OPEN MEETING AGENDA ITEM

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Technicians for Sustainability, LLC

Arizona Corporation Commission
DOCKETED

AUG 11 2010

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Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

RE: Docket NO. E-01933A-10-0278

Dear Commissioners:

Technicians for Sustainability, LLC (TFS) appreciates the opportunity to comment on TUCSON ELECTRIC POWER (TEP) COMPANY'S APPLICATION FOR APPROVAL OF NEW DISTRIBUTED GENERATION INCENTIVES (DOCKET NO. E-01933A-10-0278).

TFS supports TEP's proposed residential incentive reduction of $.75/Watt. However, TFS cautions against setting the initial incentive level below the $2.25/Watt TEP has requested. Instead, TFS recommends retaining the proposed $2.25 incentive level for the $3.5 million as of July 7, 2010 - then stepping to $2.00 for the remaining funds.

TEP's proposed incentive reduction is necessary and prudent. Significant module price declines over the past year and a half have reduced the price of PV systems considerably. The improved return on investment for customers brought on by this price decline, in conjunction with fixed utility incentive levels, has led to an unsustainable boom in the market.

The overly favorable market conditions brought on by static incentive levels amidst falling prices has resulted in the following:

- An influx of solar installation startups with a less than desirable level of quality.
- Rapidly depleting balances in TEP's incentive accounts.
- A backlog of system reservations.
- Market uncertainty due to asymmetric information about incentive levels and decline schedules.

While TFS believes an incentive reduction is sensible, TFS respectfully disagrees with setting the initial residential incentive level to $2.00/Watt with a $1.75/Watt step down per Staff's Recommended Order and Opinion, docketed on July 29, 2010. TFS does support a declining trigger mechanism, but TFS is apprehensive about starting the decline schedule at $2.00/Watt instead of $2.25/Watt for the following reasons:

- From the standpoint of the residential customer, a $2.25/Watt incentive is the minimum incentive amount required to provide a payback of less than 10 years – over 10 years often presents a psychological and financial barrier for potential customers.
- A significant number of customer dropouts could occur as installers and their customers had planned for a $2.25/Watt incentive.
- Given Staff's $3.5 million trigger point, the $2/Watt incentive would most likely be reduced to $1.75 by September, at TEP's current reservation rate. Unless the incentive is reset to a figure above $1.75/Watt at first quarter next year, starting 2011 at $1.75/Watt could bring about an undesirable level of industry slow-down.
- To meet compliance, over 108 reservations would need to be submitted monthly - more than TEP received during the first four months of 2010 under $3/Watt, and roughly equal to July under

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$2.25/Watt. With a $1.75/Watt incentive, the market may be too anemic to deliver over 100 reservations a month.

TFS recommends retaining the proposed $2.25 incentive level for the $3.5 million as of July 7, 2010 - then stepping to $2.00 for the remaining funds. This will allow for a $2.00/Watt start point in 2011. TFS feels that this schedule will do the following:

- Reduce the number of July and August dropouts.
- Step the market down in an orderly fashion.
- Provide enough time for businesses to adjust.
- Avoid the need to increase incentive levels to meet compliance - which could send damaging signals to the market place.

If the current rate of reservations continues (approximately 100 a month under $2.25, and an estimated 75 under $2.00), there should be enough funds to sustain the market until the end of the year- please see notes below. Even, if funds are exhausted by late 2010, most installers will have a queue of projects to fulfill, thus minimizing the impact. Subsequently, the market, with pent up demand, will ramp up again in January, typically a slow period for installers.

TFS believes that an efficient allocation of ratepayer funds, buttressed with a stable and predictable market place, will create the conditions needed for a vibrant solar industry in Arizona. With utility incentives being the core driver of the market, creating sensible incentive levels that do not overheat or freeze the market is the first step to realizing a solar powered future. TFS feels that TEP's request is a necessary and a much needed step in helping Arizona reach its renewable energy goals.

Thank you for your consideration,

Kevin Koch
Owner

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Governmental Affairs

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Notes:

Although the 2011 incentive levels impact TFS's business, our installation capacity for the remainder of 2010 is booked. Therefore, the ultimate incentive level chosen for the rest of 2010 does not directly affect our company. TFS is submitting this letter in the best interest of the industry.

Payback Under Various Incentives

Schott 7.59 kW

TEP $3.00/watt
Payback 6.64

TEP $2.25/watt
Payback 9.62

TEP $2.00/watt
Payback 10.61

Number of Systems needed to meet Compliance

$1.75	Incentive
8	Average size in kW
108	Systems a month
1300	Total systems
10400	Total kW
1700	Output of one kW
17,680,000.00	kWh
17,266	Needed MWh
10400000	Total Watts
$ 18,200,000.00	Needed budget

Market Outlook under $2.25 and $2.00 incentives

July - August		
	200	Total Systems
	100	Systems a month
	8000	Average system size in Watts
	1,600,000	Total Watts
$	2.25	Incentive
$	3,600,000	Funding required

September - December		
	300	Total Systems
	75	Systems a month
	8000	Average system size in Watts
	2,400,000	Total Watts
$	2.00	Incentive
$	4,800,000	Funding required

The calculations above demonstrate that incentives do not need to fall below $2.00 in order to have utility incentives available for most of 2010.

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