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BEFORE THE ARIZONA CORPORATION COMMISSION

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2011 SEP 13 P 3:38
AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF)
TUCSON ELECTRIC POWER COMPANY FOR)
APPROVAL OF ITS 2011 RENEWABLE)
ENERGY STANDARD IMPLEMENTATION)
PLAN AND DISTRIBUTED ENERGY)
ADMINISTRATIVE PLAN AND REQUEST FOR)
RESET OF RENEWABLE ENERGY ADJUSTOR)
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DOCKET NO. E-01933A-10-0266

**NOTICE OF SUSPENSION OF
ACCEPTANCE OF RESIDENTIAL
INCENTIVE APPLICATIONS
UNDER 2011 REST PLAN OR,
ALTERNATIVELY, REQUEST TO
MODIFY 2011 REST PLAN**

**(EXPEDITED REVIEW
REQUESTED)**

Tucson Electric Power Company ("TEP" or "Company"), through counsel undersigned, hereby provides notice that TEP's \$14,358,111 budget for its Residential Distributed Generation ("DG") up-front incentive ("UFI") program (approved in Decision No. 72033 (December 10, 2010)) has been fully reserved and that TEP has suspended taking additional Residential UFI reservations as of September 13, 2011. This suspension results from an inordinate number of Residential UFI reservations received between September 1, 2011 and September 12, 2011 – over 200 applications received in just seven business days totaling over \$3 million in reservations. To put this in perspective, TEP had averaged approximately 125 applications per month in 2011 through August. Under the circumstances, TEP believes that suspending acceptance of Residential DG applications under its 2011 REST Plan is appropriate for the reasons discussed below.

However, should the Commission desire that TEP continue to accept such reservations to the extent additional REST funds are still available from other REST programs, TEP proposes that the Commission authorize TEP to:

- 1 1 Transfer the funds remaining in TEP's Commercial Performance-Based Incentives
2 ("PBI") Program budget (approximately \$700,000) to its Residential DG budget;
3 and
4 2. Accept reservations for Residential DG at an incentive of \$1/watt¹ until those
5 additional funds are fully reserved (which TEP estimates will cover approximately
6 110 average residential PV applications).

7 However, once those additional funds are reserved, TEP would suspend accepting Residential DG
8 applications until TEP's 2012 REST Plan filed in Docket No. E-01933A-11-0269 becomes
9 effective. Consequently, this alternative would also preclude further Commercial PBI funding
10 under TEP's 2011 REST Plan.

11 The Company is requesting an expedited review of this filing to eliminate potential
12 uncertainty surrounding its 2011 Residential DG program.

13 **I. BACKGROUND.**

14 The Commission approved TEP's 2011 REST Plan in Decision No. 72033. As part of that
15 Decision, the Commission authorized TEP's budget of \$14,358,111 for the Residential DG
16 incentive program (to pay UFIs to residential customers for eligible Distributed Renewable Energy
17 Resources as defined in the Commission's REST Rules). That amount is funded by a REST
18 surcharge on TEP customers and ensures that TEP will meet – and exceed – the Commission's
19 Residential DG requirements. Presently, TEP has exceeded the Residential DG requirement for
20 2011 set forth in the REST Rules.

21 From January 1, 2011 to August 31, 2011, TEP received just under 1,000 applications for
22 residential PV UFI incentives, which was slightly higher than anticipated under the 2011 REST
23 Plan. However, starting on September 1, 2011, TEP saw a sharp increase in the number of such
24 applications. Of the 200 plus applications received in September 2011, TEP received the first 133
25

26 ¹ In its 2012 REST Plan, TEP has explained that the current Residential DG incentives are too
27 high and is proposing to reduce incentives to \$1/watt for solar lease systems and \$1.75/watt for
 customer-owned systems. Currently, the incentive is \$2.00/watt for all residential PV systems.

