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BEFORE THE ARIZONA CORPORATION COMMISSION

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BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF UNS ELECTRIC, INC. FOR APPROVAL OF ITS 2012 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN AND DISTRIBUTED ENERGY ADMINSITRATIVE PLAN AND REQUEST FOR RESET OF RENEWABLE ENERGY ADJUSTOR	DOCKET NO. E-04204A-11-0267 **UNS ELECTRIC, INC'S EXCEPTIONS TO STAFF'S PROPOSED ORDER**

UNS Electric, Inc. ("UNS Electric" or "Company"), through undersigned counsel, hereby files these Exceptions to the Proposed Order filed by the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") in this docket regarding its 2012 Renewable Energy Implementation Plan (2012 REST Plan). Although UNS Electric agrees with or is willing to accept most of the recommendations set forth in Staff's Proposed Order, UNS Electric does not agree with the four (4) recommendations set forth below. UNS Electric is proposing modifications to the Proposed Order that are necessary to ensure that the 2012 REST Plan is just and reasonable and in the public interest.

1. Staff recommends that UNS Electric recover only 50% of certain carrying costs for its Bright Arizona Solar Buildout Plan. This recommendation is contrary to both: (i) the Commission's previous approval of UNS Electric's full recovery of such carrying costs for up to $5 million per year of capital expenditures on renewable energy generation in UNS Electric's most recent rate case (Decision No. 71914 (September 10, 2010)) and (ii) the Commission's previous approval of TEP's full recovery of those carrying costs specifically in connection with the Buildout Plan in Decision No. 72034 (December 10, 2010). UNS Electric has made a significant capital investment in the Buildout Plan in reliance on those previous Commission rulings. Moreover, Staff's recommendation is inequitable because it is recommending that Arizona Public

("APS") be allowed 100% recovery of the same carrying costs for a very similar APS program (the AZSun Program).

2. Staff is recommending that UNS Electric not use REST funds to pay for meters used to monitor production of REST funded renewable installations. UNS Electric believes these meters are an essential element of the REST program. As noted by Staff, the Commission has previously approved the use of REST funds for theses meters and these meters are beneficial for renewable system monitoring.

3. Staff recommends that UNS Electric's Up-Front Incentives ("UFIs") be set at $1.00/watt. However, based on recent experience of UNS Electric's sister company, Tucson Electric Power ("TEP"), as more fully described below UNS Electric believes that the UFI incentives should be reduced to $0.50/watt. Alternatively, UNS Electric recommends that the UFI be set at $1.00/watt for customer-owned systems and $0.50/watt for non-customer owned systems and that the UFI budget be equally allocated between those two incentives.

4. Staff recommends that the marketing budget be reduced from $70,000 to $10,000. Based on marketing costs in its service area, $10,000 is insufficient to effectively market the Bright Arizona Solar Program or to conduct other community information and outreach. UNS Electric is requesting that the marketing budget be set at not less than $50,000.

For the convenience of the Commission, UNS Electric has provided proposed amendment language to the Proposed Order that addresses these four (4) issues (attached at Exhibit A).

Finally, although UNS Electric has identified herein its concerns about the potential impact of certain Staff's recommendation, the Company is not requesting any amendments regarding those concerns at this time.

I. UNS ELECTRIC IS ENTITLED TO FULL RECOVERY OF ITS CARRYING COSTS FOR THE BRIGHT ARIZONA SOLAR BUILDOUT PLAN.

In UNS Electric's last rate order (Decision No. 71914 (9-10-2010), the Commission approved UNS Electric's recovery through the REST surcharge of certain costs for up to $5

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million of renewable generation capital expenditures.[1] The Commission noted that this authorization would help UNS Electric's ability to invest in renewable resources. In that Decision, the Commission expressly acknowledged that the carrying costs would start at an estimated $619,000 in year one and then increase as more capital was expended.

