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MEMORANDUM

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OCT 18 2012

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TO: THE COMMISSION 2012 OCT 18 A 11: 56

FROM: Utilities Division AZ CORP COMMISSION DOCKET CONTROL

DATE: October 18, 2012

RE: TUCSON ELECTRIC POWER COMPANY. - APPLICATION FOR APPROVAL OF ITS 2013 RENEWABLE ENERGY STANDARD AND TARIFF IMPLEMENTATION PLAN (DOCKET NO. E-01933A-12-0296)

On July 2, 2012, Tucson Electric Power Company ("TEP" or "Company") filed for Arizona Corporation Commission ("Commission") approval of its 2013 Renewable Energy Standard and Tariff ("REST") Implementation Plan. On July 3, 2012, TEP filed a REST plan summary and a set of PowerPoint slides summarizing its REST plan.

On July 27, 2012, the Renewable Energy Markets Association ("REMA") filed comments in this docket. On September 20, 2012, the Solar Energy Industries Association ("SEIA") filed for intervention in this docket. On September 24, 2012, SEIA filed comments in this docket. On October 1, 2012, Freeport-McMoRan Copper & Gold, Inc., and Arizonans for Electric Choice and Competition (collectively "AECC") filed for leave to intervene. On October 1, 2012, Arizona Solar Energy Industries Association ("AriSEIA") filed comments in this docket. On October 1, 2012, SEIA filed comments in this docket. On October 3, 2012, SEIA's request for intervention was granted. On October 11, 2012, The Vote Solar Initiative and Western Resource Advocates filed comments in this docket.

TEP's initial filing requests approval of various REST plan components, including a budget, incentive levels, customer class caps, various program details, continuation of the Bright Tucson Solar Buildout Plan, compliance matters related to Decision No. 72736, a change to AZ Goes Solar reporting requirements, and research and development funding for 2013. TEP also requests guidance from the Commission regarding certain matters related to meeting the distributed generation ("DG") requirement in a post incentive environment.

TEP's Five Year Projection of Energy, Capacity, and Costs

The table below shows TEP's forecast for energy, capacity, and costs for its annual REST plans from 2013 through 2017.

TEP Energy, Capacity, and Cost Forecast					
	2013	2014	2015	2016	2017
Forecast Retail Sales MWH	9,405,022	9,565,143	9,658,045	9,739,655	9,813,955
% Renewable Energy Required	4.0%	4.5%	5.0%	6.0%	7.0%

Overall Renewable Requirement MWH	376,201	430,431	482,902	584,379	686,977
Utility Scale Requirement MWH	263,341	301,302	338,032	409,066	480,884
Utility Scale Cumulative MW	150	172	193	234	275
DG Requirement MWH	112,860	129,129	144,871	175,314	206,093
RES DG Requirement MWH	56,430	64,565	72,435	87,657	103,047
RES DG Cumulative MW	32	37	41	50	59
Non-Res DG Requirement MWH	56,430	64,565	72,435	87,657	103,047
Non-Res Cumulative MW	32	37	41	50	59
Total Cumulative Required MW	215	246	276	334	393
Total Program Cost	$45,491,775	$46,954,138	$51,245,317	$49,683,263	$49,098,783

TEP REST Experience Under 2012 REST Plan

The Commission-approved REST implementation plan for 2012 contemplated total spending of $34.9 million and total recoveries through the REST surcharge of $30.0 million[1]. TEP projects spending virtually its entire REST budget in 2012, other than a portion of the Legacy budget, as discussed below.

Regarding installations and reservations, the table below summarizes installations and reservations for installations through September 24, 2012 by TEP.

Residential	**Photovoltaics**		**Solar Hot Water**	
	Number of Systems	**kW (kWh)**	**Number of Systems**	**kWh**
2012 Installations	632	4,579 (8,013,250)	323	888,250
Reservations	1033	7,404 (12,957,000)	342	940,500

Commercial	**Photovoltaics**		**Solar Hot Water**	
	Number of Systems	**kW (kWh)**	**Number of Systems**	**kW**
2011 Installations	54	5,047 (8,832,250)	9	1,016,255
Reservations	78	24,797 (43,394,750)	12	1,483,589

TEP has indicated to Staff that the Company has not seen any biomass/gas, geothermal, ground source heat pump, hydro, or wind DG installations in 2012.

[1] Decision No. 72736 (January 13, 2012); Docket No. E-01933A-11-0269.

The table below shows TEP's annual required MWh under the REST rules and its installed-annualized and installed-annualized/reserved numbers for 2012. Installed annualized numbers reflect systems that are installed mid-year and their production is annualized to reflect a full year's production. Installed-annualized/reserved counts both the installed annualized systems and the systems that are reserved, but have not yet been installed.

	Required (MWH)	Produced/Banked (MWH)
Residential DG	48,652	34,193 (installed – annualized) 43,629 (installed – annualized/reserved)
Commercial DG	48,652	25,375(installed – annualized) 58,847 (installed – annualized/reserved)
Non-DG	227,041	226,958

Commercial DG Overcompliance

Staff noted in its Staff Report on TEP's 2012 REST plan that TEP was significantly overcompliant for commercial DG and the Staff Report included a table that summarized the situation in 2012 and following years[2]. Below is an updated table showing the current and projected status of commercial DG overcompliance. In summary, the size of the negative number on the last line indicates the size of the commercial DG overcompliance TEP projects for each year through 2017.

Commercial	2013	2014	2015	2016	2017
Sales Forecast	9,405,022,000	9,565,142,997	9,658,045,451	9,739,655,081	9,813,955,051
Overall Requirement	4.00%	4.50%	5.00%	6.00%	7.00%
Overall DG kWh Requirement	112,860,264	129,129,430	144,870,682	175,313,791	206,093,056
Non-Residential DG kWh Requirement	56,430,132	64,564,715	72,435,341	87,656,896	103,046,528
Existing Non-Residential kWh Prior to 2013	62,986,627	62,986,627	62,986,627	62,986,627	62,986,627
Incremental Non-Residential DG Requirement	7,778,506	8,134,583	7,870,626	15,221,555	15,389,632
10% Allowed kWh from Wholesale DG per R14.2.805	11,286,026	12,912,943	14,487,068	17,531,379	20,609,306
Estimated kWh from Davis-Monthan DG Project	26,075,000	26,075,000	26,075,000	26,075,000	26,075,000

[2] *Id.*

Total Required kWh Non-Residential DG After Adjustment	-43,917,521	-37,409,855	-31,113,354	-18,936,110	-6,624,405

Leased Versus Non-Leased Systems

The table below shows the number of leased versus non-leased residential and commercial DG systems for TEP in 2011 and 2012.

Residential

Month	Number of Leased Systems	Number of Non-Leased Systems
January 2011	3	35
February 2011	5	55
March 2011	12	64
April 2011	5	66
May 2011	10	106
June 2011	6	120
July 2011	5	87
August 2011	32	74
September 2011	172	185
October 2011	4	7
November 2011	18	6
December 2011	25	4
January 2012	79	85
February 2012	47	26
March 2012	46	14
April 2012	51	24
May 2012	62	37
June 2012	91	16
July 2012	93	2

Commercial

Month	Number of Leased Systems	Number of Non-Leased Systems
January 2011	0	5
February 2011	0	1
March 2011	0	1
April 2011	0	7
May 2011	0	8
June 2011	0	13
July 2011	0	11
August 2011	0	0
September 2011	0	3
October 2011	0	0

November 2011	0	2
December 2011	1	7
January 2012	1	0
February 2012	0	5
March 2012	0	1
April 2012	2	0
May 2012	0	8
June 2012	1	6
July 2012	0	0

2012 Legacy Budget

Decision No. 72736 created a legacy budget of $3,000,000 for TEP that could be used for commercial Up-Front Incentive ("UFI") and Performance Based Incentives ("PBI") projects as well as TEP collecting lost revenue. Total non-residential DG was capped at 8 MW and the monthly PBI allocation was capped at $80,000, with the intent to provide the opportunity to continue commercial installations despite TEP's significant overcompliance with the commercial DG requirements under the REST rules. Funds not applied toward commercial UFIs and PBIs or TEP lost revenues would remain in the legacy budget to be used in future years to help pay PBI legacy costs. Decision No. 72736 did not include a specific mechanism for how such funds would be applied in the future. TEP has indicated to Staff that it intends to apply any remaining 2012 legacy budget funds toward PBI commitments in 2014.

The table below shows TEP fund commitments to date from the legacy budget.