1 residential PV applications during the first six business days seeking reservations of approximately
2 \$2.25 million. Over 90% of those applications involved solar lease systems. Moreover, 82 of the
3 133 applications were from the same solar installation company. This unexpected influx of
4 applications effectively reserved the remaining Residential DG budget for the 2011 Plan.

5 As soon as the Company became aware that the Residential DG budget would be fully
6 subscribed, TEP immediately provided notice to the solar installation community that TEP would
7 be suspending acceptance of Residential DG applications after it received an additional 75
8 applications. On September 12, 2011, TEP received 105 additional applications, of which it
9 accepted 75. Again, approximately 90% of the 105 applications involved solar lease systems.
10 Given that the incentive paid for the average residential PV system (6.8 kW) is approximately
11 \$13,500, TEP accepted approximately \$1 million in applications in one day alone. On September
12 12, 2011, TEP also contacted the Commission to inform it of the suspension and the circumstances
13 surrounding the suspension and agreed that it would make this filing on September 13, 2011.

14 **II. SUSPENSION OF RESIDENTIAL UFI RESERVATIONS.**

15 TEP believes that the suspension of accepting Residential DG UFI applications under its
16 2011 REST Plan should remain in place until such time that the Company's 2012 REST Plan is
17 approved by the Commission and becomes effective. TEP has expended its approved 2011 REST
18 budget and it has exceeded the residential DG requirement for 2011 as set forth in the REST
19 Rules. Continuing to accept reservations will create a backlog of pending – yet unfunded --
20 applications and will result in increased administrative and program costs, all of which would
21 ultimately be borne by TEP's ratepayers.

22 Moreover, TEP has experienced an enormous increase in solar lease systems applications
23 in its service area during 2011. These programs are attractive because they may not require any
24 upfront out-of-pocket costs for the homeowner. Given these circumstances, TEP believes that its
25 current Residential DG incentive level is too high. Accordingly, TEP has proposed a significantly
26 lower incentive in its 2012 REST Plan. Until an appropriate incentive level is set for Residential
27 DG UFIs – one that reflects the current state of the solar PV market – TEP believes it would be

1 imprudent to commit ratepayer funds until such time that the Commission authorizes
2 implementation of the Company's 2012 REST Plan.

3 **III. REALLOCATION OF TEP's 2011 REST BUDGET.**

4 Should the Commission desire that TEP continue to accept Residential DG reservations
5 beyond the approved 2011 budget to the extent additional REST funds are still available from
6 other TEP REST programs, the Company proposes that the Commission authorize TEP to
7 reallocate the currently remaining portion of its Commercial DG PBI budget (approximately
8 \$700,000) to its Residential DG UFI budget. This will, however, effectively suspend the
9 Commercial PBI program under the 2011 REST Plan as well.

10 Moreover, if the Commission requires a reallocation the 2011 REST Plan budget, TEP
11 requests that the Commission authorize TEP to reduce the incentive \$1/watt for Residential DG
12 UFI applications until such time that the additional funds from the Commercial DG PBI budget are
13 fully subscribed, or the effectiveness of TEP's 2012 REST Plan, whichever is earlier. TEP
14 believes this approach is prudent and justified given that the increase in applications is being
15 driven by solar lease systems and that TEP is requesting a \$1/watt incentive for such systems in its
16 2012 REST Plan. Clearly, TEP's historic experience – and approved 2011 REST budget based on
17 that experience – no longer reflects the realities of the market. TEP does not believe that either
18 TEP or its ratepayers should fund incentives that are higher than necessary to not only meet, but
19 exceed, the requirements set forth in the Commission's REST Rules.

20 **IV. CONCLUSION.**

21 TEP believes its suspension of accepting Residential DG applications under its 2011 REST
22 Plan as described herein is appropriate and in the best interests of the Company's ratepayers.
23 However, if the Commission desires that TEP continue to accept such applications, TEP requests
24 that the Commission approve TEP's alternative proposal set forth above.

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RESPECTFULLY SUBMITTED this 13th day of September 2011.

TUCSON ELECTRIC POWER COMPANY

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Original and 13 copies of the foregoing
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