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Electric Cooperative, Inc.



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November 10, 2010

Kristin K. Mayes, Chairman
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

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Re: 2011 REST Implementation Plans; Request for additional information in advance of November workshop; Docket Nos. 1

E-01461A-10-0263

Dear Chairman Mayes:

This is in response to the request for additional information set forth in your letter of October 20, 2010, to parties to 2011 REST Implementation Plan Dockets. In addition to our responses herein, Trico Electric Cooperative, Inc. ("Trico" or the "Cooperative") will have representatives present at the Workshop in Phoenix on November 10, 2011, to respond to any questions you may have.

APS Step-Down Incentive and \$1/Watt Rapid Incentive Proposals

With regard to the step-down proposed by APS for its incentive program, Trico believes each of the factors listed in your letter (megawatt achievement, price of modules, payback period and status of federal and state credits) are relevant and should be considered in the administration of a large-scale distributed energy program. Given Trico's relatively small size and customer base, it would be difficult for us to implement and administer a complex step-down program. Rather, understanding that each of the aforementioned factors impacts the demand for distributed generation in southern Arizona, Trico has attempted in its 2011 REST Implementation Plan to adjust its incentive to provide incentives to a larger number of Trico Member/Customers and reduce the Cooperative's backlog for distributed generation rebates. The reduction from \$3 to \$1.50 per installed kW on residential distributed generation proposed in Trico's Plan was based on the size of its backlog (approximately two years) and a comparison to the levels of incentives offered by other Cooperatives and investor owned utilities. Trico believes that this is reflective of the current market as shaped by the factors you listed.

Trico does not have an opinion as to whether the \$1/watt rapid reservation has been appropriately priced. Implementation of such a program in Trico's service territory would be difficult, given Trico's two-year waiting list for distributed generation incentive payments.

Circumventing Trico Members who have contracts or already installed systems would likely give rise to claims of unfairness, and would not, in Trico's view, significantly increase the amount of residential distributed generation in its service territory.

Status of Trico's Commercial PBI and Expansion of Residential Solar

Trico's system is over 95 percent residential. As a result, Trico requested and was granted the ability under its REST to move funds from its commercial to its residential distributed generation program, and the bulk of Trico's REST surcharge funds are used to pay up-front incentives on residential systems. Trico currently has contracted to pay PBIs on two commercial installations in its service territory. The City of Tucson is installing a 1 MW solar project in Avra Valley west of Tucson and Trico has agreed to purchase the associated RECs through a PBI Agreement over a 20 year term. Continental School District 39 has almost completed the installation of a 346 kW solar project, and Trico has a PBI Agreement to purchase the RECs from this project over a 25 year term. We are currently reviewing 4 proposals for PBI applications submitted by commercial and government entities in our service territory.

Despite the aforementioned two-year backlog on rebates, Trico's residential distributed generation program has been very successful. As of the end of 2009, 185 residential systems were installed, for a total of 1,479,972 annual kWh. Thus far in 2010, Trico has 311 residential systems installed, representing a total annual residential renewable energy of 2,799,846 kWh. The residential distributed generation targets for an IOU with Trico's load would be 948,000 kWh for 2009, and 1,661,383 kWh for 2010.

Trico's PV for Schools Program currently consists of the installation of a 3.5 kW PV system at the Pascua Yaqui Head Start School. The system went into service on August 4, 2010 and was completely funded through the Trico REST Plan PV for Schools Program at a cost of \$30,000. In addition, the aforementioned Continental School District Number 39 project is anticipated to be in service next month.

Because of the demand for residential distributed generation in its service territory, Trico does not anticipate having any unused renewable generation funds for 2010 or 2011. Trico believes continued flexibility to shift funds between commercial and residential renewable generation is essential.

Trico's current residential backlog is approximately \$1.6 million, representing a little over 100 systems. The Trico 2011 REST Plan incorporated a plan to reduce and ultimately eliminate the backlog in two years, while at the same time maintaining the existing programs. The 2011 REST Plan included a 50 percent increase to the residential REST surcharge (from a cap of \$2 to \$3). Eliminating the backlog in one year would require an increase in the Cooperative's residential REST surcharge of 100% or from a cap of \$2 to \$4. A five to ten percent increase in the surcharge would have nominal effect on Trico's residential backlog.

Distributed Energy Small Generation and Utility-Scale Generation

Given the highly residential nature of Trico's service territory, the demand for residential distributed generation, and the lack of cost-competitive large-scale generation projects in its territory, the Cooperative does not anticipate signing contracts with or participating in large-scale projects in the near future. However, as mentioned above, Trico is in the process of completing a contract with the City of Tucson Water Department for the installation of a 1 MW solar project.

Feed-in Tariff Proposals

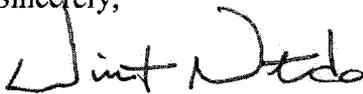
Due to the current circumstances, Trico prefers to direct its REST funds toward reducing the over subscription in its residential programs rather than implementing a Feed-in Tariff (FIT) program. Given the Cooperative's size, Trico's REST program has limited resources and staff to administer a complex FIT program, and would recommend this be considered prior to considering a FIT pilot program for the Cooperative.

Research and Development/Studies

As stated above, Trico has limited REST Plan funds for anything other than implementing its current programs. However, Trico has through non-REST funding participated in the following research and development related studies/projects: (i) partnering with the Biosphere to share renewable data and information; and (ii) with Arizona Electric Power Cooperative, Inc. and certain other cooperatives funding a study considering the use of concentrated solar to reduce fossil fuel used in existing coal units while improving efficiencies (Trico's cost share was \$44,483 for the study).

Thank you for the opportunity to provide Trico's input.

Sincerely,



Vincent Nitido
Chief Executive Officer/General Manager

cc: Commissioner Gary Pierce
Commissioner Sandra Kennedy
Commissioner Paul Newman
Commissioner Bob Stump
Ernest Johnson
Steve Olea
Janice Alward
Lyn Farmer
Rebecca Wilder