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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

Arizona Corporation Commission

DOCKETED

OCT 18 2011

DOCKETED BY nr

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

DOCKET NO. E-01933A-10-0266

DECISION NO. 72640

ORDER

Open Meeting
October 11 and 12, 2011
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP" or "Company") is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On September 13, 2011, TEP filed a Notice of Suspension of Acceptance of Residential Incentive Applications Under 2011 REST Plan or, Alternatively, Request to Modify 2011 REST Plan.
3. In Decision No. 70233, the Arizona Corporation Commission ("Commission") approved TEP's 2011 REST plan, including a budget of \$14,358,111 to pay for up-front incentives for residential distributed generation ("DG") installations.
4. TEP's September 13, 2011 filing indicates that it has halted taking reservations for residential DG incentives due to a large rush of applications, involving over \$3 million of

1 incentives, between September 1, 2011 and September 12, 2011. Up to this point TEP indicates
2 that its 2011 residential DG budget was roughly on schedule to be fully spent near the end of 2011.
3 TEP indicates that the \$3 million represents approximately 200 systems. By comparison, TEP
4 received applications related to approximately 125 residential DG systems each month prior to
5 September 2011.

6 5. TEP's notice states that 90 percent or more of the systems during this major influx
7 are leased systems. Prior to this time TEP has indicated that leased systems did not represent a
8 major portion of residential DG systems in Tucson.

9 6. TEP's current residential DG incentive is \$2.00 per watt. TEP's proposed 2012
10 REST Plan, filed in Docket No. E-01933A-11-0269 and still pending before the Commission,
11 contains a proposal by TEP to reduce the residential DG incentive to \$1.75 per watt for non-leased
12 systems and \$1.00 per watt for leased systems.

13 7. On September 9, 2011, TEP sent a notice to installers, indicating that TEP had
14 received applications for \$2.2 million in residential incentives in the first week of September and
15 had exhausted remaining DG funds for 2011. The notice further indicated that TEP would accept
16 a further 75 applications between September 9, 2011 and September 16, 2011, after which TEP
17 would not accept further applications. TEP has reported to Staff that after the initial 75
18 applications came in, it turned away another approximately 100 applications during that week.

19 8. TEP's September 13, 2011 application notifies the Commission that TEP was
20 suspending the acceptance of further residential DG applications and proposes an option for
21 Commission consideration wherein TEP would transfer approximately \$700,000 in commercial
22 performance based incentives ("PBIs") to the residential DG budget and use those funds to meet
23 further residential DG applications at a reduced incentive level of \$1.00 per watt until such funds
24 are exhausted. TEP would then accept no further applications until the Commission acts to
25 approve an incentive level for TEP's 2012 REST plan.

26 9. TEP has indicated to Staff that it received approximately \$1.6 million of
27 applications for residential DG incentives between September 9, 2011 and September 16, 2011.
28 TEP indicated that TEP does not currently have residential DG funds in its 2011 residential DG

1 budget to accommodate the \$1.6 million in applications received between September 9, 2011 and
2 September 16, 2011.

3 10. In discussions with Staff, TEP has indicated that it would seek to satisfy the \$1.6
4 million in applications at the old incentive level before providing funds for further residential DG
5 systems at its proposed incentive level of \$1.00 per watt.

6 11. TEP has indicated that it has fully complied with the residential DG REST rule
7 requirement and that any further residential DG systems installed would result in TEP over
8 complying with the 2011 residential DG requirements.

9 12. Staff believes that TEP's proposal has merit. Clearly the Tucson photovoltaic
10 market has changed and the current incentive levels are too high. While TEP's proposed 2012
11 REST plan contemplates a reduction in the residential DG incentive level to \$1.75 per watt in
12 2012, Staff believes that the next few months provide an opportunity to test whether a significantly
13 lower incentive level can generate business in TEP's service territory. Arizona Public Service
14 Company ("APS") has had a Rapid Reservation program in place at the \$1.00 per watt incentive
15 level for residential DG throughout 2011. APS has seen significant numbers of applications at the
16 \$1.00 per watt level in 2011, averaging 50 reservations a week, as noted in the Staff Memorandum
17 dated September 30, 2011 in Docket Nos. E-01345A-10-0262 and E-01345A-10-0166.

18 13. Staff believes that TEP's proposal should be adopted, but with an incentive level of
19 \$0.75 per watt, rather than the \$1.00 per watt proposed by TEP. If this incentive level proves to be
20 too low over the next few months, with little or no activity, this information can be taken into
21 account when TEP's residential DG incentive level for 2012 is set by the Commission in that on-
22 going docket. An inherent benefit of setting a lower incentive level is that more systems can be
23 installed for the same amount of money.

