ORIGINAL

OPEN MEETING

0000119877

MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

DATE: November 9, 2010

RE: TUCSON ELECTRIC POWER COMPANY. - APPLICATION FOR APPROVAL OF ITS 2011 RENEWABLE ENERGY STANDARD AND TARIFF IMPLEMENTATION PLAN (DOCKET NO. E-01933A-10-0266)

On July 1, 2010, Tucson Electric Power Company ("TEP" or "Company") filed for Commission approval of its 2011 Renewable Energy Standard and Tariff ("REST") Implementation Plan. On October 13, 2010, TEP filed an update to its proposed REST Implementation Plan.

On July 21, 2010 and October 18, 2010, Pima County filed comments in the docket. On August 11, 2010, Green Choice Solar filed comments in the docket. On September 24, 2010, Freeport-McMoran Copper and Gold, Inc. ("Freeport-McMoran") and Arizonans for Electric Choice and Competition ("AECC") filed to intervene in this proceeding. On October 6, 2010, a procedural order was issued, granting intervention to Freeport-McMoran and AECC. On October 22, 2010, SolarCity Corporation filed for intervention in this proceeding. On October 28, 2010, The Solar Alliance filed for intervention in this proceeding.

TEP's initial filing requests approval of various REST plan components, including a budget, incentive levels, an incentive trigger mechanism, recovery of lost net revenue, customer class caps, various program details, a Bright Tucson Solar Buildout Plan, a School Vocational Program, a Feed-in Tariff Pilot Program, an incentive tied to TEP's Energy Efficiency Audit Program, and approval of research and development funding for 2011. The initial filing also cites the Zero-Net Energy Homes Pilot Program, but TEP is not requesting any action regarding this program in this proceeding.

TEP's plan update, filed on October 13, 2010, proposes changes to the incentive levels, budget levels, customer class caps, and other related issues. The plan withdraws TEP's request for a REST incentive tied to its Energy Efficiency Audit program.

Recovery of Lost Net Fixed Revenue for DG Projects

TEP's proposed budget includes $364,206 for recovery of lost net revenue related to DG implemented through the REST plan. The Commission has not granted lost net revenues as a result of DG deployments to any utility in Arizona and specifically rejected TEP's request for DG lost net revenue in relation to TEP's 2010 REST plan. TEP's application does not make any case for inclusion of lost net revenue, other than inclusion of the line item in the budget. Staff recommends that the Commission not approve TEP's request for recovery of possible lost net revenue resulting from DG deployments.

TEP REST Experience Under 2010 REST Plan

The Commission-approved implementation plan for 2010 contemplated a budget of $43.9 million. Approximately $12 million in leftover 2008 and 2009 REST funds were used to help fund the 2010 REST budget. TEP projects spending its entire REST budget in 2010.

Regarding installations and reservations, the table below summarizes installations through October 22, 2010 and reservations for future installations.

Residential	Photovoltaics		Solar Hot Water	
	Number of Systems	kW	Number of Systems	kWh
2010 Installations	672	4,110	372	1,023,000
Reservations	1,011	6,783	565	1,154,000

Commercial	Photovoltaics		Solar Hot Water	
	Number of Systems	kW	Number of Systems	kW
2010 Installations	6	174	2	5,500
Reservations	77	7,186	18	49,500

The table below shows TEP's annual required MWh under the REST rules and its installed-annualized and installed-annualized/reserved numbers. Installed annualized numbers reflect systems that are installed and their production is annualized to reflect a full year's production. Installed-annualized/reserved counts both the installed annualized systems, but and the systems that are reserved, but have not yet been installed.

	Required (MWH)	Produced/Banked (MWH)
Residential DG	23,636	14,590 (installed – annualized) 23,389 (installed – annualized/reserved)
Commercial DG	23,636	4,529 (installed – annualized) 29,208 (installed – annualized/reserved)
Non-DG	189,088	301,067

Feed-In Tariff Pilot Program

TEP's 2011 REST Plan includes a proposal to implement a one-year Feed-In Tariff ("FIT") pilot program. TEP indicates it is filing this pilot program in response to the ACC's feed-in tariff workshop process, wherein TEP committed to filing a pilot program. The program is open to consumers, non-profit groups, government consumers, and developers. Projects will be selected via a process that will weigh cost, location within the grid, project viability, and environmental impacts.

A single per kWh price cap will be paid for a 20-year term, as shown in the table below.

Project Size (kW)	Cap on Total Price Paid (per kWh)
10-100	$0.20
101-400	$0.18
401-750	$0.16

The total 2011 budget for the FIT pilot program is $525,000, with $450,000 recovered as part of the overall 2011 REST plan budget, and $75,000 recovered through TEP's Purchased Power and Fuel Adjustment Clause. The $75,000 represents the Market Cost of Comparable Conventional Generation ("MCCCG"), and the $450,000 is for costs above the MCCCG. It should be noted that, although this is proposed as a one-year pilot program with a 2011 cost of $525,000, given that 20-year commitments will be made under this pilot program, the total cost commitment over that 20-year period for the 2011 pilot program would be $10,500,000.

Staff recognizes that there is significant interest in feed-in tariffs. However, Staff believes that the current workshop activities related to feed-in tariffs should be allowed to run their course before utilities implement feed-in tariffs, even on a pilot basis, given the significant financial commitment even a one-year pilot program would entail, in excess of $10 million. Staff recommends against approval of the proposed feed-in tariff pilot program as part of the 2011 REST implementation plan for TEP.

However, if a feed-in tariff pilot program is approved by the Commission in this proceeding, Staff believes that the Commission should consider expanding the eligible technologies. TEP's proposal indicates the FIT would be limited to photovoltaic applications. Staff believes that all eligible renewable energy technologies, as defined in the REST rules, should be eligible for participation in the FIT pilot program. Staff has discussed this matter with TEP and believes that TEP has no objection to expanding FIT pilot program eligibility to all renewable technologies as defined in the REST rules, if a feed-in tariff pilot program were approved in this proceeding. Staff further recommends that if the feed-in tariff pilot program is approved by the Commission, the annual spending for the feed-in tariff pilot program be limited to $525,000 per calendar year and that all costs related to the feed-in tariff pilot program be recovered through the REST charge.

School Vocational Program

TEP is proposing a new School Vocational Program ("SVP") that would involve the deployment of 10 to 14 PV systems at high schools within TEP's service territory. TEP would work with school officials to determine good candidates for participation in the program, based on the appropriateness of the site for a PV deployment as well as the school's ability to create an on-going vocational training program in collaboration with TEP. The program budget is $736,000, including $500,000 for equipment (90 kW based on $5.50 per watt) and $236,000 in training and seminar funds.

Staff believes that TEP's proposed SVP is a reasonable new program to implement, but believes that the administrative costs are too high and thus would recommend approval of the program with a reduction in administrative costs from $236,000 to $150,000.