Legacy Budget Components	
Total Funds Available in 2012	$3,000,000
Small Commercial UFIs	$1,201,200 (as of July 24, 2012) $500,000 still to be reserved in 2012
Large Commercial PBIs	$356,261 (as of July 24, 2012) $480,000 still the be reserved in 2012
Lost Revenue Recovery (estimated)	$89,700
Total Funds Projected to Be Committed in 2012	$2,666,435

After lost revenue is calculated at the end of 2012, the estimated remaining balance from the 2012 Legacy budget is $353,202. TEP's lost revenue calculation is shown in the table below. TEP's initial application estimated lost revenue at the $89,699.88 level. Recently TEP provided Staff with an updated estimate of $109,337. The final amount of lost revenue will not be known until the end of 2012.

Estimated Eligible kW	657.14
kWh per kW	1,750
Total kWh	1,149,998.50
Lost Revenue Allowance per kWh	$0.078
2012 Lost Revenue	$89,699.88

Schools Vocational Program

In TEP's 2011 and 2012 REST plans, funds were provided for placement of photovoltaic ("PV") systems at high schools in TEP's service area in conjunction with educational efforts. A total of 22 schools participated in the program in those years. TEP is not proposing to continue the program into 2013, as there are no further high schools to provide photovoltaic systems to in TEP's service territory. Staff believes that this is a reasonable result given the lack of further high schools in TEP's service territory to serve under the program.

Customer Education and Outreach

TEP is proposing to spend $100,000 on customer education and outreach in 2013, the same amount the Commission approved in TEP's 2012 REST budget. TEP has indicated that this money will be spent on a variety of local outreach efforts including educational materials, presentations, sponsorships, awards, public meetings, educational kiosks, teacher education workshops, and various local partnerships. Staff believes TEP's request for $100,000 for customer education and outreach is reasonable and recommends inclusion of this amount in the 2013 REST budget.

Labor Costs

TEP is requesting inclusion of $701,525 of internal labor costs and $409,013 in external labor costs as part of the 2013 REST budget. TEP's filing indicates that it is requesting recovery of only half of its internal labor costs related to REST activities through the 2013 REST budget, with the remainder being requested in TEP's current general rate proceeding.[3] In past years, TEP has recovered all of its REST related internal labor costs through the REST budget. TEP has indicated to Staff that the requested shift of half of internal labor costs into the general rate proceeding is an effort to reduce the overall REST budget and REST surcharge. Staff believes that inclusion of half of REST related internal labor costs in the REST budget and half in TEP's general rate proceeding is arbitrary and more complex than the method in past years of including all such costs in the REST budget. Given that these labor costs are directly attributable to TEP's REST activities, Staff believes that these costs should all remain in the REST budget and thus Staff will include all internal labor costs related to REST activities within the REST budget.

[3] See Docket No. E-01933A-12-0291.

Under TEP's filed numbers, internal labor costs related to REST activities would increase from $1,127,607 in 2012 to $1,403,050 in 2013, an increase of $275,443 or 24.4 percent. Staff believes an increase of half the amount requested by TEP, or $137,722 would be reasonable. Thus, Staff recommends approval of internal labor costs of $1,265,329 as part of TEP's 2013 REST budget, with no further costs being recovered through the rate case.

Information Systems Integration Costs

TEP's filing requests funding of $125,000 for information systems integration costs ("IT") in 2013. In 2012, the Commission approved funding of $500,000 with the understanding that TEP was completing a major upgrade of its IT systems and that the upgrade would be finished in 2012. TEP has indicated to Staff that the upgrade is scheduled for completion in late 2012. In processing TEP's 2012 REST plan, the Company had indicated that after 2012 it would require IT funding at a level of $100,000 or less annually. Therefore, Staff recommends funding IT in TEP's 2013 REST budget at a level of $100,000.

Research and Development

TEP's filing requests approval of research and development ("R&D") funding totaling $615,000 as part of the 2013 REST budget. The table below shows a breakdown of the proposed funding areas.

R&D Funding Areas	TEP Proposed 2013 Funding
Technology development projects – solar test yard	$300,000
AZ RISE	$250,000
Transmission and distribution integration modeling	$50,000
Dues for Industry Organizations	$15,000

The Commission approved total R&D funding for TEP in 2012 of $525,000 while allowing the Company the discretion to determine the allocation among the various R&D funding areas. Staff believes that the Commission's approach to R&D funding in 2012 remains reasonable and recommends that R&D funding again be set at $525,000 for 2013, with TEP having the discretion to allocate this money among the funding areas shown in the table above.

Carve-out for Solar Hot Water Heating in the Residential DG Program

TEP's 2013 REST plan includes a proposal to carve-out ten percent of the kWh of the residential DG program for solar hot water heating ("SHW"). As discussed in detail in the section of this memorandum dealing with incentive levels, Staff believes that a policy decision is before the Commission to determine whether sectors that require higher incentive levels, including SHW, should continue to receive significant funding dollars, in an environment where other sectors of DG require little or no incentive money. Thus, Staff is recommending against the carve-out of a portion of the residential DG budget for SHW and is recommending a cap on how much of the residential DG budget can go to SHW. Such a cap is necessary in an environment where SHW has a much higher incentive level than other residential DG. Absent a cap, an uptick in SHW system installations could consume most of the annual residential DG UFI budget. Thus, Staff recommends approval of a $300,000 cap on the total amount of incentive money TEP can direct toward SHW installations in 2013, absent further Commission approval.

Carve-out of a Portion of the Residential DG Budget for Homebuilders

Decision No. 72736 required TEP in its 2013 REST plan filing to either recommend a carve-out of a portion of the residential DG budget for homebuilders or explain why such a carve-out should not be granted. During the Commission's consideration of TEP's 2012 REST plan, homebuilders advocated for such a carve-out. No homebuilder interests have contacted Staff or filed comments regarding this matter for TEP's 2013 REST plan. The table below shows the amount of funding that has been allocated to homebuilders from 2010-2012.

Year	Residential DG Funding That Went to Homebuilders
2010	$82,740
2011	$225,184
2012	$63,685

TEP indicates that it does not believe a carve-out is necessary for homebuilders, given that homebuilders have been significant participants in the current residential DG program. TEP indicates that approximately 20 percent of 2013 residential DG applications are from homebuilders. Given this information, Staff believes it is unnecessary to create a new subcategory of the residential DG program for homebuilders and supports TEP's proposal to not create a new carve-out of the residential DG program for homebuilders.

TEP Request for Flexibility to Adjust Incentive in Real Time Based on Market Conditions

TEP's application includes a request that the Commission grant TEP the "flexibility to adjust the incentive levels as appropriate based on real-time market signals." To date TEP and other utilities have been required to come before the Commission to adjust incentive levels, other than adjustments (such as triggers) that were approved by the Commission in each utility's annual REST plan. Other utilities, including TEP, have made filings with the Commission mid-year to adjust incentives and make other changes when market conditions have changed significantly and the Commission has acted quickly on such requests. While such flexibility might be useful to the Company, it would weaken the Commission's oversight of TEP's renewable energy activities and Staff recommends against approval of the request by TEP for flexibility to adjust incentive levels on its own.

TEP Request to Set Residential DG Percentage Increase to 0.75 Percent From 2013-2018

TEP's filing requests that the Commission set a residential DG compliance floor from 2013 to 2018 with a 0.75 percent increase each year, rather than the current structure of 0.5 percent increases in 2013 through 2015 and 1.0 percent increases in 2016 through 2018. The additional 0.25 percent in 2013, cumulative 0.50 percent in 2014, and cumulative 0.75 percent in 2015 represents additional residential DG to be undertaken in those years. By the end of 2018 the percentage would return to being equal to what the existing REST rules require. The tables below show the existing overall and DG REST requirements and TEP's proposed adjustment to the REST requirement to provide additional residential DG in 2013-2015.

Year	**Existing Overall REST Requirement**	**Existing Utility Scale Requirement**	**Existing Residential DG Requirement**	**Existing Commercial DG Requirement**
2013	4.0%	70%	15%	15%
2014	4.5%	70%	15%	15%
2015	5.0%	70%	15%	15%
2016	6.0%	70%	15%	15%
2017	7.0%	70%	15%	15%
2018	8.0%	70%	15%	15%

Year	**TEP Proposed Overall REST Requirement**	**TEP Proposed Utility Scale Requirement**	**TEP Proposed Residential DG Requirement**	**TEP Proposed Commercial DG Requirement**
2013	4.0%	69.06%	15.94%	15%
2014	4.5%	68.33%	16.67%	15%
2015	5.0%	67.75%	17.25%	15%
2016	6.0%	68.75%	16.25%	15%
2017	7.0%	69.46%	15.54%	15%
2018	8.0%	70%	15%	15%

TEP cites a desire the provide market stability for the residential DG sector in coming years. This proposal relates to industry concerns expressed in the past that the DG percentage stops increasing after 2012, but the overall percentage does not begin to increase at a one percent pace until 2016, creating a three year period when the net growth in the DG component is less than in surrounding years.