Then, in Decision No. 72034, the Commission specifically approved UNS Electric's recovery of the full carrying costs of the first year of the Buildout Plan. The Buildout Plan involved a four year commitment of $20 million ($5 million per year) to build 5MW of solar PV facilities. The Commission specifically noted that such recovery would facilitate the development of renewable facilities and that the recovery was "appropriate and reasonable." It further noted that the recovery of such carrying costs was similar to the recovery of carrying costs for the APS AZSun Program. The Decision also specifically recognized that there would be no carrying costs recovered in 2011 but that UNS Electric anticipated that there would be $665,149 of carrying costs recovered in 2012. In reliance on that Decision, UNS Electric undertook commitments for the construction of renewable resources.

UNS Electric's 2012 REST Plan included $665,169 of carrying costs for the Buildout Plan. However, Staff has recommended allowing only 50% of those costs, even though Decision Nos. 71914 and 72034 provided for 100% recovery. It further recommends that UNS Electric not recover any carrying costs in 2013 or beyond and that UNS Electric should seek recovery of those costs in UNS Electric's next general rate case.

Staff's recommendations effectively overturn the Commission's previous ruling for full recovery of the Buildout Plan's carrying costs. Moreover, denying full recovery of these carrying costs undermines an important and cost effective element of the 2012 REST Plan.

Staff's recommendations fail for several reasons. First, the recommendations are at odds with the authority granted to UNS Electric in Decision Nos. 71914 and 72033. Effectively, Staff is attempted to alter or amend those Decisions without proper process. UNS Electric was granted

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[1] The Commission approved recovery of carrying costs, book depreciation, operations and maintenance and land leasing. These costs are referred to collectively in these Exceptions as "carrying costs."

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full recovery of its carrying costs in those Decisions and is entitled to rely on those Decisions in making investment decisions.

Second, Staff justifies the deviation from Decision Nos. 71914 and 72034 on the basis that other types of generation do not receive such treatment. However, the Buildout Plan facilities are not the equivalent of other generation facilities. Unlike other more traditional generation facilities, these solar facilities are being built to meet a regulatory mandate that requires a specific type of generation. They are not necessary to meet increasing demand as UNS Electric's load is not increasing. But for the REST requirements, it is unlikely UNS Electric would be expending this amount of capital for these types of facilities. Moreover, UNS Electric would not be constructing the same capacity of these resources if it had to wait until its next general rate case to seek recovery of these costs.

Third, in Docket No.E-01345A-11-0264, Staff is recommending that APS still be allowed full recovery of the same type of carrying costs for its AZ Sun Program. That program is very similar to UNS Electric's Bright Arizona Buildout Plan and was noted in Decision No. 72034 as a reason to allow UNS Electric full recovery of carrying costs. It is simply inequitable and unfair to allow APS full recovery while decreasing and then eliminating UNS Electric's recovery of the same costs for a very similar program.

The Commission should amend the Proposed Order to allow UNS Electric full recovery of the carrying costs – as previously approved by this Commission. If the Commission does not do so, it would cast a cloud over the regulatory certainty one can expect in Arizona. That uncertainty can adversely affect financing of renewable projects and the viability of renewable resource development in Arizona. It also jeopardizes the continuation of the Buildout Plan – and along with it, the jobs and resources that go into the Buildout. Moreover, it interferes with the Company's renewable resource planning and its ability to comply with its REST obligations.

Finally, although the Company can understand Staff's desire to keep the REST surcharge as low as possible, given UNS Electric's recommendation about a reduced UFI incentive

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discussed below (and related budget savings), the full recovery of the carrying costs for the Buildout Plan will not result in a larger budget or an increased surcharge.[2]

II. THE REST METERING COSTS SHOULD BE RECOVERED THROUGH THE REST SURCHARGE.

UNS Electric has requested $76,070 to cover the costs of meters necessary to monitor the output of renewable installations under its REST programs. These meters are important in ensuring that the subsidized facilities are actually performing, that proper incentives are being paid, and that there is no dispute that the Company's annual compliance filing regarding the actual amount of renewable energy production within its service territory. The Commission has approved the recovery of these costs in prior REST Plans and should do so again for the 2012 Rest Plan.