ACC Decision No. 71702 Requirement

TEP's application also states that purchased power agreements ("PPAs") that were given limited approval by the Commission in Decision No. 71702 (May 17, 2010) meet that Decision's requirement that "Tucson Electric Power Company shall develop proposals to procure at least 3.4 Megawatts of solar from independent power providers and file the proposals as part of the Company's 2011 REST Implementation Plan." The referenced PPAs are part of TEP's 2011 REST plan filing. Even though the 2011 REST plan does not specifically contain a proposal to procure at least 3.4 MW from independent power providers, Staff believes that the referenced PPAs, which are well in excess of 3.4 MW, reasonably fulfill the requirement of Decision No. 71702.

Bright Tucson Solar Buildout Plan

TEP is requesting approval of a four year build-out plan for the Bright Tucson Community Solar program. The Bright Tucson program was approved by the Commission in Decision No. 71835, on August 10, 2010. The program allows TEP customers to purchase blocks of renewable energy via an optional tariff rider. Customers would buy one or more 1 kW pieces of renewable energy, each representing 150 kWh per month, at a $0.02 per kWh premium over the regular tariff rate. Such customers would then have that solar capacity component of their bill fixed for 20 years.

The build-out plan would involve $112,000,000 for 28 MW of utility-scale, utility-owned solar installations, with 7 MW installed each year from 2011 through 2014, and recovery of carrying costs through the REST charge from 2012 through 2015. Thus TEP is not seeking recovery of any of these costs in the 2011 REST plan, but such recovery would be anticipated to begin with the 2012 REST plan.

No costs related to the buildout plan are being proposed by TEP for recovery in 2011. TEP estimates that the carrying costs to be recovered for the buildout plan beginning in 2012 would be $3,451,904 in 2012, $3,350,519 in 2013, $3,451,904 in 2014, and $6,701,037 in 2015. This is similar in concept to the $1,758,759 in carrying costs included in the 2011 budget to pay for carrying costs on the Springerville expansion and Tucson airport projects, as previously approved by the Commission in Decision No. 71702 (May 17, 2010).

Staff believes that TEP's proposal for the Bright Tucson Solar Buildout Plan is similar to the proposal by Arizona Public Service Company ("APS") for its AZ Sun Program, which was approved by the Commission in Decision No. 71502 (March 17, 2010). TEP's proposal for the build out plan would involve a commitment for the next four years. Staff believes that it is reasonable to approves TEP's proposal for the first year of the buildout plan, but that TEP should seek Commission approval as part of its 2012 REST plan for further years of the buildout plan. This will provide TEP with the opportunity to gauge success of the first year of the buildout plan and make necessary adjustments. Staff recommends that TEP, as part of its 2012 REST plan filing, report on the status of its buildout plan.

Treatment of the costs for these facilities would mirror the Commission's treatment of APS facilities in Decision No. 71502, namely, Staff recommends that recovery of carrying costs until TEP's next rate case is appropriate and reasonable. Staff further recommends that reasonableness and prudency of buildout plan costs be examined in TEP's next rate case and that any costs determined not to be reasonable and prudent be refunded by the Company.

Research and Development

TEP is requesting approval of funding for five research and development ("R&D) projects. The projects include a grid stability analysis project, research in coordination with the Electric Power Research Institute on local impacts of renewables on transmission and distribution circuits, a Davis Monthan Air Force Base Distributed Generation Circuit Analysis, various projects at the TEP Test Yard, and a number of projects through TEP's partnership with AZRise. Funding for these projects is as shown in the following table.

Project	2011 R&D Project Funding Level
Grid Stability Analysis Project	$150,000
EPRI Studies	$300,000
Davis Monthan DG Circuit Analysis	$50,000
TEP Test Yard	$300,000
AZRise Research	$250,000

Funding levels are similar to what the Commission approved for R&D projects in TEP's 2010 REST budget.

Maximum Percentage of System Cost Paid Through Utility Rebates

In recent years, TEP's REST plans have included a provision that the maximum percentage of system cost for a customer that could be paid through utility rebates would be 60 percent. TEP's filing in this proceeding contemplates continuation of the 60 percent level. Staff believes that this should be reconsidered. To the extent the maximum percentage can be reduced without significantly impacting the marketplace, such a reduction would result in the most subsidized projects receiving a moderately lower subsidy. This would result in a net increase in the number of projects completed for the same level of total spending. In discussions with TEP, the Company indicated that few projects in recent years are close to the 60 percent of system cost level. Staff believes that a reduction of this level to 50 percent would represent a modest change, but would be a step toward more efficiently spending REST funds. Staff recommends reducing the maximum percentage of system cost that could be paid through utility rebates to 50 percent for both residential and commercial projects.

Bright Tucson Community Solar Program

TEP is not proposing any changes to the Bright Tucson Community Solar Program tariffs.

DG Incentive Levels

TEP is proposing to maintain the residential UFI DG incentive at $2.00 per watt to begin 2011, with a conditional trigger that could reduce the incentive to $1.75 per watt in 2011 if certain conditions are met. TEP is similarly proposing to maintain the commercial UFI DG incentive at $1.50 per watt, with a conditional trigger that could reduce the incentive to $1.25 per watt in 2011 if certain conditions are met. The incentives for TEP were reduced to their present levels by the Commission in Decision No. 71844 (August 25, 2010).

The triggers for possibly reducing the incentive levels would operate on the basis of whether TEP spends 60 percent of its proposed incentive budget for either the residential or commercial UFI DG segments on or before June 30, 2010. If this trigger point is reached by TEP for either customer class prior to June 30, 2010, TEP would then send out a notice that the incentive level would be reduced as of the close of business on the Friday that is closest to 30 days after the trigger is reached. Staff believes that this is a reasonable trigger mechanism that would provide the opportunity to reduce the incentive level if market conditions show TEP is well ahead in spending its 2011 incentive budgets. Staff further believes that this particular trigger mechanism should avoid the "notch" problem that has occurred in recent cases where utilities have filed with the Commission for an incentive reduction and customers between the time of the filing and Commission action have expected to receive the older, higher incentive level, rather than the new, lower incentive level approved by the Commission. Staff recommends approval of the DG incentive levels and trigger mechanism proposed by TEP with one minor modification. Staff further recommends that the incentive level be reduced on the close business on the first Friday following 30 days after the trigger is reached.

Proposed 2011 REST Budgets

TEP's supplemental filing contains a budget request to spend approximately $37.6 million for its 2011 REST plan. By comparison, TEP's approved 2010 REST plan contained spending of $43.9 million. The largest change is the reduction in incentives resulting in a significantly lower cost for that portion of the budget. Staff has reviewed TEP's proposed budget for the 2011 REST plan and has reduced certain costs to achieve a Staff proposed budget level of $35.9 million.

The table below shows proposed spending levels by area for TEP's proposed 2011 REST budget and Staff's proposed 2011 REST budget.