Staff recognizes that there is an interest in providing an opportunity for a relatively level number of installs from year to year. However, Staff is reticent to recommend that the Commission commit to such an adjustment six years into the future. Further, making such adjustments to the existing REST requirements would make assessing TEP's compliance in future years unnecessarily more complicated. Staff believes that the Commission can address this issue each year as it considers TEP's proposed REST plan for the coming year. Further, it is unclear what such an adjustment to REST requirements would mean in the next six years as the residential DG incentive and possibly other incentives approach and likely reach zero. Considering these matters as part of each year's REST plan will allow the Commission to retain full flexibility in future years as it assesses market conditions and other factors in future proceedings.

Compliance With Decision No. 72736 Requirement Regarding Those Who Receive REST Incentives Continuing to Pay REST Surcharge

Decision No. 72736 states:

> "We believe that customers who benefit, from the effective date of this Decision, by receiving incentives under the REST rules should provide an equitable contribution to future REST benefits for other customers. We will therefore require that residential, small commercial, large commercial and industrial customers who receive incentives under the REST rules pay a monthly REST charge equal to the amount they would have paid without the renewable installation. This payment shall begin when TEP reprograms its billing system to accomplish this, or with the October 2012 billing, whichever is sooner. This requirement shall only apply to renewable systems installed after January 1, 2012."

On June 16, 2012, TEP filed a request for an extension of time to comply with this requirement and to defer this matter to the docket where the Commission would consider TEP's 2013 REST plan. TEP indicated that it was unable to meet the October 2012 deadline due to greater than anticipated complexity in reprogramming its billing system and related matters. In this filing TEP suggested that the Commission should consider implementing the methodology for charging a REST surcharge that was adopted in Decision No. 73183 (May 24, 2012) in the Arizona Public Service Company ("APS") general rate proceeding. As part of TEP's July 2, 2012 filing for Commission approval of the Company's 2013 REST plan, the Company proposed that the Commission charge customers who have received an incentive a REST surcharge at the customer class REST surcharge cap or alternatively charge a REST surcharge at the average (mean) REST surcharge for each REST surcharge customer class. On September 6, 2012, Staff filed a memorandum recommending that the requirement in Decision No. 72736 cited above be suspended and that the issue be addressed in the Commission's decision on TEP's 2013 REST plan. On September 28, 2012, the Administrative Law Judge issued a recommended opinion and order ("ROO"), recommending adoption of Staff's recommendations to suspend the requirement in Decision No. 72736 and to address the issue in the Commission's decision on TEP's 2013 REST plan.

TEP notes in its 2013 REST plan filing that using the alternative method would address a problem which has been identified in regard to the small commercial customer class.

Specifically, most small commercial customers pay a monthly REST surcharge far below the REST surcharge cap applicable to small commercial customers. If such a small commercial customer were to participate in TEP's commercial DG program, take an incentive from TEP and then have to pay a REST surcharge at the cap for the small commercial class, this customer would likely pay a much higher REST surcharge than they had been paying. For example, the cap on the small commercial class in 2012 is $130.00, whereas the average (mean) REST surcharge was estimated to be $22.91 for 2012. Such a customer would likely choose not to participate in TEP's commercial DG program to avoid paying a much higher REST surcharge. This problem does not exist in regard to other customer classes.

Staff believes that either of TEP's alternatives contained in the Company's initial 2013 REST plan proposal could be adopted. Applying a REST surcharge equivalent to customer class caps, as was approved for APS, is the simplest solution and would provide consistency between TEP and APS. This option has the problem with the small commercial class, but an exception could be made for this class to apply the average (mean) REST surcharge as reflected in the final budget and REST surcharge numbers approved by the Commission for each year's REST plan. A difficulty in applying the APS method to TEP at this time is that the 2012 REST plan order applied the requirement to pay what the customer would have otherwise paid beginning with the effective date of the Commission's order on the 2012 REST plan in January 2012. Many customers would pay less under a calculation of what they otherwise would have paid in comparison to if they had to pay at their customer class cap every month. Thus, such customers could claim that they did not know they would be subject to a higher REST surcharge (at the class cap) when they took the incentive and had their system installed.

The alternative of charging customers the average (mean) REST surcharge for each customer class would avoid the problem with the small commercial customer class and would in many cases result in smaller charges to customers than under the method approved for APS. This approach would be a little more complicated, however, as the average surcharge numbers would be recalculated each year. Under either method customers would not know with specificity what their total exposure to future payments would be.

Staff believes that either method could be implemented, but that fundamentally it is a policy decision for the Commission. As a placeholder in the attached Proposed Order, Staff recommends using the annual average.

As currently designed, this charge applies to customers who receive an incentive starting in January 2012. It is widely anticipated that the up-front incentives for residential and/or commercial PV will reach zero in the near future. Under the current design, customers who receive no incentive after incentive levels reach zero would not be subject to the surcharge under this provision. Thus, there would be a window of customers who received an incentive starting in January 2012 and likely ending in 2013 or 2014 that would be subject to this provision, while all other customers who had systems installed would not. TEP expresses a concern regarding this small segment of customers that would be subject to this provision. To address this issue, TEP proposes to apply this provision to customers who sign up for net metering in the future in the absence of receiving a utility incentive. TEP notes that such customers, even in the absence of an incentive, enjoy the benefits of net metering.

Staff is cognizant of TEP's interest in adjusting this provision to apply not only to a possibly 1-2 year window of customers, but to future customers as well and that the Commission may wish to extend this provision to apply to such customers. However, Staff recognizes that the provision as approved by the Commission in Decision No. 72736 does not provide for application to future customers who do not receive an incentive and thus Staff recommends against application of this provision to customers who do not receive an incentive in the future and who request net metering.

Request to Alter Reporting Requirements for the AZ Goes Solar Website

Decision No. 71465 (January 26, 2010) requires utilities to report cost data for renewable energy systems that receive utility incentives. This requirement led to the creation of the AZ Goes Solar website, where a variety of information is reported by Arizona utilities, including TEP. In this proceeding TEP is requesting that these reporting requirements be adjusted to no longer require reporting of the total system cost for leased systems. TEP states that the total system cost for a leased system is not representative or useful given how current lease projects work. Staff is not aware of any concerns regarding TEP's proposal and Staff supports TEP's proposal to remove this reporting requirement. However, Staff believes TEP should monitor cost information for leased systems and if, in the future, there is useful total cost information to report for leased systems, TEP should bring this to the Commission's attention in a future REST plan filing.

Bright Tucson Solar Buildout Plan

In TEP's proposal for its 2012 REST plan, TEP requested approval of $28 million for 2013[4] for the build-out plan for the Bright Tucson Community Solar program for 10-12 MW in 2013. This $28 million would include some funding for the Sundt project which was approved as part of the 2012 REST plan as a two-year project in 2012-2013. 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.

TEP has a pending rate proceeding in which the Company is asking to recover past costs of the buildout program through base rates, rather than through the REST surcharge.[5] Thus, future buildout program expenditures would be recovered through the REST surcharge, until such time as TEP has another general rate proceeding at which time it is expected that TEP would seek to again move those costs in base rates. The tables below show the costs anticipated

[4] The Commission has approved $28 million in funding for TEP's build-out plan in previous years.
[5] Docket No. E-10933A-12-0291

to be recovered through the REST budget in 2013-2016 as well as the projects anticipated to be funded in that timeframe.

Line Item	2013	2014	2015	2016
Carrying Costs	$2,865,111	$3,422,679	$5,063,382	$4,441,875
Book Depreciation	$2,726,337	$2,669,313	$4,199,513	$3,819,808
Property Tax Expense	$125,683	$118,394	$277,742	$283,767
Operations and Maintenance	$146,742	$146,650	$221,050	$198,454
Land Leasing	$65,723	0	0	0
Total	$5,929,596	$6,357,036	$9,761,687	$8,743,904

Projects	2013 Costs	2014 Costs	2015 Costs	2016 Costs
Springerville/Tech Park 3.4 MW	$1,050,462			
Tech Park II – 5 MW	$1,483,324			
TO/Rooftop 2.5 MW	$898,797	$1,163,542	$1,132,400	$752,894
Prairie Fire 5 MW	$1,411,939			
TO 3 MW	$984,655	$1,273,980	$1,240,039	$824,522
7 MW to be built in 2013	$100,419	$3,919,514	$3,761,542	$2,388,517
7 MW to be built in 2014			$3,627,706	$2,359,502
7 MW to be built in 2015				$2,418,469
Total	$5,929,596	$6,357,036	$9,761,687	$8,743,904

The costs shown above represent only the carrying costs of the various projects until such time as TEP has another general rate proceeding, during which TEP would seek to inclusion of these generating assets in base rates. Staff believes that TEP's proposal for a further $28 million in funding for the Bright Tucson buildout program in 2013 is consistent with how the buildout plan has been funded in prior years and Staff recommends approval of the 2013 buildout plan.