III. THE COMMERCIAL AND RESIDENTIAL UP-FRONT INCENTIVES SHOULD BE REDUCED.

The Proposed Order recommends a UFI of $1.00/watt for both commercial and residential facilities. However, in Decision No. 72640 (October 18, 2011), the Commission approved a reduction of TEP's UFI incentive (to $0.75/watt) for the remainder of TEP's 2011 REST Plan. TEP resumed the reduced UFI program on Friday, October 21st. In only three business days, the remaining $564,500 in UFI incentives had been reserved. Moreover, it should be noted that over 90% of the reservations were for solar leases.[3]

Based on this new and current information, and based on significant feedback from the solar construction community, UNS Electric believes that the UFI levels for UNS Electric's 2012 REST Plan should be set at $0.50/watt. UNS Electric has prepared a spreadsheet that includes UNS Electric's two initial proposed 2012 REST Plan budget options, Staff's three budget options

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[2] This issue is very important to UNS Electric regarding its resource planning and its ability to meet the REST requirements. If the Commission decides to effectively amend its previous order and to not allow UNS Electric full recovery of the carrying costs, UNS Electric hereby requests a hearing on this issue as contemplated by A.R.S. §40-252.

[3] Attached as Exhibit B is the letter that TEP submitted to the Commission regarding the reservations under the modified UFI incentives for the 2011 REST Plan.

and two updated UNS Electric options (attached as Exhibit C). UNS Electric New Option 1 reflects a UFI of $0.50/watt. With this reduced incentive level, UNS Electric believes that the UFI budget could be reduced by an additional $743,671 for its 2012 Rest Plan. As seen in the spreadsheet, this results in a lower budget than Staff's recommended Option 1 *even if* the full carrying costs and metering costs (both discussed above) are added back into the 2012 REST Plan Budget (New Option 1 does include these costs as well). UNS Electric's New Option 1 is $702,892 less than Staff's Option 1.

If the Commission adopts a $0.50/watt UFI, UNS Electric would propose that it submit a report on June 1, 2012 regarding UFI reservations to date and a recommendation as to whether the UFI incentive should be adjusted.

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Should the Commission decide to use a $0.75/watt UFI (the modified incentive amount recently approved by the Commission for the 2011 TEP REST), UNS Electric has submitted a new Option 2 reflecting that incentive level. Under UNS Electric New Option 2, the 2012 REST Budget would still be $84,061 less than Staff's Option 1 even if full carrying costs and metering costs are included. Moreover, based on recent experience and consultation with the solar construction industry, UNS Electric believes that New Option 2 should have different incentive levels for customer-owned systems and non-customer-owned system. UNS Electric proposes that the customer-owned UFI be set at $1.00/watt and the non-customer-owned UFI be set at $0.50. Further, UNS Electric proposes that 50% of the UFI budget be reserved for each type of UFI – thus resulting in an average UFI of $0.75.

Again, under New Option 2, UNS Electric would submit a report on June 1, 2012 regarding UFI reservations to date, along with a recommendation as to whether the UFI incentives should be adjusted, and whether the UFI budget should be reallocated.

In sum, TEP UNS Electric requests that the Commission amend the Proposed Order to reflect a UFI incentive that is lower than $1.00/watt proposed by Staff.[4]

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[4] Attached as Exhibit D is a summary of the revised surcharge rate and customer class caps that would result from both of the Company's new options.

IV. THE MARKETING BUDGET SHOULD BE INCREASED.

Staff recommends that the marketing budget be reduced from $70,000 to $10,000. The marketing budget is an all-inclusive category that represents more than just traditional marketing such as television and print advertisements for the Company's renewable programs. It also includes additional services such as direct mail brochures, and the Company's on-line renewable web page and solar calculators. These more traditional marketing mechanisms provide an unbiased resource for our community to learn more about various renewable opportunities that cannot – and will not - be provided by the solar industry.

Perhaps more importantly, this budget line item includes funds which allow the Company to provide direct community education outreach programs and sponsorships. All of these funds, which are collected from the local community and returned to the local community, provide an invaluable resource for the education of our youth and our community at large.