Budget Components	2011 REST Plan TEP Proposed Budget	2011 REST Plan Staff Proposed Budget
Purchased Renewable Energy		
Above market cost of conventional generation	$3,268,184	$3,268,184
Sun Edison RECs	$1,275,000	$1,275,000
TEP Owned	$1,758,759	$1,758,759
Other	$421,000	$200,000
Subtotal	*$6,722,943*	*$6,501,943*
Customer Sites Distributed Renewable Energy		
Up-front payments to customers - residential	$14,358,111	$14,358,111
Up-front payments to customers - commercial	$3,769,230	$3,769,230
Production based payments to customers	$5,753,375	$5,753,375
Lost net revenue and performance incentive	$364,206	$0
Outreach efforts	$750,000	$750,000
Customer self-directed	$500,000	$500,000
Other	$1,097,625	$1,000,000
Subtotal	*$26,592,547*	*$26,130,716*
Feed-In Tariff Pilot Program		
Subtotal	*$450,000*	*$0*
Information Systems		
Subtotal	*$600,000*	*$425,000*
School Vocational Program		
Subtotal	*$736,000*	*$650,000*
Net Metering		
Subtotal	*$823,231*	*$823,231*
Reporting		
Subtotal	*$588,000*	*$370,000*
Outside Coordination and Support, Research and Development		
Support to university research	$250,000	$250,000
Technology Development Projects	$300,000	$300,000
Other	$530,000	$515,000
Subtotal	*$1,080,000*	*$1,065,000*
Total Budget	*$37,585,220*	*$35,883,389*

It should be noted that $4.5 million of leftover 2009 residential REST funds were added to pay for further 2010 residential UFI incentives, above and beyond the approved 2010 REST plan budget, as ordered by the Commission in Decision No. 71844 (August 25, 2010). TEP anticipates the extra $4.5 million in residential UFI funds will be fully spent by the end of 2010. Further, Decision No 71844 shifted $3.7 million in unused 2010 commercial PBI funds to the commercial DG sector. TEP anticipates that the $3.7 million in shifted commercial funds will be fully spent by the end of 2010.

Recovery of Funds Through 2010 REST Charge

TEP's proposed caps and per kWh charge are designed to recover TEP's proposed budget of $37.6 million, while Staff's proposed caps and per kWh charge are designed to recover Staff's proposed budget of $35.9 million.

Regarding the residential rate cap, it is worth noting that in 2009 the residential rate cap was $4.50. In 2010, the residential rate case was reduced to $3.20, largely as a result of the use of approximately $12.0 million of unspent 2008 and 2009 REST funds to lower costs for consumers in 2010. For the 2011 REST plan, there are no such carry-forward funds to supplement the budget. However, under Staff's proposed plan, the 2011 residential cap would be kept at the same level as 2009.

	2010 Approved REST Charge (per kWh)	TEP Proposed 2011 REST Charge (per kWh)	Staff Proposed 2011 REST Charge (per kWh)	2010 Approved Cap	TEP Proposed 2011 Cap	Staff Proposed 2011 Cap
Residential	$0.008636	$0.008636	$0.007121	$3.20	$4.88	$4.50
Small Commercial	$0.008636	$0.008636	$0.007121	$160.00	$160.00	$160.00
Large Commercial	$0.008636	$0.008636	$0.007121	$760.00	$760.00	$1,000.00
Industrial and Mining	$0.008636	$0.008636	$0.007121	$3,600.00	$3,600.00	$5,500.00
Public Authority	$0.008636	$0.008636	$0.007121	$160.00	$160.00	$180.00
Lighting	$0.008636	$0.008636	$0.007121	$160.00	$160.00	$160.00

The cost recovery by customer class for the approved 2010 REST plan and the TEP and Staff proposed 2011 REST plans is shown in the table below.

	2010 REST Plan – Approved	2011 REST Plan – TEP Proposed	2011 REST Plan – Staff Proposed
Residential	$12,489,533 (39.3%)	$17,878,864 (47.6%)	$15,905,157 (44.3%)
Small Commercial	$12,020,670 (37.8%)	$11,930,311 (31.7%)	$10,441,814 (29.1%)

Large Commercial	$5,014,431 (15.8%)	$5,537,487 (14.7%)	$6,781,882 (18.9%)
Industrial and Mining	$1,211,862 (3.8%)	$1,207,625 (3.2%)	$1,793,166 (5.0%)
Public Authority	$770,320 (2.4%)	$749,983 (2.0%)	$729,519 (2.0%)
Lighting	$292,138 (0.9%)	$281,662 (0.8%)	$232,786 (0.7%)
Total	$31,798,954	$37,585,932	$35,884,324

For comparison purposes, the table below shows the projected kWh sales by customer class for 2011.

	2011 Projected Sales (MWH)
Residential	3,926,054 (37.4%)
Small Commercial	2,022,442 (19.2%)
Large Commercial	2,275,501 (21.7%)
Industrial and Mining	2,041,072 (19.4%)
Public Authority	211,163 (2.0%)
Lighting	33,177 (0.3%)
Total	10,509,408

The table below shows the contribution, per kWh consumed, for each customer class (projected class cost recovery divided by projected class kWh sales) to pay for the 2011 REST budget. Staff's proposal for class caps and the per kWh charge is intended to gradually move the customer classes closer to one another in terms of their contribution per kWh consumed in each customer class.

Contribution by Customer Class (per kWh)	2010 REST Plan – Approved (per kWh)	2011 REST Plan – TEP Proposed (per kWh)	2011 REST Plan – Staff Proposed (per kWh)
Residential	$0.00322	$0.00455	$0.00405
Small Commercial	$0.00586	$0.00590	$0.00586
Large Commercial	$0.00386	$0.00243	$0.00347
Industrial and Mining	$0.00056	$0.00059	$0.00088
Public Authority	$0.00347	$0.00355	$0.00347
Lighting	$0.00858	$0.00849	$0.00702

The table below shows the average REST charge by customer class as well as the percentage of customers at the cap for each customer class.

	2010 REST Plan – Approved	2011 REST Plan – TEP Proposed	2011 REST Plan – Staff Proposed
Residential - Average Bill	$3.20	$4.03	$3.59
Small Commercial - Average Bill	$28.07	$27.61	$24.16
Large Commercial - Average Bill	$673.80	$732.67	$897.30
Industrial and Mining - Average Bill	$3,433.00	$3,291.00	$4.886.00
Public Authority - Average Bill	$58.15	$56.79	$55.24
Lighting - Average Bill	$13.58	$13.02	$10.76
Residential – Percent at Cap	72.8%	72.7%	42.8%
Small Commercial – Percent at Cap	6.6%	6.4%	4.8%
Large Commercial – Percent at Cap	67.9%	87.6%	70.0%
Industrial and Mining – Percent at Cap	91.2%	87.5%	81.7%
Public Authority – Percent at Cap	20.6%	19.9%	15.4%
Lighting – Percent at Cap	0.1%	0.1%	0.1%

Estimated customer bill impacts for various monthly consumptions are shown in the table below.