TEP Request for Guidance on Meeting the DG Requirement in a Post-Incentive Environment

Under the current REST rules, to achieve with the DG portion of the REST requirement, TEP pays an incentive to residential and commercial customers who install qualifying renewable energy facilities. As a part of that transaction, the associated renewable energy credits ("RECs") goes to the utility, which are then retiredtoachieve compliance. TEP and other Arizona utilities are at or near the threshold of reaching a point where at least for the residential PV up front incentive, no incentive may be necessary for such systems to be installed. However, in such a scenario, TEP does not have a transaction with the customer whereby the customer provides TEP with the requisite RECs for TEP to meet its DG requirements under the REST rules. TEP's filing in this proceeding requests Commission guidance as to how TEP can have the opportunity to achieve compliance with the REST rules when one or more sectors of the market no longer require an incentive for projects to be undertaken. TEP's filing offers four possible solutions to the situation:

> "1. Change or waive the existing Resource Portfolio Standard ("RPS") to eliminate either the DG requirement, or the requirement to retire REC's associated with the customer-sited distributed generation system and allow the utility to report metered production data in order to show the percentage of sales associated with renewable energy.
>
> 2. Allow utilities to modify their existing net-metering tariffs to require customers to surrender all credits and environmental attributes in exchange for net-metering.
>
> 3. Allow utilities to meet the RPS DG requirement by showing a percentage of their sales through metered data without the requirement of retiring REC's (and without altering the existing rules).
>
> 4. In the absence of existing rule changes, allow the utilities to request waivers for meeting the DG requirement through the use of REC retirement and allow the utility to show compliance in an alternative manner."

TEP has not identified which of these options it prefers. TEP has indicated to Staff that the Company believes that the Commission needs to address this issue as part of the Commission's consideration of TEP's 2013 REST plan.

Indeed, TEP's application also requests that the Commission allow TEP to count seven projects at the time of the 2013 REST plan filing, totaling more than 4 MW of DG, that requested net metering but did not request a utility incentive. Regarding these projects and others that occur later in 2012 or thereafter, Staff agrees with TEP's request that the Company should be able to count these projects toward its achievement of REST compliance. While TEP may not have technically acquired the RECs from these seven projects, the DG installations at these locations do replace load that TEP had previously served. The very presence of DG in the

REST rules as part of a utility's requirement to meet 15 percent of its load by 2025 with renewable resources requires a utility to count DG production, including that portion that never enters its distribution system, toward meeting the DG portion of REST requirements. Such an understanding is consistent with the spirit and intent of the REST rules and how they have been applied since their inception. To not count such systems would undermine the ability of TEP to achieve compliance and would not accurately represent the level of renewable energy deployments taking place in TEP's service territory. TEP has in the past and intends to continue to install production meters on all renewable systems that interconnect with TEP's system, thus enabling TEP to accurately measure and report the actual metered production from systems that interconnect, but do not take an incentive. Thus, Staff recommends approval of TEP's proposal to count the seven installations discussed herein for compliance as well as all further such installations later in 2012 and in following years.

TEP is not the only utility placing this issue before the Commission. APS, in its application for approval of its 2013 REST plan, proposes two incentive options, one of which would start 2013 at a zero incentive for residential PV and one of which would start with a small residential PV incentive in 2013.[6] APS proposes to monitor compliance by using a "Track and Record" system under both options to give APS credit for all renewable installations in its service territory. Staff believes the track and record proposal is a reasonable way to both accurately measure a utility's compliance with REST rule requirements and to give the utility credit toward REST rule requirements for all renewable activity within its service territory that interconnects with the utility. Other proposals, such as several of the other options put forward by TEP put much more administrative burden on the utilities and the Commission to determine on-going compliance and may not accurately reflect the true level of installations taking place in a utility's service territory, a key component in assessing compliance with REST rules. Thus, Staff recommends that the Commission approve the "Track and Record" proposal for REST rule compliance requirements to be effective for 2013 and beyond for compliance reporting beginning April 1, 2014.

2013 REST Budget Proposals and DG Incentive Levels

TEP and Staff REST plan budget proposals will be discussed in the remainder of this document.

2011 Funds Carried Forward to 2013 REST Budget

TEP's filing reflects the carryforward of $4,343,494 in unspent funds from TEP's 2011 REST budget. The table below accounts for what line items of TEP's 2011 REST budget those funds came from.

2011 Revenue Undercollection	-$758,199
Purchased Renewable Energy	$1,692,386

[6] Docket No. E-01345A-12-0290

Customer Sited Distributed Renewable Energy	$2,900,493
Information Systems	$3,719
School Vocational Program	$25,171
Net Metering	$378,963
Reporting	$130,484
Outside Coordination and Support and R&D	-$29,523
Total Unspent 2011 Funds	$4,343,494

Both TEP's and Staff's REST budget proposals discussed herein reflect this carryforward of unspent 2011 REST funds which reduce the amount of money required to be recovered through the 2013 REST surcharge.

UFI and PBI Levels

TEP has seen dramatic reductions in the incentive levels it has offered in many DG areas in recent years. In TEP's 2010 REST plan, the Commission approved incentive levels of $3.00 per watt for residential DG, $2.50 per watt for commercial DG, and PBI caps as high as $0.182 per kWh. All these incentives have declined significantly, with TEP now at $0.20 per watt for residential and commercial DG and PBI caps of $0.064 per watt to $0.072 per watt. The tables below show the incentive levels in recent years for residential and commercial UFIs and commercial PBIs.

	Residential DG UFI (per watt)	Commercial DG UFI (per watt)
2008	$3.00	$2.50
2009	$3.00	$2.50
2010	$3.00	$2.50
2011	$2.00	$1.50
2012	$0.75	$0.55
As of 8/29/2012	$0.20	$0.20

Note: Yearly incentive levels shown above are Commission-approved incentives at the beginning of the plan year.

PBI Caps	*10-year contract*	*15-year contract*	*20-year contract*
2008	$0.202 per kWh	$0.187 per kWh	$0.180 per kWh
2009	$0.202 per kWh	$0.187 per kWh	$0.180 per kWh
2010	$0.182 per kWh	$0.168 per kWh	$0.162 per kWh
Customer size	*50-500 kW*	*501-1000 kW*	*Over 1 MW*
2011	$0.142 per kWh	$0.122 per kWh	$0.102 per kWh
Customer size	*70-200 kW*	*201-400 kW*	*Over 400 kW*
2012	$0.072 per kWh	$0.068 per kWh	$0.064 per kWh

Note: From 2008-2010 PBI caps were differentiated by contract length. In 2011 and 2012 PBI caps were differentiated by customer size.

TEP has indicated to Staff that TEP's estimated total future PBI commitment as of July 1, 2012 is $135,101,645.

TEP's application requests approval of a $0.50 per watt UFI for both residential and commercial DG for 2013, with no trigger mechanism. TEP also is requesting the same commercial PV PBI cap levels as in 2012, of $0.072 per kWh for small systems, $0.068 per kWh for medium systems, and $0.064 per kWh for large systems. Similarly, TEP is requesting retention of the same $0.057 per kWh PBI for solar thermal applications and $0.50 per kwh for first year production for solar hot water heating.

Since TEP filed its application at the beginning of July 2012, the Company has seen significant activity in the residential UFI area, resulting in multiple triggers being hit for incentive reductions. On August 29, 2012, TEP issued a notice indicating the Company had hit the 90 percent trigger for reducing the residential DG incentive to $0.20 per watt. As of September 18, 2012, 92 percent of the residential DG budget had been reserved and TEP has indicated to Staff that it is seeing a steady stream of applications since reducing to a $0.20 per watt incentive level. In accordance with Decision No. 72736, the commercial UFI incentive has triggered down to $0.20 per watt in tandem with the residential DG incentive. TEP has indicated in recent conversations with Staff that it no longer believes that its proposed $0.50 per watt residential DG UFI is necessary given developments in recent months.

Staff Proposal

In light of these recent developments, the residential and/or commercial UFI sectors appear to have reached a point at this time where little or no utility incentive is required for installations to take place. However, the SHW and PBI markets have not arrived at such a point yet, and still require utility incentives to make installations happen. This raises the question of how ratepayer funding should be directed. Should funds be focused on areas that require much lower incentives, thus providing the most bang for the buck? Or should funds continue to be allocated toward all sectors to provide funding support to different parts of the renewable energy industry, albeit at a higher cost to ratepayers than if funds had been targeted only to the lower cost areas? This is fundamentally a policy call for the Commission to make as to how funds should be allocated between sectors that need lower or higher incentive levels. Staff's proposal for TEP takes a middle ground, providing continued funding to theSHW and PBI sectors, but at lower total dollar amounts, lower incentive levels, and lower caps, as appropriate for each sector. Staff recommends an initial UFI for residential and commercial DG of $0.20 per watt. Under the Legacy budget, Staff recommends a cap of $1,000,000 on commercial UFI spending.