24 14. TEP has reported to Staff that its commercial DG UFI budget has also recently been
25 exhausted for the rest of 2011. Staff believes that given this situation with commercial UFI DG, if
26 additional funds are offered for UFI incentives for the rest of 2011, such funds should be made
27 available to both the residential and commercial UFI DG sectors. The table below shows the funds
28 ...

1 TEP has available in various parts of the 2011 REST budget that could be shifted to provide
2 additional UFI incentives.

| 2011 REST Budget Line Item | 2011 REST Budget Allocation | Available Funds |
|----------------------------|-----------------------------|-----------------|
| Utility Scale Energy | \$6,301,943 | -\$25,016 |
| Commercial DG PBI | \$5,753,375 | \$2,503,557 |
| Marketing | \$750,000 | \$50,000 |
| Metering | \$486,685 | \$236,685 |
| AZ Solar Website | \$150,000 | \$140,000 |
| Total Available Funds | | \$2,905,226 |

7
8 15. The funds that would be shifted from the commercial DG PBI budget involve
9 approximately \$700,000 in funds that may have been allocated to projects resulting from
10 applications that would have been accepted through the end of 2011, and \$1.8 million of funds for
11 PBI projects related to applications that have been accepted in 2011, but that have not performed at
12 a level that would require use of the \$1.8 million in PBI funds in 2011. Any commercial DG
13 projects that would have been funded in late 2011 would be eligible for participation in TEP's
14 2012 commercial DG PBI program beginning in January 2012.

15 16. Staff agrees that TEP should meet the 75 additional systems at the current \$2.00 per
16 watt incentive. Staff then believes the remaining \$1,264,500 should be made available at an
17 incentive level of \$0.75 per watt for both residential and commercial UFIs. If this funding is then
18 exhausted, TEP should accept further applications through the end of 2011, with the proviso that
19 such applications would be subject to whatever UFI level the Commission approves for TEP's
20 2012 REST plan. Any funds that are not spent through the end of 2011 would roll over to future
21 year REST budgets, as normally happens. The table below shows how the available funds above
22 would be allocated.

| Funding Destination | Funding Amount |
|---|----------------|
| 23 Provide UFIs to 75 additional applications received by TEP in the first week of 24 September 2011 | \$1,640,726 |
| 25 Provide residential and commercial DG UFIs at a \$0.75 per watt incentive level for the remainder of 2011 | \$1,264,500 |

26
27 17. Staff has recommended that TEP be allowed to shift approximately \$2.9 million in
28 2011 REST plan funds to fund additional residential and commercial DG UFIs.

1 IT IS FURTHER ORDERED that Tucson Electric Power Company make available
2 \$564,500 for UFIs to fund additional residential and commercial DG at an incentive level of \$0.75
3 per watt for the rest of 2011.

4 IT IS FURTHER ORDERED that if the \$2.2 million is exhausted, that at that time Tucson
5 Electric Power Company begin accepting applications for 2012 residential and commercial DG
6 UFI projects, with the proviso that such applications will receive whatever incentive the
7 Commission approves for the 2012 Tucson Electric Power Company REST plan.

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

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BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION


CHAIRMAN


COMMISSIONER

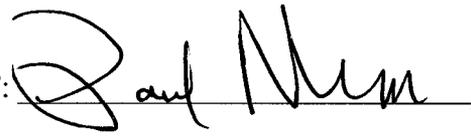

COMMISSIONER

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 18th day
of October, 2011.


ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: 

DISSENT: _____

SMO:RGG:lhm/CH

1 SERVICE LIST FOR: Tucson Electric Power Company
2 DOCKET NO. E-01933A-10-0266

3 Mr. Michael W. Patten
4 Roshka DeWulf & Patten, PLC
5 One Arizona Center
6 400 East Van Buren Street, Suite 800
7 Phoenix, Arizona 85004

Ms. Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

7 Mr. Philip Dion
8 Ms. Melody Gilkey
9 Tucson Electric Power Company
10 One South Church Avenue, Suite 200
11 Tucson, Arizona 85701-1623

10 Mr. Bradley Carroll
11 Snewll & Wilmer
12 One Arizona Center
13 400 East Van Buren Street
14 Phoenix, Arizona 85004

14 Mr. C. Webb Crockett
15 Mr. Patrick J. Black
16 Fennemore Craig, PC
17 3003 North Central Avenue, Suite 2600
18 Phoenix, Arizona 85012-2913

17 Mr. Scott Wakefield
18 Ridenour, Hienton & Lewis, PLLC
19 201 North Central Avenue, Suite 3300
20 Phoenix, Arizona 85004-1052

20 Mr. Court Rich
21 Mr. M. Ryan Hurley
22 Rose Law Group
23 6613 North Scottsdale Road, Suite 200
24 Scottsdale, Arizona 85250

23 Mr. Steven M. Olea
24 Director, Utilities Division
25 Arizona Corporation Commission
26 1200 West Washington Street
27 Phoenix, Arizona 85007

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