			TEP Proposed Plans	
Customer Types	**kWh / mo.**	**2010 Approved Plan**	**2011 TEP Proposed Plan**	**2011 Staff Proposed Plan**
Low Consuming Residence	400	$3.20	$3.45	$2.85
Avg. Consuming Residence	886	$3.20	$4.03	$3.59
High Use Residence	2,000	$3.20	$4.88	$4.50
Dentist Office	2,000	$17.27	$17.27	$14.24
Hairstylist	3,900	$33.68	$33.68	$27.77
Department Store	170,000	$160.00	$160.00	$160.00
Mall	1,627,100	$760.00	$760.00	$1,000.00
Retail Video Store	14,400	$124.36	$124.36	$102.54
Large Hotel	1,067,100	$760.00	$760.00	$1,000.00
Large Building Supply	346,500	$760.00	$760.00	$1,000.00

Hotel/Motel	27,960	$160.00	$160.00	$160.00
Fast Food	60,160	$160.00	$160.00	$160.00
Large High Rise Office Bldg	1,476,100	$760.00	$760.00	$1,000.00
Hospital (< 3 MW)	1,509,600	$760.00	$760.00	$1,000.00
Supermarket	233,600	$760.00	$760.00	$1,000.00
Convenience Store	20,160	$160.00	$160.00	$143.56
Hospital (> 3 MW)	2,700,000	$3,600.00	$3,600.00	$5,500.00
Copper Mine	72,000,000	$3,600.00	$3,600.00	$5,500.00

Staff recommends approval of the proposed Staff 2011 REST plan. Staff believes that its recommendation provides adequate funding to achieve TEP's 2011 REST goals, and moves toward more equitable allocation of costs between customer classes. Staff additionally believes that the lower per kWh charge contained in the Staff plan encourages energy conservation, by charging less to low use customers than would be the case under the current charge or TEP's proposed charge.

Commercial Project Funding

Staff recently became aware of an issue with the use of UFI and PBI funding in 2011 and subsequent years. Apparently, TEP has a large distributed generation project that will be going in at the Davis-Monthan Air Force Base ("Davis-Monthan AFB") that will consume a sizable percentage of TEP's commercial UFI and PBI funding in upcoming years. Industry representatives have expressed a concern that this would lead to there being a smaller amount of available funds for smaller commercial projects in TEP's service territory than there has been in recent years. It does not appear that TEP is violating anything in the REST rules by moving forward with the Davis-Monthan project, but it nevertheless could impact the commercial marketplace in Tucson. Staff is not recommending any change to address this issue, as TEP's, and Staff's proposed REST plans are designed to meet TEP's REST requirements. However, in light of the Commission's recent actions in APS Docket No. E-01345A-10-0113, Staff recommends inclusion of similar language to that which was added to the Decision in that docket to address this issue, as follows:

> We are concerned about allowing a single project to consume such a large portion of TEP's non-residential renewable DE requirements under the REST. We do not wish to see other worthy commercial renewable energy projects crowded out by a single large distributed energy system. We will therefore require TEP to notify the Commission, as part of future REST Implementation Plans, whether the inclusion of the Davis-Monthan AFB project in the Company's commercial DE program has precluded any other non-residentail renewable DE system from receiving utility incentives because TEP is already in compliance with its non-residential renewable DE requirements as a result of having entered into the contract with Davis-Monthan AFB. If TEP finds that commercial DE projects will be or were precluded, we will also require the Company to request from the

Commission additional funding for commercial systems that would otherwise be precluded.

REST Adjustor Mechanism

The Commission established a REST adjustor mechanism for TEP in Decision No. 70628 (December 1, 2008). The REST adjustor rate is reset as part of the approval of each year's new REST implementation plan.

Staff Recommendations

1. Staff recommends that the Commission approve the Staff proposed 2011 REST plan, reflecting a REST charge of $0.007121 per kWh, and related caps reflected in the Staff proposal. This includes a total budget of $35,883,389.

2. Staff recommends approval of the trigger mechanism for reducing DG incentives proposed by TEP as modified.

3. Staff recommends that TEP post information on its own website, and on the Arizonagoessolar.org website at least every two weeks, regarding its progress toward reaching the trigger.

4. Staff recommends that, if TEP hits the trigger, TEP provide notice as soon as practicable, on its website, on Arizonagoessolar.org, and through other available communication avenues to information installers, customers, and others when the trigger is hit, when the incentive will be lowered, what the new incentive will be, and other pertinent information.

5. Staff recommends reducing the maximum percentage of a project that can be paid for with utility incentives to 50 percent.

6. Staff recommends approval of TEP's proposed research and development projects and funding.

7. Staff recommends that the Commission not approve TEP's request for lost net revenue resulting from DG deployments and related costs.

8. Staff recommends against approval of the feed-in tariff pilot program. However, if the Commission approves TEP's FIT pilot program, Staff recommends that all renewable energy technologies, as defined by the REST rules, be eligible to participate in the FIT pilot program. Staff further recommends that if the feed-in tariff pilot program is approved by the Commission, the annual spending for the feed-in tariff pilot program be limited to $525,000 per calendar year and that all

costs related to the feed-in tariff pilot program be recovered through the REST charge

9. Staff recommends approval of the School Vocational Program, as discussed herein.

10. Staff recommends that the Commission make a finding that TEP has complied with the requirement in Decision No. 71702 to acquire 3.4 MW of additional renewable resources, as discussed herein.

11. Staff recommends that TEP notify the Commission as part of all future REST Implementation Plans, whether the inclusion of the Davis-Monthan AFB project in the Company's commercial DE program has precluded any other non-residential renewable DE systems from receiving utility incentives because TEP is already in compliance with its non-residential renewable DE requirements as a result of signing the contract with the Davis-Monthan AFB. If TEP finds that commercial DE projects will be or were precluded, the Company should request from the Commission additional funding for the commercial systems that would otherwise be precluded.

12. Staff recommends that TEP file the REST-TS1, consistent with the Decision in this case, within 15 days of the effective date of the Decision.

Steven M. Olea
Director
Utilities Division

SMO:RGG:lhm\CH

ORIGINATOR: Robert Gray

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 TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS 2011 RENEWABLE ENERGY STANDARD AND TARIFF IMPLEMENTATION PLAN	DOCKET NO. E-01933A-10-0266 DECISION NO. __________ ORDER

Open Meeting
November 22 and 23, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP" or "Company") is engaged in providing electric service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. On July 1, 2010, TEP filed for Commission approval of its 2011 Renewable Energy Standard and Tariff ("REST") Implementation Plan. On October 13, 2010, TEP filed an update to its proposed REST Implementation Plan.

3. On July 21, 2010 and October 18, 2010, Pima County filed comments in the docket. On August 11, 2010, Green Choice Solar filed comments in the docket. On September 24, 2010, Freeport-McMoran Copper and Gold, Inc. ("Freeport-McMoran") and Arizonans for Electric Choice and Competition ("AECC") filed to intervene in this proceeding. On October 6, 2010, a procedural order was issued, granting intervention to Freeport-McMoran and AECC. On

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Recovery of Lost Net Fixed Revenue for DG Projects

7. TEP's proposed budget includes $364,206 for recovery of lost net revenue related to DG implemented through the REST plan. The Commission has not granted lost net revenues as a result of DG deployments to any utility in Arizona and specifically rejected TEP's request for DG lost net revenue in relation to TEP's 2010 REST plan.