The Company believes it must remain actively engaged within our community if we are to continue to be successful in implementing the Renewable Energy Standards within the community.

Based on marketing costs in its wide-ranging service area, UNS Electric believes that $10,000 is insufficient to continue its Community outreach and to effectively market its REST programs and initiatives, particularly the Bright Arizona Solar Program. The program allows customers to buy a block of solar energy and lock in the energy rate for the block for 20 years. This is a program that is not marketed by third party solar installers. Moreover, $10,000 would buy very limited marketing. For example, a billboard advertisement can cost $800-900 per month – one billboard would use up the entire budget. Therefore, UNS Electric requests that the Commission set the marketing budget at not less than $50,000 for the 2012 REST Plan.

V. OTHER CONCERNS.

The Proposed Order makes other recommendations that may impact the effective implementation of the 2012 REST Plan. The budgets for labor and for IT are somewhat reduced in the Proposed Order. However, as years go by and there are more participants in the various

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REST Plan programs, there may be additional demands for monitoring, communicating, and other administrative activities related to the REST Plan. Reduced support may result in longer lead times and other timing issues regarding REST Plan implementation and operation. However, UNS Electric will operate as efficiently and as effectively as possible under the approved budgets, but it is concerned about the demands of ever growing programs.

VI. CONCLUSION.

The Company requests that the Commission amend the Proposed Order regarding its 2012 REST Plan as set forth above. The Company has provided proposed language for such amendments at Exhibit A hereto.

RESPECTFULLY SUBMITTED this 3rd day of November 2011.

UNS Electric, INC.

By ______________________

Michael W. Patten
Roshka DeWulf & Patten, PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

And

Bradley S. Carroll, Esq.
Melody Gilkey, Esq.
Tucson Electric Power Company
One S. Church Avenue, Suite 200
Tucson, Arizona 85701

Original and 13 copies of the foregoing filed this 3rd day of November 2011 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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Copies of the foregoing hand-delivered/mailed this 3rd day of November 2011 to the following:

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Arizona Corporation Commission
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Phoenix, Arizona 85007

Commissioner Bob Stump
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Commissioner Paul Newman
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By [signature]

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EXHIBIT

"A"

Proposed Amendment Language

INSERT at Page 23, Line 11:

"73. On November 2, 2011, UNS filed Exceptions to Staff's proposed order and certain Staff recommendations therein. UNS's Exceptions requested that the Commission amend the Staff recommendations regarding: 1. The recovery of certain costs for the UNS Bright Arizona Buildout Plan through the REST surcharge; 2. The recovery of certain metering costs through the REST surcharge; 3. The level of UFIs for residential and commercial PV projects; and 4. The level of marketing costs to be recovered through the REST surcharge. As part of its Exceptions, UNS also submitted a revised budget that reflected its requested amendments as well as revised REST surcharges and monthly billing caps.

74. We believe UNS's Exceptions are well taken and the ordering paragraphs below reflect UNS's requested amendments. Moreover, we are adopting the revised 2012 REST Implementation Plan budget, surcharge and related surcharge caps under the TEP New Option 1 submitted with the Exceptions, which is set forth in Exhibit 1 to this Order."

DELETE Page 23, Lines 20 - 27 and **INSERT**:

"IT IS THEREFORE ORDERED that the UNS Electric, Inc. 2012 REST Implementation, reflecting the budget and REST charge, including related caps, as set forth in Exhibit 1 to this Order be and is hereby approved.

IT IS FURTHER ORDERED that the commercial and residential PV Up-Front Incentive be set at $0.50/watt on January 1, 2012."

DELETE Page 24, Lines 4 - 14 and **INSERT**:

"IT IS FURTHER ORDERED that UNS Electric, Inc. submit a status report on June 1, 2012 regarding it Up-Front Incentive budget, including recommendations as to whether the Up-Front Incentive should be modified for the remainder of 2012."

At Page 24, Line 19, **DELETE** "$332,585" and **INSERT** "$665,169."

