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BEFORE THE ARIZONA CORPORATION COMMISSION

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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

**AMENDED 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. The Company requests that this reduction 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 the incentive amount 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 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-allocating some or all of the \$3 million available from its Commercial Performance Based Incentive Programs for small commercial

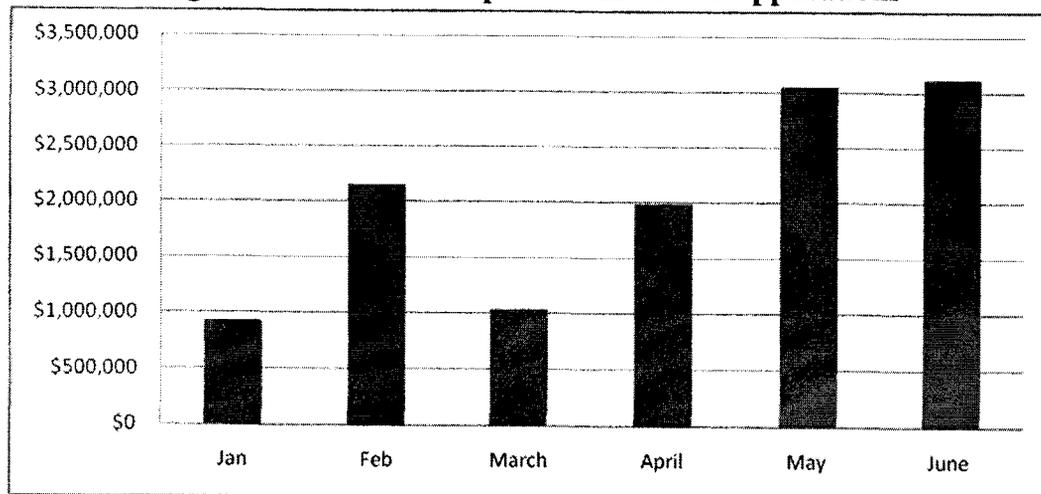
1 customers; (ii) seek authorizations to increase the rates and caps in TEP's RES adjustor; or (iii) take none
2 of those measures and simply continue to place small commercial customers on a waiting list until
3 funding becomes available in 2011. TEP has no preference, but seeks Commission direction and
4 necessary approval to take one or more of these actions for the remainder of 2010.

5 **I. BACKGROUND.**

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

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

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



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

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

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

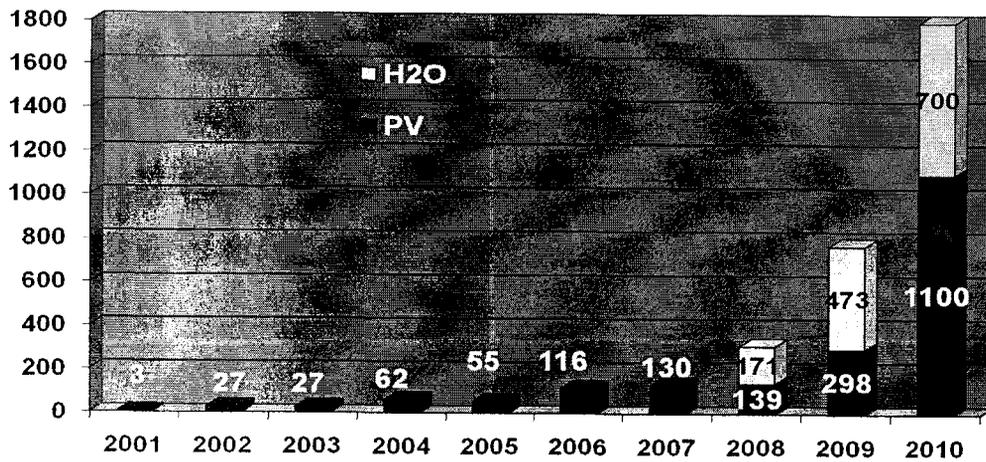
	Budget	Reservations	Remaining Funds
Residential Allocation	\$17,688,706	\$12,268,330	\$5,420,376

