One South Church Avenue, Suite 200  
14 Tucson, Arizona 85701

15 Original and 13 copies of the foregoing  
16 filed this 7<sup>th</sup> day of July 2010 with:

17 Docket Control  
18 Arizona Corporation Commission  
19 1200 West Washington Street  
20 Phoenix, Arizona 85007

21 Copy of the foregoing hand-delivered/mailed  
22 this 7<sup>th</sup> day of July 2010 to:

23 Lyn Farmer, Esq.  
24 Chief Administrative Law Judge  
25 Hearing Division  
26 Arizona Corporation Commission  
27 1200 West Washington  
Phoenix, Arizona 85007

Janice M. Alward, Esq.  
Chief Counsel, Legal Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

Steve Olea  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

By 