DELETE Page 24, Lines 21 - 23.

At Page 25, Line 4, after "ORDERED", **INSERT**:

"that a marketing budget of $50,000 for the 2012 REST Implementation Plan is approved and requiring"

At Page 25, Line 7, **INSERT**:

"IT IS FURTHER ORDERED that UNS Electric, Inc. is allowed to recover $76,070 in metering costs through the 2012 REST surcharge."

DELETE Page 25, Lines 11-12.

Make All Conforming Changes

EXHIBIT

"B"

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Tucson Electric Power Company
One South Church Ave., P. O. Box 711
Tucson, Arizona 85702

October 28, 2011

Hand-Delivered

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007-2996

Re: **2011 REST Implementation Plan: Update on 2011 Up-Front Incentive Budget; Docket No. E-01933A-10-0266.**

To Whom It May Concern:

Tucson Electric Power Company ("TEP") is submitting this letter to update the Arizona Corporation Commission ("Commission") on the status of its modified Up-Front Incentive ("UFI") and related budget that was approved by the Commission on October 18, 2011, in Decision No. 72640 ("Decision"). In that Decision, the Commission added $564,500 to the Distributed Generation ("DG") commercial and residential UFI budget and decreased the DG UFI incentive to $0.75/watt.

On Friday, October 21, 2011, TEP reopened the UFI program and began accepting applications. As of Tuesday afternoon, October 25, 2011, TEP had received enough applications to effectively reserve all of the $564,500 that was approved by the Commission in the Decision. At such time, as per the Decision, TEP began accepting DG UFI applications that will be placed on a waiting list for 2012 funds at the yet-to-be-determined rate for 2012. Additionally, TEP sent notice to solar installers, as well as notified Commission Staff.

The breakdown of the reservations that were received over the two and one-half days that the UFI Program was reopened is as follows:

Reservation Tracking as of 10/25/2011	
Number of Application	
Residential PV:	67
Commercial PV:	0
Residential Solar H20:	31
Commercial Solar H20:	2
Total:	**100**
Number of Leases	
Residential PV:	60
Commercial PV:	0
Total:	**60**
Total Dollar Amount Reserved	
Residential PV:	$ 377,613
Commercial PV:	$ 0.00
Residential Solar H20:	$ 45,711
Commercial Solar H20:	$ 80,846.00
Total:	**$504,170.00**

It should be noted that of the 7 residential reservations that were not leases, only 2 were customer purchased systems. The remaining 5 reservations were for homebuilders.

Please do not hesitate to contact me if you have questions.

Sincerely,

Carmine Tilghman
Director, Renewable Energy Resources

CT:mi
cc: Steve Olea, Director, Utilities Division
Janice Alward, Chief Counsel, Legal Division
Robert Gray, Utilities Division

EXHIBIT

"C"