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

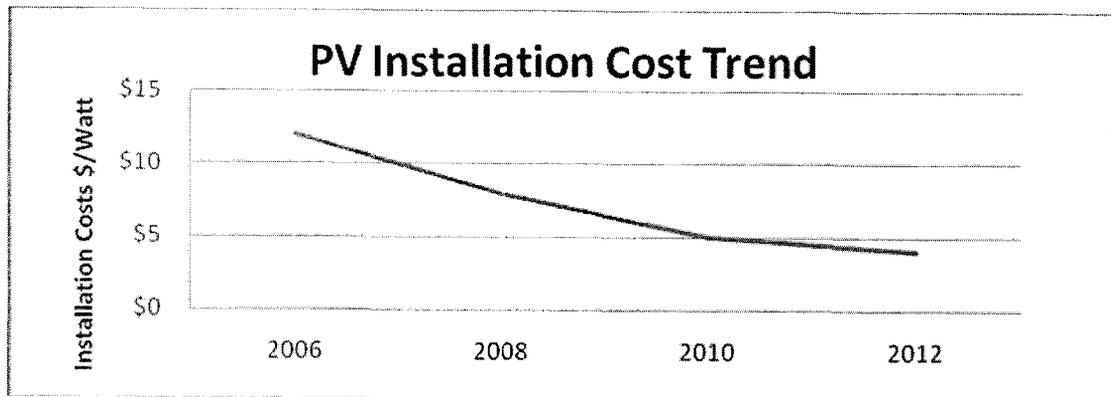
Month	Amount Reserved	Cumulative Amount	Percent of the Budget Reserved
January	\$926,405	\$926,405	5%
February	\$2,149,776	\$3,076,181	17%
March	\$1,033,556	\$4,109,737	23%
April	\$1,986,931	\$6,096,668	34%
May	\$3,050,163	\$9,146,831	52%
June	\$3,121,499	\$12,268,330	69%

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

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



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17 **Figure 5. Installed Cost Trend**



1 **II. A REDUCTION TO THE RESIDENTIAL UFI IS NECESSARY TO ADDRESS**
2 **DECREASING COSTS AND INCREASING APPLICATIONS.**

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

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

18 TEP's Small Commercial DG Program has experienced the same rush of applications for UFIs as
19 it has seen for residential UFIs. TEP allocated approximately \$5 million in funds for small commercial
20 UFIs in 2010; those funds are completely expended. TEP is currently placing new applicants for small
21 commercial UFIs on a waiting list. TEP seeks guidance from the Commission to address this issue with
22 the Small Commercial DG program. Specifically, the Company believes it could take one of the following
23 steps: (i) re-allocating some or all of the \$3 million available from its Commercial Performance Based
24 Incentive Program towards providing UFIs for small commercial customers; (ii) seek authorization to
25 increase the rates and caps in RES adjustor; or (iii) take none of those measures and simply continue to
26 place small commercial customers on a waiting list until funding becomes available in 2011. TEP has no
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1 preference, but seeks Commission direction and necessary approval to take one or more of these actions
2 for the remainder of 2010.

3 **IV. CONCLUSION.**

4 Based on the foregoing, TEP respectfully requests approval to reduce current incentive levels from
5 \$3.00 per watt to \$2.25 per watt for residential grid-tied solar electric PV systems. TEP requests that this
6 reduction take effect as of July 7, 2010. This reduction will ensure that funding for TEP's Residential
7 Program is not completely expended by mid-August 2010.

8 TEP also seeks guidance from the Commission regarding its Small Commercial DG Program,
9 since funds for small commercial UFIs are already depleted. TEP seeks Commission direction and
10 necessary approval for one or more of the following actions: (i) re-allocating some or all of the \$3 million
11 available from its Commercial Performance Based Incentive Program towards providing UFIs for small
12 commercial customers; (ii) seek authorization to increase the rates and caps in RES adjutor; or (iii) take
13 none of those measures and simply continue to place small commercial customers on a waiting list until
14 funding becomes available in 2011.

15 RESPECTFULLY SUBMITTED this 14th day of July 2010.

16 TUCSON ELECTRIC POWER COMPANY

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1 Original and 13 copies of the foregoing
2 filed this 14th day of July 2010 with:

3 Docket Control
4 Arizona Corporation Commission
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7 Copy of the foregoing hand-delivered/mailed
8 this 14th day of July 2010 to:

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