

**ORIGINAL
OPEN MEETING**



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MEMORANDUM

Arizona Corporation Commission

DOCKETED

JUL 30 2010

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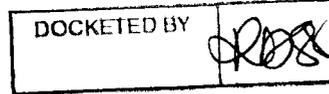
2010 JUL 20 A 8:24

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: July 29, 2010



RE: UNS ELECTRIC, INC. – APPLICATION FOR GUIDANCE REGARDING UNS ELECTRIC’S 2010 REST PLAN (DOCKET NO. E-04204A-09-0347)

On July 6, 2010, UNS Electric, Inc. (“UNS” or “Company”) filed a notice of filing and request for direction regarding UNS Electric’s 2010 Renewable Energy Surcharge Tariff (“REST”) Plan and specifically its residential and small commercial distributed generation (“DG”) programs.

UNS’ filing is fashioned as a request for Commission guidance on possible actions regarding the residential and small commercial DG programs for 2010. There is currently no money for the remainder of 2010 for residential and small commercial DG. UNS presents three possible options to address the residential and small commercial DG programs for the remainder of 2010. The three options are to do nothing; to somehow revise the overall REST program budget, caps, rates, etc. for the remainder of 2010; or to shift money from the commercial performance-based scenario to provide further funding for residential and small commercial up-front incentives (“UFI”). UNS does not request approval of any of the options, but rather says the Company has no preference. UNS’ filing indicates that there is \$800,000 available in the commercial performance-based incentives (“PBI”) budget if a decision were made to shift money from there to up-front incentives. UNS’ filing parallels a similar Tucson Electric Power (“TEP”) filing in Docket No. E-01933A-10-0278. Staff believes a similar approach should be taken in both dockets.

Regarding UNS’ filing, Staff believes that it is problematic when a utility makes a filing with the Commission, seeking guidance, but does not request any specific action in its application. In such a situation, Staff is burdened with making an initial proposal as to what course of action should be taken by the Commission on a matter specific to the Company, rather than the Company doing so, as has traditionally been the case. To date, the Company has not taken a position in this docket, indicating which of the three options it wishes the Commission to act on. The procedural difficulties in dealing with UNS’ approach to this issue required additional Staff time and delayed processing of the overall application. Staff has discussed this matter with UNS, and it is Staff’s understanding that UNS will work to ensure that applications it puts before the Commission in the future actually seek specific action of some sort by the Commission.

UNS’ 2010 Renewable Energy Standard Tariff (“REST”) plan was approved by the Commission in Decision No. 71464 (January 26, 2010), including various incentive levels,

THE COMMISSION

July 29, 2010

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REST charge levels, and a budget. Under the 2010 REST plan, the up-front incentive for grid-tied residential DG was set at \$3.00 per watt and the small commercial DG incentive was set at \$2.50 per watt. UNS has indicated to Staff that as of the beginning of July 2010, the Company has waiting lists of approximately \$1 million of residential DG and approximately \$600,000 for small commercial DG. These waiting lists are likely to have grown since the beginning of July 2010.

Regarding the \$800,000 in PBI funds that UNS anticipates not spending in 2010, Staff believes that these should be transferred to both the residential and small commercial DG sectors to fund additional projects in 2010. Staff is not aware of any other substantive funds UNS has available to further supplement this amount of money. While transfer of this money to the residential DG and small commercial DG sectors will not eliminate the existing waiting lists, it will significantly reduce them and will result in smaller waiting lists when additional funding becomes available in 2011. Staff believes an even split of the money between the two sectors is equitable. Staff recommends reallocation of the PBI funds with \$400,000 being transferred to both the residential DG and small commercial DG programs for 2010.

Staff believes that incentive levels should be reduced for both residential DG and small commercial DG. System costs have fallen, as noted in UNS' application, and Arizona Public Service Company ("APS") recently had its residential grid-tied DG incentive reduced to \$2.15 for 3 MW and then \$1.95 for further MW (Decision No. 71686, April 30, 2010), after facing budget challenges similar to those faced by UNS in this proceeding.

Staff is therefore proposing a two-tiered incentive structure for the remainder of 2010, with roughly half of the available funds in the first tier and roughly half of the available funds in the second tier. While customers in the waiting lists may be expecting the current higher incentive levels, Staff believes it is reasonable to apply lower incentive levels to both sectors, given the wide trend toward incentive reductions over time. Such lower incentives will allow more installations to occur in the rest of 2010 in UNS' service territory. Staff's proposed incentive levels in this matter mirror Staff's proposed incentive levels for TEP in Docket No. E-01933A-10-0278. For residential DG, Staff recommends a reduction of the residential DG UFI to \$2.00 per watt for the first \$200,000 of additional funds and to \$1.75 per watt for the second \$200,000 in additional funds. Staff further recommends that the small commercial DG UFI be reduced to \$1.75 per watt for the first \$200,000 in additional funds and to \$1.50 per watt for the second \$200,000 in additional funds.