For residential SHW, as noted elsewhere, Staff recommends against creating the carve-out for this sector as proposed by TEP, but rather recommends a $300,000 cap on how much of the residential DG UFI budget can be put toward SHW. Further, Staff recommends that the UFI for residential SHW be reduced from $0.50 per kWh for first year production to $0.40 per kWh for first year production. These proposals will provide the opportunity for significant SHW installations in 2013 at a still significant incentive level, but a modestly lower one that would buy more value per ratepayer dollar spent. Likewise, Staff recommends that the commercial SHW UFI be reduced from TEP's proposed $0.50 per kWh for first year production to $0.40 per kWh for first year production.

Similarly, for commercial SHW (also known as solar thermal), Staff recommends a reduction in the PBI from the proposed $0.057 per kWh to $0.047 per kWh. For commercial PBIs, Staff would reduce the caps from those proposed by TEP of $0.072 per kWh for 70-200 kW systems, $0.068 per kWh for 201-400 kW systems, and $0.064 per kWh for systems greater than 400 kW to $0.068 per kWh for 70-200 kW systems, $0.064 per kWh for 201-400 kW systems, and $0.060 per kWh for systems greater than 400 kW. Further, Staff recommends that PBI reservations be accepted using the reverse auction process with a bi-monthly cap of $120,000, representing a total annual commitment of $720,000. This is modestly lower than the total commitment from the 2012 REST plan of $80,000 monthly or $960,000 annually. Under Staff's proposal, other incentives as proposed by TEP would be adopted.

The table below summarizes the major incentives proposed under the budget scenarios.

	TEP Proposal	Staff Proposal
Residential DG UFI	$0.50 per watt	$0.20 per watt
Commercial DG UFI	$0.50 per watt	$0.20 per watt
Residential SHW UFI	$0.50 per kWh	$0.40 per kWh
Commercial SHW UFI	$0.50 per kWh	$0.40 per kWh
Commercial SHW PBI	$0.57 per kWh	$0.47 per kWh
Commercial PBI	$0.072 per kWh small systems $0.068 per kWh medium systems $0.064 per kWh large systems	$0.068 per kWh small systems $0.064 per kWh medium systems $0.060 per kWh large systems

Triggers for Residential and Commercial UFIs

In recent years TEP has had trigger mechanisms which cause incentive levels for residential and/or commercial DG UFIs to drop if certain milestones are reached by certain dates. In 2012, TEP's residential and commercial incentives have hit several such triggers, dropping these incentives to the current level of $0.20 per watt. Given the already current low level of TEP's UFI incentives, Staff does not believe that it is necessary or desirable to create a full series of triggers for 2013. Thus, Staff is proposing that TEP's residential and commercial UFIs trigger to zero at such time as the funding allotted to each sector reaches zero.

Legacy Budget

As discussed above, TEP's Legacy budget was created in Decision No. 72736 which approved TEP's 2012 REST plan. The Legacy budget for 2012 provided for, among other things, recovery of TEP lost revenue related to commercial DG projects in 2012 that were in excess of TEP's compliance requirements in 2012. TEP has indicated in its application that it is not seeking lost revenue in the 2013 REST budget and thus no lost revenue is projected to come from the Legacy budget in 2013. The Legacy budget would therefore fund certain allotments of commercial UFIs and PBIs, with the remainder being carried forward in the Legacy budget to pay for future PBI commitments.

Decision No. 72736 did not specify exactly how carryforward money in the Legacy budget would be used to help meet future PBI commitments. TEP has indicated to Staff that it intends to use the remaining Legacy budget at the end of 2012, estimated to be $333,565, toward the PBI component of TEP's 2014 REST budget. Staff believes that remaining Legacy funds (including on-going interest accumulated on the existing balance) should be applied in a manner where half of the funds are applied each upcoming year, with the remaining half of the funds carried forward for use in future years. So, for example, of the $333,565 estimated to remain at the end of 2012, half, or $166,783, would be applied to the 2014 REST budget PBI line item, with the other half, or $166,782, carried forward to years beyond 2014.

Regarding the Legacy budget in the 2013 REST plan, Staff agrees with TEP's proposal to fund it at a $3,000,000 level, as was done in 2012. The proposed commitments for 2013 in the Legacy budget under the budget proposals are shown below.

2013 Legacy Commitments	TEP Proposal	Staff Proposal
Commercial UFI	Up to $1,500,000	$1,000,000
Commercial PBI	Up to $1,500,000	$720,000
Lost Revenue	$89,700	$0

Under TEP's proposal the Company would recover its lost revenue from 2012 through the 2013 Legacy budget and thus a total of $2,910,300 would be available to meet the commercial UFI and commercial PBI commitment caps of $1.5 million each. Under the Staff proposal, a total of $1,720,000 of Legacy budget funds would be committed toward commercial UFIs and commercial PBIs for 2013, with at least the remaining $1,028,000 being carried forward to meet future years' PBI commitments, absent further Commission approval.

Proposed TEP and Staff Budgets

The table below summarizes the budgets being proposed by TEP and Staff.

Budget Components	**2012 Approved Budget**	**2013 TEP Proposed Budget**	**2013 Staff Proposal Budget**
Purchased Renewable Energy			
Above market cost of conventional generation	$12,377,000	$23,021,000	$23,021,000

SunEdison	$1,045,500	$1,275,000	$1,275,000
TEP Owned	$4,228,918	$5,929,596	$5,929,596
Subtotal	*$17,651,418*	*$30,225,596*	*$30,225,596*
Customer Sited Distributed Renewable Energy			
Residential UFI	$5,000,000	$2,907,100	$1,462,840
Residential SHW UFI		$565,269	$0
Legacy Budget	$3,000,000	$3,000,000	$3,000,000
Commercial PBI On-Going Commitments	$5,753,375	$6,453,375	$6,453,375
Meter Reading	$19,531	$29,832	$29,832
Lost Revenue		$89,700	$0
Customer Education and Outreach	$100,000	$100,000	$100,000
Subtotal	*$13,872,906*	*$13,145,276*	*$13,145,276*
Technical Training			
Schools Program	$350,000	$0	$0
Internal and Contractor Training	$75,000	$75,000	$75,000
Subtotal	*$425,000*	*$75,000*	*$75,000*
Information Systems			
Subtotal	*$500,000*	*$125,000*	*$125,000*
Metering			
Subtotal	*$227,982*	*$131,365*	*$131,365*
Labor and Administration			
Internal Labor	$1,127,607	$701,525	$1,265,329
External Labor	$446,031	409,013	409,013
Materials, Fees, Supplies	$71,362	$60,000	$60,000
AZ Solar Website	$4,000	$4,000	$4,000
Subtotal	*$1,649,000*	*$1,174,538*	*$1,174,538*
Research and Development			
Solar test yard		$300,000	
AZRISE		$250,000	
Transmission, Distribution, Storage Modeling		$50,000	
Dues and Fees		$15,000	
Subtotal	*$525,000*	*$615,000*	*$525,000*
Total Spending	*$34,851,305*	*$45,491,775*	*$43,841,350*
Carryover of Previous Year's Funds	*-$4,875,000*	*-$4,343,494*	*-$4,343,494*
Total Amount for Recovery	*$29,976,305*	*$41,148,281*	*$39, 497,856*

Note: TEP shows the 2012 lost revenue as a separate line item in the 2013 budget. Staff believes that the 2012 lost revenue was intended to be recovered out of the 2012 Legacy budget and thus Staff has removed that separate line item in the 2013 Staff proposed budget. Staff has reflected the lost revenue via a smaller carryover Legacy budget at the end of 2012.

Recovery of Funds Through 2013 REST Charge

TEP's proposed caps and per kWh charge are designed to recover TEP's proposed amount of $41.1 million in 2013 and Staff's proposed caps and per kWh charge are designed to recover Staff's proposed budget of $39.5 million.

The table below shows the proposed surcharge per kWh for the TEP and Staff options as well as the proposed caps under each option, in comparison to what is currently in effect for 2012 and what was in effect in 2011.

	2011 Approved	2012 Approved	2013 TEP Proposal	2013 Staff Proposal
REST Charge (per kWh)	$0.007121	$0.007182	$0.008000	$0.008000
Class Caps				
Residential	$4.50	$3.15	$4.75	$4.45
Small Commercial	$160.00	$130.00	$195.00	$150.00
Large Commercial	$1,000.00	$810.00	$1,225.00	$1,225.00
Industrial and Mining	$5,500.00	$5,500.00	$8,300.00	$9,000.00
Public Authority	$180.00	$180.00	$195.00	$200.00
Lighting	$160.00	$160.00	$195.00	$150.00

The cost recovery by customer class for the approved 2012 REST plan and estimates for the TEP and Staff options for the 2013 REST plan are shown in the table below. For comparison purposes, the table below also shows the projected MWH sales by customer class for 2013.