8. TEP's application does not make any case for inclusion of lost net revenue, other than inclusion of the line item in the budget. Staff recommends that the Commission not approve TEP's request for recovery of possible lost net revenue resulting from DG deployments.

TEP REST Experience Under 2010 REST Plan

9. The Commission-approved implementation plan for 2010 contemplated a budget of $43.9 million. Approximately $12 million in leftover 2008 and 2009 REST funds were used to help fund the 2010 REST budget. TEP projects that it will spend its entire REST budget in 2010.

10. Regarding installations and reservations, the table below summarizes installations through October 22, 2010, and reservations for future installations.

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Residential	Photovoltaics		Solar Hot Water	
	Number of Systems	kW	Number of Systems	kWh
2010 Installations	672	4,110	372	1,023,000
Reservations	1,011	6,783	565	1,154,000

Commercial	Photovoltaics		Solar Hot Water	
	Number of Systems	kW	Number of Systems	kW
2010 Installations	6	174	2	5,500
Reservations	77	7,186	18	49,500

11. The table below shows TEP's annual required MWH under the REST rules and their installed-annualized and installed-annualized/reserved numbers. Installed annualized numbers reflect systems that are installed and their production is annualized to reflect a full year's production. Installed-annualized/reserved counts both the installed annualized systems, and also the systems that are reserved, but have not yet been installed.

	Required (MWH)	Produced/Banked (MWH)
Residential DG	23,636	14,590 (installed – annualized) 23,389 (installed – annualized/reserved)
Commercial DG	23,636	4,529 (installed – annualized) 29,208 (installed – annualized/reserved)
Non-DG	189,088	301,067

Feed-In Tariff Pilot Program

12. TEP's 2011 REST Plan includes a proposal to implement a one-year Feed-In Tariff ("FIT") pilot program. TEP indicates it is filing this pilot program in response to the ACC's feed-in tariff workshop process, wherein TEP committed to filing a pilot program. The program is open to consumers, non-profit groups, government consumers, and developers. Projects will be selected via a process that will weigh cost, location within the grid, project viability, and environmental impacts.

13. A single per kWh price will be paid for a 20-year term, as shown in the table below.

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Project Size (kW)	Cap on Total Price Paid (per kWh)
10-100	$0.20
101-400	$0.18
401-750	$0.16

14. The total 2011 budget for the FIT pilot program is $525,000, with $450,000 recovered as part of the overall 2011 REST plan budget, and $75,000 recovered through TEP's Purchased Power and Fuel Adjustment Clause. The $75,000 represents the Market Cost of Comparable Conventional Generation ("MCCCG"), and the $450,000 is for costs above the MCCCG. It should be noted that, although this is proposed as a one year pilot program a 2011 cost of $525,000, given that 20-year commitments will be made under this pilot program, the total cost commitment over that 20-year period for the 2011 pilot program would be $10,500,000.

15. Staff recognizes that there is significant interest in feed-in tariffs. However, Staff believes that the current workshop activities related to feed-in tariffs should be allowed to run their course before utilities implement feed-in tariffs, even on a pilot basis, given the significant financial commitment even a one year pilot program would entail, in excess of $10 million. Staff recommends against approval of the proposed feed-in tariff pilot program as part of the 2011 REST implementation plan for TEP.

Staff dollar limit

16. However, if a feed-in tariff pilot program is implemented in this proceeding, Staff believes that the Commission should consider expanding the eligible technologies. TEP's proposal indicates the FIT would be limited to photovoltaic applications. Staff believes that all eligible renewable energy technologies, as defined in the REST rules, should be eligible for participation in the FIT pilot program. Staff has discussed this matter with TEP and believes that TEP has no objection to expanding FIT pilot program eligibility to all renewable technologies as defined in the REST rules, if a feed-in tariff pilot program were approved in this proceeding.

School Vocational Program

17. TEP is proposing a new School Vocational Program ("SVP") that would involve the deployment of ten to 14 PV systems at high schools within TEP's service territory. TEP would work with school officials to determine good candidates for participation in the program, based on

the appropriateness of the site for a PV deployment as well as the school's ability to create an on-going vocational training program in collaboration with TEP. The program budget is $736,000, including $500,000 for equipment (90 kW based on $5.50 per watt) and $236,000 in training and seminar funds.

18. Staff believes that TEP's proposed SVP is a reasonable new program to implement, but believes that the administrative costs are too high and thus would recommend approval of the program with a reduction in administrative costs from $236,000 to $150,000.

ACC Decision No. 71702 Requirement

19. TEP's application also states that purchased power agreements ("PPAs") that were given limited approval by the Commission in Decision No. 71702 (May 17, 2010) meet that Decision's requirement that "Tucson Electric Power Company shall develop proposal to procure at least 3.4 Megawatts of solar from independent power providers and file the proposals as part of the Company's 2011 REST Implementation Plan." The referenced PPAs are part of TEP's 2011 REST plan filing.

20. Even though the 2011 REST plan does not specifically contain a proposal to procure at least 3.4 MW from independent power providers, Staff believes that the referenced PPAs, which are well in excess of 3.4 MW, reasonably fulfill the requirement of Decision No. 71702.

Bright Tucson Solar Buildout Plan

21. TEP is requesting approval of a four year build-out plan for the Bright Tucson Community Solar program. The Bright Tucson program was approved by the Commission in Decision No. 71835, on August 10, 2010. The program allows TEP customers to purchase blocks of renewable energy via an optional tariff rider. Customers would buy one or more 1 kW pieces of renewable energy, each representing 150 kWh per month, at a $0.02 per kWh premium over the regular tariff rate. Such customers would then have that solar capacity component of their bill fixed for 20 years.

22. The build-out plan would involve $112,000,000 for 28 MW of utility-scale, utility-owned solar installations, with 7 MW installed each year from 2011 through 2014, and recovery of

carrying costs through the REST charge from 2012 through 2015. Thus TEP is not seeking recovery of any of these costs in the 2011 REST plan, but such recovery would be anticipated to begin through the 2012 REST plan.

23. No costs related to the buildout plan are being proposed by TEP for recovery in 2011. TEP estimates that the carrying costs to be recovered for the buildout plan beginning in 2012 would be $3,451,904 in 2012, $3,350,519 in 2013, $3,451,904 in 2014, and $6,701,037 in 2015. This is similar in concept to the $1,758,759 in carrying costs included in the 2011 budget to pay for carrying costs on the Springerville expansion and Tucson airport projects, as previously approved by the Commission in Decision No. 71702 (May 17, 2010).