Steven M. Olea
Director
Utilities Division

SMO:RGG:lhm\MAS

ORIGINATOR: Robert G. Gray

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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION)
OF UNS ELECTRIC, INC. – FOR)
GUIDANCE REGARDING UNS)
ELECTRIC’S 2010 REST PLAN)
_____)

DOCKET NO. E-04204A-09-0347
DECISION NO. _____
ORDER

Open Meeting
August 12, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Electric, Inc. (“UNS” or “Company”) is engaged in providing electric service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.
2. On July 6, 2010, UNS filed a notice of filing and request for direction regarding UNS Electric’s 2010 Renewable Energy Surcharge Tariff (“REST”) Plan and specifically its residential and small commercial distributed generation (“DG”) programs.
3. UNS’ filing is fashioned as a request for Commission guidance on possible actions regarding the residential and small commercial DG programs for 2010. There is currently is no money for the remainder of 2010 for residential and small commercial DG. UNS presents three possible options to address the residential and small commercial DG programs for the remainder of 2010. The three options are to do nothing; to somehow revise the overall REST program budget, caps, rates, etc. for the remainder of 2010; or to shift money from the commercial performance-based scenario to provide further funding for small commercial up-front incentives (“UFI”).

...

1 4. UNS does not request approval of any of the options, but rather says the Company
2 has no preference. UNS' filing indicates that there is \$800,000 available in the commercial
3 performance-based incentives ("PBI") budget if a decision were made to shift money from there to
4 up-front incentives. UNS filing parallels a similar Tucson Electric Power ("TEP") filing in Docket
5 No. E-01933A-10-0278. Staff believes a similar approach should be taken in both dockets.

6 5. Regarding UNS' filing, Staff believes that it is problematic when a utility makes a
7 filing with the Commission, seeking guidance, but does not request any specific action in its
8 application. In such a situation, Staff is burdened with making an initial proposal as to what
9 course of action should be taken by the Commission on a matter specific to the Company, rather
10 than the Company doing so, as has traditionally been the case.

11 6. To date, the Company has not taken a position in this docket, indicating which of
12 the three options it wishes the Commission to act on. The procedural difficulties in dealing with
13 UNS' approach to this issue required additional Staff time and delayed processing of the overall
14 application. Staff has discussed this matter with UNS, and it is Staff's understanding that UNS
15 will work to ensure that applications it puts before the Commission in the future actually seek
16 specific action of some sort by the Commission.

17 7. UNS' 2010 Renewable Energy Standard Tariff ("REST") plan was approved by the
18 Commission in Decision No. 71464 (January 26, 2010), including various incentive levels, REST
19 charge levels, and a budget.

20 8. Under the 2010 REST plan, the up-front incentive for grid-tied residential DG was
21 set at \$3.00 per watt and the small commercial DG incentive was set at \$2.50 per watt.

22 9. UNS has indicated to Staff that as of the beginning of July 2010, the Company has
23 waiting lists of approximately \$1 million of residential DG and approximately \$600,000 for small
24 commercial DG. These waiting lists are likely to have grown since the beginning of July 2010.

25 10. Regarding the \$800,000 in PBI funds that UNS anticipates not spending in 2010,
26 Staff believes that these should be transferred to both the residential and small commercial DG
27 sectors to fund additional projects in 2010. Staff is not aware of any other substantive funds UNS
28 has available to further supplement this amount of money. While transfer of this money to the

1 residential DG and small commercial DG sectors will not eliminate the existing waiting lists, it
2 will significantly reduce them and will result in smaller waiting lists when additional funding
3 becomes available in 2011.

4 11. Staff believes an even split of the money between the two sectors is equitable.

5 12. Staff has recommended a reallocation of the PBI funds with \$400,000 being
6 transferred to both the residential DG and small commercial DG programs for 2010.

7 13. Staff believes that incentive levels should be reduced for both residential DG and
8 small commercial DG. System costs have fallen, as noted in UNS' application, and Arizona
9 Public Service Company ("APS") recently had its residential grid-tied DG incentive reduced to
10 \$2.15 for 3 MW and then \$1.95 for further MW (Decision No. 71686, April 30, 2010), after facing
11 budget challenges similar to those faced by UNS in this proceeding.

12 14. Staff is therefore proposing a two-tiered incentive structure for the remainder of
13 2010, with roughly half of the available funds in the first tier and roughly half of the available
14 funds in the second tier. While customers in the waiting lists may be expecting the current higher
15 incentive levels, Staff believes it is reasonable to apply lower incentive levels to both sectors,
16 given the wide trend toward incentive reductions over time. Such lower incentives will allow
17 more installations to occur in the rest of 2010 in UNS' service territory.

18 15. Staff's proposed incentive levels in this matter mirror Staff's proposed incentive
19 levels for TEP in Docket No. E-01933A-10-0278.

20 16. For residential DG, Staff has recommended a reduction of the residential DG UFI to
21 \$2.00 per watt for the first \$200,000 of additional funds and to \$1.75 per watt for the second
22 \$200,000 in additional funds.

23 17. Staff has further recommended that the small commercial DG UFI be reduced to
24 \$1.75 per watt for the first \$200,000 in additional funds and to \$1.50 per watt for the second
25 \$200,000 in additional funds.

26 CONCLUSIONS OF LAW

27 1. UNS is an Arizona public service corporation within the meaning of Article XV,
28 Section 2, of the Arizona Constitution.

1 SERVICE LIST FOR: UNS ELECTRIC, INC.
2 DOCKET NO. E-04204A-09-0374

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