	2012 Approved	2013 TEP Proposal	2013 Staff Proposal	2013 Projected Sales (MWH)
Residential	$11,953,769 (39.9%)	$18,468,678 (44.9%)	$17,452,922 (44.2%)	3,837,249 (40.8%)
Small Commercial	$9,947,281 (33.2%)	$11,891,330 (28.9%)	$10,974,613 (27.8%)	1.984,460 (21.1%)
Large Commercial	$4,870,571 (16.2%)	$6,531,310 (15.9%)	$6,531,310 (16.5%)	1,232,058 (13.1%)
Industrial and Mining	$2,310,137 (7.7%)	$3,183,532 (7.7%)	$3,446,732 (8.7%)	2,106,725 (22.4%)
Public Authority	$651,864 (2.2%)	$820,800 (2.0%)	$831,395 (2.1%)	206,910 (2.2%)
Lighting	$243,974 (0.8%)	$259,780 (0.6%)	$259,028 (0.7%)	28,215 (0.3%)
Total	$29,977,594	$41.155,429	$39,496,000	9,395,617

The table below shows the contribution, per kWh consumed, for each customer class (projected class cost recovery divided by projected class kWh sales). The table thus provides a comparison of the relative contribution to REST funding by each customer class on a per kWh basis. 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)	2012 Approved (per kWh)	2013 TEP Proposed (per kWh)	2013 Staff Proposed (per kWh)
Residential	$0.0030	$0.0048	$0.0045
Small Commercial	$0.0049	$0.0060	$0.0055
Large Commercial	$0.0021	$0.0053	$0.0053
Industrial/ Mining	$0.0011	$0.0015	$0.0016
Public Authority	$0 0031	$0.0040	$0.0040
Lighting	$0.0074	$0.0092	$0.0092

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.

	2012 Approved	2013 TEP Proposed	2013 Staff Proposed
Residential - Average Bill	$2.69	$3.89	$3.67
Small Commercial - Average Bill	$22.91	$27.12	$25.03
Large Commercial - Average Bill	$652.37	$870.84	$870.84
Industrial and Mining - Average Bill	$5,360	$7,841	$8,489
Public Authority - Average Bill	$48.97	$57.42	$58.16
Lighting - Average Bill	$11.45	$12.10	$12.07
Residential – Percent at Cap	71.8%	71.2%	71.3%
Small Commercial – Percent at Cap	4.7%	4.6%	4.6%
Large Commercial – Percent at Cap	52.3%	38.3%	38.3%
Industrial and Mining – Percent at Cap	98.6%	92.6%	92.6%
Public Authority – Percent at Cap	19.7%	15.0%	14.7%
Lighting – Percent at Cap	0.2%	0.0%	0.2%

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

Example Customer Types	kWh / mo.	2012 Approved	2013 TEP Proposal	2013 Staff Proposal
Residence Consuming 400 kWh	400	$2.87	$3.20	$3.20
Residence Consuming 869 kWh	862	$3.15	$3.89	$3.67
Residence Consuming 2,000 kWh	2,000	$3.15	$4.75	$4.45
Dentist Office	2,000	$14.36	$16.00	$16.00
Hairstylist	3,900	$28.01	$31.20	$31.20
Department Store	170,000	$130.00	$195.00	$150.00
Mall	1,627,100	$810.00	$1,225.00	$1,225.00
Retail Video Store	14,400	$103.42	$115.00	$115.20
Large Hotel	1,067,100	$810.00	$1,225.00	$1,225.00
Large Building Supply	346,500	$810.00	$1,225.00	$1,225.00
Hotel/Motel	27,960	$130.00	$195.00	$150.00
Fast Food	60,160	$130.00	$195.00	$150.00
Large High Rise Office Bldg	1,476,100	$810.00	$1,225.00	$1,225.00
Hospital (< 3 MW)	1,509,600	$810.00	$1,225.00	$1,225.00
Supermarket	233,600	$810.00	$1,225.00	$1,225.00
Convenience Store	20,160	$130.00	$161.28	$150.00
Hospital (> 3 MW)	2,700,000	$5,500.00	$8,300.00	$9,000.00
Copper Mine	72,000,000	$5,500.00	$8,300.00	$9,000.00

Staff recommends approval of the Staff proposal. The Staff proposal provides continued funding to all sectors, while focusing more resources on the lowest cost sectors.

Staff Recommendations

1. Staff recommends that the Commission approve the Staff budget option for the 2013 REST plan, reflecting a REST surcharge of $0.00800 per kWh, and related caps. This includes total spending of $43,841,350 and a total amount to be recovered through the REST surcharge of $39,497,856.

2. Staff further recommends that the residential and commercial PV UFI be set at $0.20 per watt on January 1, 2013.

3. Staff further recommends that the commercial PV UFI budget be limited to $1,000,000 for 2013 under the Legacy budget.

4. Staff further recommends that the residential and commercial PV UFI trigger down to zero at such time as the budgeted amount for each is fully expended in 2013.

5. Staff further recommends that the upper limit for the non-residential PBI be set at $0.068 per kWh for 70-200 kW systems, $0.064 per kWh for 201-400 kW

systems, and $0.060 per kWh for systems greater than 400 kW, with a bi-monthly caps of $120,000 for a total annual cap of $720,000 under the Legacy budget.

6. Staff further recommends that the commercial thermal PBI incentive be set at $0.047 per kWh.

7. Staff further recommends that the residential and commercial SHW UFI be set at $0.40 per kWh of first year production.

8. Staff further recommends against approval of the carve-out of funds for residential SHW but rather recommends that the residential SHW funding be limited to $300,000 in 2013.

9. Staff further recommends that TEP's 2013 Bright Tucson Solar buildout plan for $28 million be approved.

10. Staff further recommends that the 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.

11. Staff further recommends approval of the Legacy budget as proposed by Staff.

12. Staff further recommends approval of the Staff proposal to regarding how to use future unutilized Legacy budget funds from previous years, beginning with the 2012 Legacy budget.

13. Staff further recommends approval of TEP's proposal not offer a separate carve-out of residential PV funds for the homebuilding sector.

14. Staff further recommends against adoption of TEP's request to be able to adjust incentives in real time based upon market conditions and without Commission approval.

15. Staff further recommends against approval of the residential PV compliance floor proposed by TEP.

16. Staff further recommends approval of TEP's alternative for charging the REST surcharge to customers who receive a REST incentive. This alternative involves using the average REST surcharge paid by each customer class.

17. Staff further recommends approval of TEP's proposal to no longer report the total system cost for leased systems on the AZ Goes Solar website.
18. Staff further recommends approval of TEP's request to count seven projects within TEP's service territory, but which did not receive utility incentives, toward TEP's

REST compliance. Such approval would extend to all other such projects within TEP's service territory in 2013 and in future years.

19. Staff further recommends that the Commission approve the "Track and Record" proposal for REST rule compliance requirements to be effective for 2013 and beyond for compliance reporting beginning April 1, 2014.

20. Staff further 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\RM

ORIGINATOR: Robert Gray

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS 2013 RENEWABLE ENERGY STANDARD AND TARIFF IMPLEMENTATION PLAN	DOCKET NO. E-01933A-12-0296 DECISION NO. ________ ORDER

Open Meeting
To Be Determined
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 ("Commission").

2. On July 2, 2012, TEP filed for Commission approval of its 2013 Renewable Energy Standard and Tariff ("REST") Implementation Plan. On July 3, 2012, TEP filed a REST plan summary and a set of PowerPoint slides summarizing its REST plan.

3. On July 27, 2012, the Renewable Energy Markets Association ("REMA") filed comments in this docket. On September 20, 2012, the Solar Energy Industries Association ("SEIA") filed for intervention in this docket. On September 24, 2012, Arizona Solar Energy Industries Association ("AriSEIA") filed comments in this docket. On October 1, 2012, Freeport-McMoRan Copper & Gold, Inc., and Arizonans for Electric Choice and Competition filed for leave to intervene (collectively "AECC"). On October 1, 2012, AriSEIA filed additional

comments in this docket. On October 3, 2012, AriSEIA's request for intervention was granted. On October 11, 2012, The Vote Solar Initiative and Western Resource Advocates filed comments in this docket.

4. TEP's initial filing requests approval of various REST plan components, including a budget, incentive levels, customer class caps, various program details, continuation of the Bright Tucson Solar Buildout Plan, compliance matters related to Decision No. 72736, a change to AZ Goes Solar reporting requirements, and research and development funding for 2013. TEP also requests guidance from the Commission regarding certain matters related to meeting the distributed generation ("DG") requirement in a post incentive environment.