Exhibit C

UNSE Renewable Energy Standard Tariff Cost Recovery Factors Definition for 2012	UNS 2011	UNS 2012	Staff Option 1	Staff Option 2	UES Exceptions Option 1	UES Exceptions Option 2	
Total REST Budget 2012:	**$ 8,069,914**	**$ 9,233,874**					
Total REST Tariff Collection 2012:	**$ 8,069,914**	**$ 9,476,715**					
Purchased Renewable Energy:							
Above Market Cost of Conventional Generation calculated annually on hourly data per MCCCG Matrix[1]	$ 1,100,000	$ 2,126,470	$2,126,470	$2,126,470	$2,126,470	$2,126,470	
UNSE owned [2]	$ -	$ 665,169	$332,585	$332,585	$665,169	$665,169	
Total	**$ 1,100,000**	**$ 2,791,639**	$2,459,055	$2,459,055	$2,791,639	$2,791,639	
Customer Sited Distributed Renewable Energy:					**$0.50 / watt avg.**	**$0.75 / watt avg.**	
Up-front Incentive (UFI) (residential)[3]	$ 3,680,918	$ 2,644,741	$1,752,337	$1,752,337	$1,008,666	$1,752,337	based 85% for 1.5 MW Solar PV and 15% for 177 SHW systems @ 2,600 kWh savings
Up-front Incentive (UFI)(commercial)[4]	$ 920,560	$ 971,584	$691,614	$286,803	$411,643	$286,803	based on 80% for 560 kW of PV capacity and 20% for 12 SHW systems @ 20,416 kW savings
Annual Performance-based Incentive (PBI)[5]	$ 1,645,686	$ 1,837,072	$1,837,072	$1,709,178	$1,709,178	$1,709,178	
Annual meter reading cost[6]	$ 3,750	$ 6,250	$6,250	$6,250	$6,250	$6,250	
Marketing [7]	$ 118,000	$ 100,000	$10,000	$10,000	$50,000	$50,000	
Total	**$ 6,368,914**	**$ 5,559,647**	$4,297,273	$3,764,568	$3,185,737	$3,804,568	
Technical Training:							
Schools Vocational Training Program[8]	$ -	$ 300,000	$190,000	$190,000	$190,000	$190,000	
UNSE internal and contractor training costs[9]	$ 77,250	$ 50,000	$37,500	$37,500	$37,500	$37,500	
Total	**$ 77,250**	**$ 350,000**	$227,500	$227,500	$227,500	$227,500	
Information Systems Integration Costs [10]	**$ 50,000**	**$ 100,000**	$50,000	$50,000	$50,000	$50,000	
Metering:							
Direct material cost for DG production meters, labels, discon	$ 146,000	$ 76,060	$0	$0	$76,060	$76,060	
Total	**$ 146,000**	**$ 76,060**					
Program Labor and Administration							
Internal Labor [12]	$ 232,750	$ 270,529	$232,750	$232,750	$232,750	$232,750	
External Labor [13]	$ 15,000	$ 5,000	$5,000	$5,000	$5,000	$5,000	
Materials and Supplies [14]	$ 15,000	$ 15,000	$15,000	$15,000	$15,000	$15,000	
AZ Solar website [15]	$ 30,000	$ 1,000	$1,000	$1,000	$1,000	$1,000	
Total	**$ 292,750**	**$ 291,529**	$253,750	$253,750	$253,750	$253,750	

Renewable Energy Research and Development:						
Support provided to University research projects (eg. AzRISE	$ 20,000	$ 50,000	$20,000	$20,000	$20,000	$20,000
Dues and Fees [17]	$ 15,000	$ 15,000	$7,500	$7,500	$7,500	$7,500
Total	**$ 35,000**	**$ 65,000**	$27,500	$27,500	$27,500	$27,500
Total Other	$ -	$ -				
2012 Program Cost (Total Budget)	**$ 8,069,914**	**$ 9,233,874**	$7,315,078	$6,782,373	$6,612,186	$7,231,017
Undercollection of REST Funds from 2010 [18]		$ 242,841	$0	$0	$0	$0
Grand Total (to be collected in 2012 tariff)	**$ 8,069,914**	**$ 9,476,715**	$7,315,078	$6,782,373	$6,612,186	$7,231,017

EXHIBIT

"D"

UNS ELECTRIC, INC.
2012 REST IMPLEMENTATION PLANS

Rate Class	UNSE Exceptions Option 1	UNSE Exceptions Option 2
Residential	$2,824,056	$3,503,667
Commercial	$2,687,988	$2,687,988
Lighting	$5,077	$5,077
Industrial & Mining	$1,109,818	$1,109,818
Total	$6,626,939	$7,306,550
Target	**$6,682,126**	**$7,300,957**
Difference	$55,187	-$5,593

Rates	Current Rates	Proposed Rate	Rates
Residential	$5.00	**$3.50**	**$4.50**
Commercial	$160.00	**$150.00**	**$150.00**
Lighting	$140.00	**$135.00**	**$135.00**
Industrial & Minin(	$5,000.00	**$5,500.00**	**$5,500.00**
Per kWh to all Cla	$0.008315	**$0.007795**	**$0.007795**