24. Staff believes that TEP's proposal for the Bright Tucson Solar Buildout Plan is similar to the proposal by Arizona Public Service Company ("APS") for its AZ Sun Program, which was approved by the Commission in Decision No. 71502 (March 17, 2010). TEP's proposal for the build out plan would involve a commitment for the next four years. Staff believes that it is reasonable to approved TEP's proposal for the first year of the buildout plan, but that TEP should seek Commission approval as part of its 2012 REST plan for further years of the buildout plan. This will provide TEP with the opportunity to gauge success of the first year of the buildout plan and make necessary adjustments. Staff recommends that TEP, as part of its 2012 REST plan filing, report on the status of its buildout plan.

25. Treatment of the costs for these facilities would mirror the Commission's treatment of APS facilities in Decision No. 71502, namely, Staff recommends that recovery of carrying costs until TEP's next rate case is appropriate and reasonable. Staff further recommends that reasonableness and prudency of buildout plan costs be examined in TEP's next rate case and that any costs determined not to be reasonable and prudent be refunded by the Company.

Research and Development

26. TEP is requesting approval of funding for five research and development ("R&D) projects. The projects include a grid stability analysis project, research in coordination with the Electric Power Research Institute on local impacts of renewables on transmission and distribution circuits, a Davis Monthan Air Force Base Distributed Generation Circuit Analysis, various projects

at the TEP Test Yard, and a number of projects through TEP's partnership with AZRise. Funding for these projects is as shown in the following table.

Project	2011 R&D Project Funding Level
Gris Stability Analysis Project	$150,000
EPRI Studies	$300,000
Davis Monthan DG Circuit Analysis	$50,000
TEP Test Yard	$300,000
AZRise Research	$250,000

27. Funding levels are similar to what the Commission approved for R&D projects in TEP's 2010 REST budget.

Maximum Percentage of System Cost Paid Through Utility Rebates

28. In recent years TEP's REST plans have included a provision that the maximum percentage of system cost for a customer that could be paid through utility rebates would be 60 percent. TEP's filing in this proceeding contemplates continuation of the 60 percent level. Staff believes that this should be reconsidered. To the extent the maximum percentage can be reduced without significantly impacting the marketplace, such a reduction would result in the most subsidized projects receiving a moderately lower subsidy. This would result in a net increase in the number of projects completed for the same level of total spending.

29. In discussions with TEP, the Company indicated that few projects in recent years are close to the 60 percent of system cost level. Staff believes that a reduction of this level to 50 percent would represent a modest change, but would be a step toward more efficiently spending REST funds. Staff recommends reducing the maximum percentage of system cost that could be paid through utility rebates to 50 percent for both residential and commercial projects.

Bright Tucson Community Solar Program

30. TEP is not proposing any changes to the Bright Tucson Community Solar Program tariffs.

DG Incentive Levels

31. TEP is proposing to maintain the residential UFI DG incentive at $2.00 per watt to begin 2011, with a conditional trigger that could reduce the incentive to $1.75 per watt in 2011 if

certain conditions are met. TEP is similarly proposing to maintain the commercial UFI DG incentive at $1.50 per watt, with a conditional trigger that could reduce the incentive to $1.25 per watt in 2011 if certain conditions are met. The incentives for TEP were reduced to their present levels by the Commission in Decision No. 71844 (August 25, 2010).

32. The triggers for possibly reducing the incentive levels would operate on the basis of whether TEP spends 60 percent of its proposed incentive budget for either the residential or commercial UFI DG segments on or before June 30, 2010. If this trigger point is reached by TEP for either customer class prior to June 30, 2010, TEP would then send out a notice that the incentive level for would be reduced as of the close of business on the Friday that is closest to 30 days after the trigger is reached.

33. Staff believes that this is a reasonable trigger mechanism that would provide the opportunity to reduce the incentive level if market conditions show TEP is well ahead in spending its 2011 incentive budgets. Staff further believes that this particular trigger mechanism should avoid the "notch" problem that has occurred in recent cases where utilities have filed with the Commission for an incentive reduction and customers between the time of the filing and Commission action have expected to receive the older, higher incentive level, rather than the new, lower incentive level approved by the Commission. Staff recommends approval of the DG incentive levels and trigger mechanism proposed by TEP with one minor modification. Staff further recommends that the incentive level be reduced on the close business on the first Friday following 30 days after the trigger is reached.

Proposed 2011 REST Budgets

34. TEP's supplemental filing contains a budget request to spend approximately $37.6 million for its 2011 REST plan. Buy comparison, TEP's approved 2010 REST plan contained spending of $43.9 million. The largest change is the reduction in incentives resulting in a significantly lower cost for that portion of the budget. Staff has reviewed TEP's proposed budget for the 2011 REST plan and has reduced certain costs to achieve a Staff proposed budget level of $35.9 million.

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35. The table below shows proposed spending levels by area for TEP's proposed 2011 REST budget and Staff's proposed 2011 REST budget.

Budget Components	2011 REST Plan TEP Proposed Budget	2011 REST Plan Staff Proposed Budget
Purchased Renewable Energy		
Above market cost of conventional generation	$3,268,184	$3,268,184
Sun Edison RECs	$1,275,000	$1,275,000
TEP Owned	$1,758,759	$1,758,759
Other	$421,000	$200,000
Subtotal	*$6,722,943*	*$6,501,943*
Customer Sites Distributed Renewable Energy		
Up-front payments to customers - residential	$14,358,111	$14,358,111
Up-front payments to customers - commercial	$3,769,230	$3,769,230
Production based payments to customers	$5,753,375	$5,753,375
Lost net revenue and performance incentive	$364,206	$0
Outreach efforts	$750,000	$750,000
Customer self-directed	$500,000	$500,000
Other	$1,097,625	$1,000,000
Subtotal	*$26,592,547*	*$26,130,716*
Feed-In Tariff Pilot Program		
Subtotal	*$450,000*	*$0*
Information Systems		
Subtotal	*$600,000*	*$425,000*
School Vocational Program		
Subtotal	*$736,000*	*$650,000*
Net Metering		
Subtotal	*$823,231*	*$823,231*
Reporting		
Subtotal	*$588,000*	*$370,000*
Outside Coordination and Support, Research and Development		
Support to university research	$250,000	$250,000
Technology Development Projects	$300,000	$300,000
Other	$530,000	$515,000
Subtotal	*$1,080,000*	*$1,065,000*
Total Budget	*$37,585,220*	*$35,883,389*

36. It should be noted that $4.5 million of leftover 2009 residential REST funds were added to pay for further 2010 residential UFI incentives, above and beyond the approved 2010 REST plan budget, as ordered by the Commission in Decision No. 71844 (August 25, 2010). TEP anticipates the extra $4.5 million in residential UFI funds will be fully spent by the end of 2010.

Further, Decision No 71844 shifted $3.7 million in unused 2010 commercial PBI funds to the commercial DG sector. TEP anticipates that the $3.7 million in shifted commercial funds will be fully spent by the end of 2010.