TEP's Five Year Projection of Energy, Capacity, and Costs

5. The table below shows TEP's forecast for energy, capacity, and costs for its annual REST plans from 2013 through 2017.

TEP Energy, Capacity, and Cost Forecast					
	2013	2014	2015	2016	2017
Forecast Retail Sales MWH	9,405,022	9,565,143	9,658,045	9,739,655	9,813,955
% Renewable Energy Required	4.0%	4.5%	5.0%	6.0%	7.0%
Overall Renewable Requirement MWH	376,201	430,431	482,902	584,379	686,977
Utility Scale Requirement MWH	263,341	301,302	338,032	409,066	480,884
Utility Scale Cumulative MW	150	172	193	234	275
DG Requirement MWH	112,860	129,129	144,871	175,314	206,093
RES DG Requirement MWH	56,430	64,565	72,435	87,657	103,047
RES DG Cumulative MW	32	37	41	50	59
Non-Res DG Requirement MWH	56,430	64,565	72,435	87,657	103,047
Non-Res Cumulative MW	32	37	41	50	59
Total Cumulative Required MW	215	246	276	334	393
Total Program Cost	$45,491,775	$46,954,138	$51,245,317	$49,683,263	$49,098,783

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TEP REST Experience Under 2012 REST Plan

6. The Commission-approved REST implementation plan for 2012 contemplated total spending of $34.9 million and total recoveries through the REST surcharge of $30.0 million[1]. TEP projects spending virtually its entire REST budget in 2012, other than a portion of the Legacy budget, as discussed below.

7. Regarding installations and reservations, the table below summarizes installations and reservations for installations through September 24, 2012 by TEP.

Residential	**Photovoltaics**		**Solar Hot Water**	
	Number of Systems	**kW (kWh)**	**Number of Systems**	**kWh**
2012 Installations	632	4,579 (8,013,250)	323	888,250
Reservations	1033	7,404 (12,957,000)	342	940,500

Commercial	**Photovoltaics**		**Solar Hot Water**	
	Number of Systems	**kW (kWh)**	**Number of Systems**	**kW**
2011 Installations	54	5,047 (8,832,250)	9	1,016,255
Reservations	78	24,797 (43,394,750)	12	1,483,589

8. TEP has indicated to Staff that the Company has not seen any biomass/gas, geothermal, ground source heat pump, hydro, or wind DG installations in 2012.

9. The table below shows TEP's annual required MWh under the REST rules and its installed-annualized and installed-annualized/reserved numbers for 2012. Installed annualized numbers reflect systems that are installed mid-year and their production is annualized to reflect a full year's production. Installed-annualized/reserved counts both the installed annualized systems and the systems that are reserved, but have not yet been installed.

	Required (MWH)	**Produced/Banked (MWH)**
Residential DG	48,652	34,193 (installed – annualized) 43,629 (installed – annualized/reserved)
Commercial DG	48,652	25,375(installed – annualized) 58,847 (installed – annualized/reserved)
Non-DG	227,041	226,958

[1] Decision No. 72736 (January 13, 2012); Docket No. E-01933A-11-0269.

Commercial DG Overcompliance

10. Staff noted in its Staff Report on TEP's 2012 REST plan that TEP was significantly overcompliant for commercial DG and the Staff Report included a table that summarized the situation in 2012 and following years[2]. Below is an updated table showing the current and projected status of commercial DG overcompliance. In summary, the size of the negative number on the last line indicates the size of the commercial DG overcompliance TEP projects for each year through 2017.

Commercial	2013	2014	2015	2016	2017
Sales Forecast	9,405,022,000	9,565,142,997	9,658,045,451	9,739,655,081	9,813,955,051
Overall Requirement	4.00%	4.50%	5.00%	6.00%	7.00%
Overall DG kWh Requirement	112,860,264	129,129,430	144,870,682	175,313,791	206,093,056
Non-Residential DG kWh Requirement	56,430,132	64,564,715	72,435,341	87,656,896	103,046,528
Existing Non-Residential kWh Prior to 2013	62,986,627	62,986,627	62,986,627	62,986,627	62,986,627
Incremental Non-Residential DG Requirement	7,778,506	8,134,583	7,870,626	15,221,555	15,389,632
10% Allowed kWh from Wholesale DG per R14.2.805	11,286,026	12,912,943	14,487,068	17,531,379	20,609,306
Estimated kWh from Davis-Monthan DG Project	26,075,000	26,075,000	26,075,000	26,075,000	26,075,000
Total Required kWh Non-Residential DG After Adjustment	-43,917,521	-37,409,855	-31,113,354	-18,936,110	-6,624,405

Leased Versus Non-Leased Systems

11. The table below shows the number of leased versus non-leased residential and commercial DG systems for TEP in 2011 and 2012.

Residential

Month	Number of Leased Systems	Number of Non-Leased Systems
January 2011	3	35
February 2011	5	55
March 2011	12	64
April 2011	5	66

[2] *Id.*

May 2011	10	106
June 2011	6	120
July 2011	5	87
August 2011	32	74
September 2011	172	185
October 2011	4	7
November 2011	18	6
December 2011	25	4
January 2012	79	85
February 2012	47	26
March 2012	46	14
April 2012	51	24
May 2012	62	37
June 2012	91	16
July 2012	93	2

Commercial

Month	Number of Leased Systems	Number of Non-Leased Systems
January 2011	0	5
February 2011	0	1
March 2011	0	1
April 2011	0	7
May 2011	0	8
June 2011	0	13
July 2011	0	11
August 2011	0	0
September 2011	0	3
October 2011	0	0
November 2011	0	2
December 2011	1	7

January 2012	1	0
February 2012	0	5
March 2012	0	1
April 2012	2	0
May 2012	0	8
June 2012	1	6
July 2012	0	0

2012 Legacy Budget

12. Decision No. 72736 created a legacy budget of $3,000,000 for TEP that could be used for commercial Up-Front Incentive ("UFI") and Performance Based Incentives ("PBI") projects as well as TEP collecting lost revenue. Total non-residential DG was capped at 8 MW and the monthly PBI allocation was capped at $80,000, with the intent to provide the opportunity to continue commercial installations despite TEP's significant overcompliance with the commercial DG requirements under the REST rules. Funds not applied toward commercial UFIs and PBIs or TEP lost revenues would remain in the legacy budget to be used in future years to help pay PBI legacy costs. Decision No. 72736 did not include a specific mechanism for how such funds would be applied in the future. TEP has indicated to Staff that it intends to apply any remaining 2012 legacy budget funds toward PBI commitments in 2014.

13. The table below shows TEP fund commitments to date from the legacy budget.

Legacy Budget Components	
Total Funds Available in 2012	$3,000,000
Small Commercial UFIs	$1,201,200 (as of July 24, 2012) $500,000 still to be reserved in 2012
Large Commercial PBIs	$356,261 (as of July 24, 2012) $480,000 still the be reserved in 2012
Lost Revenue Recovery (estimated)	$89,700
Total Funds Projected to Be Committed in 2012	$2,666,435

14. After lost revenue is calculated at the end of 2012, the estimated remaining balance from the 2012 Legacy budget is $353,202. TEP's lost revenue calculation is shown in the table

below. TEP's initial application estimated lost revenue at the $89,699.88 level. Recently TEP provided Staff with an updated estimate of $109,337. The final amount of lost revenue will not be known until the end of 2012.

Estimated Eligible kW	657.14
kWh per kW	1,750
Total kWh	1,149,998.50
Lost Revenue Allowance per kWh	$0.078
2012 Lost Revenue	$89,699.88

Schools Vocational Program

15. In TEP's 2011 and 2012 REST plans, funds were provided for placement of photovoltaic systems at high schools in TEP's service area in conjunction with educational efforts. A total of 22 schools participated in the program in those years. TEP is not proposing to continue the program into 2013, as there are no further high schools to provide photovoltaic systems to in TEP's service territory. Staff believes that this is a reasonable result given the lack of further high schools in TEP's service territory to serve under the program.

Customer Education and Outreach

16. TEP is proposing to spend $100,000 on customer education and outreach in 2013, the same amount the Commission approved in TEP's 2012 REST budget. TEP has indicated that this money will be spent on a variety of local outreach efforts including educational materials, presentations, sponsorships, awards, public meetings, educational kiosks, teacher education workshops, and various local partnerships. Staff believes TEP's request for $100,000 for customer education and outreach is reasonable and recommends inclusion of this amount in the 2013 REST budget.