Recovery of Funds Through 2010 REST Charge

37. TEP's proposed caps and per kWh charge are designed to recover TEP's proposed budget of $37.6 million, while Staff's proposed caps and per kWh charge are designed to recover Staff's proposed budget of $35.9 million.

38. Regarding the residential rate cap, it is worth noting that in 2009 the residential rate cap was $4.50. In 2010, the residential rate case was reduced to $3.20, largely as a result of the use of approximately $12.0 million of unspent 2008 and 2009 REST funds to lower costs for consumers in 2010. However, for the 2011 REST plan, there are no such carry-forward funds to supplement the budget. However, under Staff's proposed plan, the 2011 residential cap would be kept at the same level it was at during 2009.

	2010 Approved REST Charge (per kWh)	TEP Proposed 2011 REST Charge (per kWh)	Staff Proposed 2011 REST Charge (per kWh)	2010 Approved Cap	TEP Proposed 2011 Cap	Staff Proposed 2011 Cap
Residential	$0.008636	$0.008636	$0.007121	$3.20	$4.88	$4.50
Small Commercial	$0.008636	$0.008636	$0.007121	$160.00	$160.00	$160.00
Large Commercial	$0.008636	$0.008636	$0.007121	$760.00	$760.00	$1,000.00
Industrial and Mining	$0.008636	$0.008636	$0.007121	$3,600.00	$3,600.00	$5,500.00
Public Authority	$0.008636	$0.008636	$0.007121	$160.00	$160.00	$180.00
Lighting	$0.008636	$0.008636	$0.007121	$160.00	$160.00	$160.00

39. The cost recovery by customer class for the approved 2010 REST plan and the TEP and Staff proposed 2011 REST plans is shown in the table below.

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	2010 REST Plan – Approved	2011 REST Plan – TEP Proposed	2011 REST Plan – Staff Proposed
Residential	$12,489,533 (39.3%)	$17,878,864 (47.6%)	$15,905,157 (44.3%)
Small Commercial	$12,020,670 (37.8%)	$11,930,311 (31.7%)	$10,441,814 (29.1%)
Large Commercial	$5,014,431 (15.8%)	$5,537,487 (14.7%)	$6,781,882 (18.9%)
Industrial and Mining	$1,211,862 (3.8%)	$1,207,625 (3.2%)	$1,793,166 (5.0%)
Public Authority	$770,320 (2.4%)	$749,983 (2.0%)	$729,519 (2.0%)
Lighting	$292,138 (0.9%)	$281,662 (0.8%)	$232,786 (0.7%)
Total	$31,798,954	$37,585,932	$35,884,324

40. For comparison purposes, the table below shows the projected kWh sales by customer class for 2011.

	2011 Projected Sales (MWH)
Residential	3,926,054 (37.4%)
Small Commercial	2,022,442 (19.2%)
Large Commercial	2,275,501 (21.7%)
Industrial and Mining	2,041,072 (19.4%)
Public Authority	211,163 (2.0%)
Lighting	33,177 (0.3%)
Total	10,509,408

41. The table below shows the contribution, per kWh consumed, for each customer class (projected class cost recovery divided by projected class kWh sales) to pay for the 2011 REST budget. Staff's proposal for class caps and the per kWh charge is intended to gradually move the customer classes closer to one another in terms of their contribution per kWh consumed in each customer class.

Contribution by customer class (per kWh)	2010 REST Plan – Approved (per kWh)	2011 REST Plan – TEP Proposed (per kWh)	2011 REST Plan – Staff Proposed (per kWh)
Residential	$0.00322	$0.00455	$0.00405
Small Commercial	$0.00586	$0.00590	$0.00586
Large Commercial	$0.00386	$0.00243	$0.00347
Industrial and Mining	$0.00056	$0.00059	$0.00088
Public Authority	$0.00347	$0.00355	$0.00347
Lighting	$0.00858	$0.00849	$0.00702

42. The table below shows the average REST charge by customer class as well as the percentage of customers at the cap for each customer class.

	2010 REST Plan – Approved	2011 REST Plan – TEP Proposed	2011 REST Plan – Staff Proposed
Residential - Average Bill	$3.20	$4.03	$3.59
Small Commercial - Average Bill	$28.07	$27.61	$24.16
Large Commercial - Average Bill	$673.80	$732.67	$897.30
Industrial and Mining - Average Bill	$3,433.00	$3,291.00	$4.886.00
Public Authority - Average Bill	$58.15	$56.79	$55.24
Lighting - Average Bill	$13.58	$13.02	$10.76
Residential – Percent at Cap	72.8%	72.7%	42.8%
Small Commercial – Percent at Cap	6.6%	6.4%	4.8%
Large Commercial – Percent at Cap	67.9%	87.6%	70.0%
Industrial and Mining – Percent at Cap	91.2%	87.5%	81.7%
Public Authority – Percent at Cap	20.6%	19.9%	15.4%
Lighting – Percent at Cap	0.1%	0.1%	0.1%

43. Estimated customer bill impacts for various consumption levels are shown in the table below.

			TEP Proposed Plans	
Customer Types	**kWh / mo.**	**2010 Approved Plan**	**2011 TEP Proposed Plan**	**2011 Staff Proposed Plan**
Low Consuming Residence	400	$3.20	$3.45	$2.85
Avg. Consuming Residence	886	$3.20	$4.03	$3.59
High Use Residence	2,000	$3.20	$4.88	$4.50
Dentist Office	2,000	$17.27	$17.27	$14.24
Hairstylist	3,900	$33.68	$33.68	$27.77
Department Store	170,000	$160.00	$160.00	$160.00
Mall	1,627,100	$760.00	$760.00	$1,000.00
Retail Video Store	14,400	$124.36	$124.36	$102.54
Large Hotel	1,067,100	$760.00	$760.00	$1,000.00
Large Building Supply	346,500	$760.00	$760.00	$1,000.00
Hotel/Motel	27,960	$160.00	$160.00	$160.00
Fast Food	60,160	$160.00	$160.00	$160.00
Large High Rise Office Bldg	1,476,100	$760.00	$760.00	$1,000.00
Hospital (< 3 MW)	1,509,600	$760.00	$760.00	$1,000.00
Supermarket	233,600	$760.00	$760.00	$1,000.00
Convenience Store	20,160	$160.00	$160.00	$143.56
Hospital (> 3 MW)	2,700,000	$3,600.00	$3,600.00	$5,500.00
Copper Mine	72,000,000	$3,600.00	$3,600.00	$5,500.00

44. Staff recommends approval of the proposed Staff 2011 REST plan. Staff believes that its recommendation provides adequate funding to achieve TEP's 2011 REST goals, and moves toward more equitable allocation of costs between customer classes. Staff additionally believes that the lower per kWh charge contained in the Staff plan encourages energy conservation, by charging less to low use customers than would be the case under the current charge or TEP's proposed charge.

Commercial Project Funding

45. Staff recently became aware of an issue with the use of UFI and PBI funding in 2011 and subsequent years. Apparently TEP has a large distributed generation project that will be going in at the Davis-Monthan Air Force Base ("Davis-Monthan AFB") that will consume a sizable percentage of TEP's commercial UFI and PBI funding in upcoming years. Industry representatives have expressed a concern that this would lead to there being a smaller amount of available funds for smaller commercial projects in TEP's service territory than there has been in recent years. It does not appear that TEP is violating anything in the REST rules by moving forward with the Davis-Monthan project, but it nevertheless could impact the commercial marketplace in Tucson.

46. Staff is not recommending any change to address this issue, as TEP's, and Staff's proposed REST plans are designed to meet TEP's REST requirements. However, in light of the Commission's recent actions in APS Docket No. E-01345A-10-0113, Staff recommends inclusion of similar language to that which was added to the Decision in that docket to address this issue, as follows:

> We are concerned about allowing a single project to consume such a large portion of TEP's non-residential renewable DE requirements under the REST. We do not wish to see other worthy commercial renewable energy projects crowded out by a single large distributed energy system. We will therefore require TEP to notify the Commission, as part of future REST Implementation Plans, whether the inclusion of the Davis-Monthan AFB project in the Company's commercial DE program has precluded any other non-residential renewable DE system from receiving utility incentives because TEP is already in compliance with its non-residential renewable DE requirements as a result of having entered into the contract with Davis-Monthan AFB. If TEP finds that commercial DE projects will be or were

> precluded, we will also require the Company to request from the Commission additional funding for commercial systems that would otherwise be precluded.

REST Adjustor Mechanism

47. The Commission established a REST adjustor mechanism for TEP in Decision No. 70628 (December 1, 2008). The REST adjustor rate is reset as part of the approval of each year's new REST implementation plan.

Staff Recommendations

48. Staff has recommended that the Commission approve the Staff proposed 2011 REST plan, reflecting a REST charge of $0.007121 per kWh, and related caps reflected in the Staff proposal. This includes a total budget of $35,883,389.

49. Staff has recommended approval of the trigger mechanism for reducing DG incentives proposed by TEP.

50. Staff has recommended that TEP post information on its own website, and on the Arizonagoessolar.org website at least every two weeks, regarding its progress toward reaching the trigger.

51. Staff has recommended that, if TEP hits the trigger, TEP provide notice as soon as practicable, on its website, on Arizonagoessolar.org, and through other available communication avenues to information installers, customers, and others when the trigger is hit, when the incentive will be lowered, what the new incentive will be, and other pertinent information.

52. Staff has recommended reducing the maximum percentage of a project that can be paid for with utility incentives to 50 percent.

53. Staff has recommended approval of TEP's proposed research and development projects and funding.

54. Staff has recommended that the Commission not approve TEP's request for lost net revenue resulting from DG deployments and related costs.

55. Staff has recommended against approval of the feed-in tariff pilot program. However, if the Commission approves TEP's FIT pilot program, Staff recommends that all

renewable energy technologies, as defined by the REST rules, be eligible to participate in the FIT pilot program. Staff further recommends that if the feed-in tariff pilot program is approved by the Commission, the annual spending for the feed-in tariff pilot program be limited to $525,000 per calendar year and that all costs related to the feed-in tariff pilot program be recovered through the REST charge

56. Staff has recommended approval of the School Vocational Program, as discussed herein.

57. Staff has recommended that the Commission make a finding that TEP has complied with the requirement in Decision No. 71702 to acquire 3.4 MW additional renewable resources, as discussed herein.

58. Staff has recommended that TEP notify the Commission as part of all future REST Implementation Plans, whether the inclusion of the Davis-Monthan AFB project in the Company's commercial DE program has precluded any other non-residential renewable DE systems from receiving utility incentives because TEP is already in compliance with its non-residential renewable DE requirements as a result of signing the contract with the Davis-Monthan AFB. If TEP finds that commercial DE projects will be or were precluded, the Company should request from the Commission additional funding for the commercial systems that would otherwise be precluded.

59. Staff has recommended that TEP file the REST-TS1, consistent with the Decision in this case, within 15 days of the effective date of the Decision.

CONCLUSIONS OF LAW

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

2. The Commission has jurisdiction over TEP and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated November 9, 2010, concludes that it is in the public interest to approve the 2011 Renewable Energy Standard Implementation Plan and REST Tariff, as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the 2011 Renewable Energy Standard Implementation Plan and REST Tariff, as discussed herein, be and hereby is approved.

IT IS FURTHER ORDERED that the Staff proposed 2011 REST plan, reflecting a REST charge of $0.007121 per kWh, and related caps reflected in the Staff proposal is approved. This includes a total budget of $35,883,389.

IT IS FURTHER ORDERED that that the trigger mechanism for reducing DG incentives proposed by Tucson Electric Power Company is approved as modified.

IT IS FURTHER ORDERED that Tucson Electric Power Company post information on its own website, and on the Arizonagoessolar.org website at least every two weeks, regarding its progress toward reaching the trigger.

IT IS FURTHER ORDERED that, if Tucson Electric Power Company hits the trigger, Tucson Electric Power Company provide notice as soon as practicable, on its website, on Arizonagoessolar.org, and through other available communication avenues to information installers, customers, and others when the trigger is hit, when the incentive will be lowered, what the new incentive will be, and other pertinent information.

IT IS FURTHER ORDERED that the maximum percentage of a project that can be paid for with utility incentives is 50 percent.

IT IS FURTHER ORDERED that Tucson Electric Power Company's proposed research and development projects and funding is approved.

IT IS FURTHER ORDERED that Tucson Electric Power Company's request for lost net revenue resulting from DG deployments and related costs is denied.

IT IS FURTHER ORDERED that the feed-in tariff pilot program is denied.

IT IS FURTHER ORDERED that the School Vocational Program, as discussed herein, is denied.

IT IS FURTHER ORDERED that the Commission make a finding that Tucson Electric Power Company has complied with the requirement in Decision No. 71702 to acquire 3.4 MW additional renewable resources, as discussed herein.

IT IS FURTHER ORDERED that Tucson Electric Power Company notify the Commission as part of all future REST Implementation Plans, whether the inclusion of the Davis-Monthan AFB project in the Company's commercial DE program has precluded any other non-residential renewable DE systems from receiving utility incentives because Tucson Electric Power Company is already in compliance with its non-residential renewable DE requirements as a result of signing the contract with the Davis-Monthan AFB. If Tucson Electric Power Company finds that commercial DE projects will be or were precluded, the Company should request from the Commission additional funding for the commercial systems that would otherwise be precluded.

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IT IS FURTHER ORDERED that Tucson Electric Power Company file, as a compliance matter with Docket Control, the REST-TS1, consistent with the Decision in this case, within 15 days of the effective date of the Decision.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN	COMMISSIONER

COMMISSIONER	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _______day of ___________________ , 2010.

____
ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: ____________________________

DISSENT: ____________________________

SMO:RGG:lhm\CH

SERVICE LIST FOR: TUCSON ELECTRIC POWER COMPANY
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