Labor Costs

17. TEP is requesting inclusion of $701,525 of internal labor costs and $409,013 in external labor costs as part of the 2013 REST budget. TEP's filing indicates that it is requesting recovery of only half of its internal labor costs related to REST activities through the 2013 REST

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budget, with the remainder being requested in TEP's current general rate proceeding.[3] In past years, TEP has recovered all of its REST related internal labor costs through the REST budget. TEP has indicated to Staff that the requested shift of half of internal labor costs into the general rate proceeding is an effort to reduce the overall REST budget and REST surcharge. Staff believes that inclusion of half of REST related internal labor costs in the REST budget and half in TEP's general rate proceeding is arbitrary and more complex than the method in past years of including all such costs in the REST budget. Given that these labor costs are directly attributable to TEP's REST activities, Staff believes that these costs should all remain in the REST budget and thus Staff will include all internal labor costs related to REST activities within the REST budget.

18. Under TEP's filed numbers, internal labor costs related to REST activities would increase from $1,127,607 in 2012 to $1,403,050 in 2013, an increase of $275,443 or 24.4 percent. Staff believes an increase of half the amount requested by TEP, or $137,722 would be reasonable. Thus, Staff recommends approval of internal labor costs of $1,265,329 as part of TEP's 2013 REST budget, with no further costs being recovered through the rate case.

Information Systems Integration Costs

19. TEP's filing requests funding of $125,000 for information systems integration costs ("IT") in 2013. In 2012, the Commission approved funding of $500,000 with the understanding that TEP was completing a major upgrade of its IT systems and that the upgrade would be finished in 2012. TEP has indicated to Staff that the upgrade is scheduled for completion in late 2012. In processing TEP's 2012 REST plan, the Company had indicated that after 2012 it would require IT funding at a level of $100,000 or less annually. Therefore, Staff recommends funding IT in TEP's 2013 REST budget at a level of $100,000.

Research and Development

20. TEP's filing requests approval of research and development ("R&D") funding totaling $615,000 as part of the 2013 REST budget. The table below shows a breakdown of the proposed funding areas.

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[3] See Docket No. E-01933A-12-0291.

R&D Funding Areas	TEP Proposed 2013 Funding
Technology development projects – solar test yard	$300,000
AZ RISE	$250,000
Transmission and distribution integration modeling	$50,000
Dues for Industry Organizations	$15,000

21. The Commission approved total R&D funding for TEP in 2012 of $525,000 while allowing the Company the discretion to determine the allocation among the various R&D funding areas. Staff believes that the Commission's approach to R&D funding in 2012 remains reasonable and recommends that R&D funding again be set at $525,000 for 2013, with TEP having the discretion to allocate this money among the funding areas shown in the table above.

Carve-out for Solar Hot Water Heating in the Residential DG Program

22. TEP's 2013 REST plan includes a proposal to carve-out ten percent of the kWh of the residential DG program for solar hot water heating ("SHW"). As discussed in detail in the section of this Order dealing with incentive levels, Staff believes that a policy decision is before the Commission to determine whether sectors that require higher incentive levels, including SHW, should continue to receive significant funding dollars, in an environment where other sectors of DG require little or no incentive money. Thus, Staff is recommending against the carve-out of a portion of the residential DG budget for SHW and is recommending a cap on how much of the residential DG budget can go to SHW. Such a cap is necessary in an environment where SHW has a much higher incentive level than other residential DG. Absent a cap, an uptick in SHW system installations could consume most of the annual residential DG UFI budget. Thus, Staff recommends approval of a $300,000 cap on the total amount of incentive money TEP can direct toward SHW installations in 2013, absent further Commission approval.

Carve-out of a Portion of the Residential DG Budget for Homebuilders

23. Decision No. 72736 required TEP in its 2013 REST plan filing to either recommend a carve-out of a portion of the residential DG budget for homebuilders or explain why such a carve-out should not be granted. During the Commission's consideration of TEP's 2012 REST plan, homebuilders advocated for such a carve-out. No homebuilder interests have

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contacted Staff or filed comments regarding this matter for TEP's 2013 REST plan. The table below shows the amount of funding that has been allocated to homebuilders from 2010-2012.

Year	Residential DG Funding That Went to Homebuilders
2010	$82,740
2011	$225,184
2012	$63,685

24. TEP indicates that it does not believe a carve-out is necessary for homebuilders, given that homebuilders have been significant participants in the current residential DG program. TEP indicates that approximately 20 percent of 2013 residential DG applications are from homebuilders. Given this information, Staff believes it is unnecessary to create a new subcategory of the residential DG program for homebuilders and supports TEP's proposal to not create a new carve-out of the residential DG program for homebuilders.

TEP Request for Flexibility to Adjust Incentive in Real Time Based on Market Conditions

25. TEP's application includes a request that the Commission grant TEP the "flexibility to adjust the incentive levels as appropriate based on real-time market signals." To date, TEP and other utilities have been required to come before the Commission to adjust incentive levels, other than adjustments (such as triggers) that were approved by the Commission in each utility's annual REST plan. Utilities, including TEP, have made filings with the Commission mid-year to adjust incentives and make other changes when market conditions have changed significantly and the Commission has acted quickly on such requests. While such flexibility might be useful to the Company, it would weaken the Commission's oversight of TEP's renewable energy activities and Staff recommends against approval of the request by TEP for flexibility to adjust incentive levels on its own.

TEP Request to Set Residential DG Percentage Increase to 0.75 Percent From 2013-2018

26. TEP's filing requests that the Commission set a residential DG compliance floor from 2013 to 2018 with a 0.75 percent increase each year, rather than the current structure of 0.5 percent increases in 2013 through 2015 and 1.0 percent increases in 2016 through 2018. The

additional 0.25 percent in 2013, cumulative 0.50 percent in 2014, and cumulative 0.75 percent in 2015 represents additional residential DG to be undertaken in those years. By the end of 2018 the percentage would return to being equal to what the existing REST rules require. The tables below show the existing overall and DG REST requirements and TEP's proposed adjustment to the REST requirement to provide additional residential DG in 2013-2015.

Year	Existing Overall REST Requirement	Existing Utility Scale Requirement	Existing Residential DG Requirement	Existing Commercial DG Requirement
2013	4.0%	70%	15%	15%
2014	4.5%	70%	15%	15%
2015	5.0%	70%	15%	15%
2016	6.0%	70%	15%	15%
2017	7.0%	70%	15%	15%
2018	8.0%	70%	15%	15%

Year	TEP Proposed Overall REST Requirement	TEP Proposed Utility Scale Requirement	TEP Proposed Residential DG Requirement	TEP Proposed Commercial DG Requirement
2013	4.0%	69.06%	15.94%	15%
2014	4.5%	68.33%	16.67%	15%
2015	5.0%	67.75%	17.25%	15%
2016	6.0%	68.75%	16.25%	15%
2017	7.0%	69.46%	15.54%	15%
2018	8.0%	70%	15%	15%

27. TEP cites a desire the provide market stability for the residential DG sector in coming years. This proposal relates to industry concerns expressed in the past that the DG percentage stops increasing after 2012, but the overall percentage does not begin to increase at a one percent pace until 2016, creating a three year period when the net growth in the DG component is less than in surrounding years.

28. Staff recognizes that there is an interest in providing an opportunity for a relatively level number of installs from year to year. However, Staff is reticent to recommend that the Commission commit to such an adjustment six years into the future. Further, making such

adjustments to the existing REST requirements would make assessing TEP's compliance in future years unnecessarily more complicated. Staff believes that the Commission can address this issue each year as it considers TEP's proposed REST plan for the coming year. Further, it is unclear what such an adjustment to REST requirements would mean in the next six years as the residential DG incentive and possibly other incentives approach and likely reach zero. Considering these matters as part of each year's REST plan will allow the Commission to retain full flexibility in future years as it assesses market conditions and other factors in future proceedings.

Compliance With Decision No. 72736 Requirement Regarding Those Who Receive REST Incentives Continuing to Pay REST Surcharge

29. Decision No. 72736 states:

> "We believe that customers who benefit, from the effective date of this Decision, by receiving incentives under the REST rules should provide an equitable contribution to future REST benefits for other customers. We will therefore require that residential, small commercial, large commercial and industrial customers who receive incentives under the REST rules pay a monthly REST charge equal to the amount they would have paid without the renewable installation. This payment shall begin when TEP reprograms its billing system to accomplish this, or with the October 2012 billing, whichever is sooner. This requirement shall only apply to renewable systems installed after January 1, 2012."

30. On June 16, 2012, TEP filed a request for an extension of time to comply with this requirement and to defer this matter to the docket where the Commission would consider TEP's 2013 REST plan. TEP indicated that it was unable to meet the October 2012 deadline due to greater than anticipated complexity in reprogramming its billing system and related matters. In this filing TEP suggested that the Commission should consider implementing the methodology for charging a REST surcharge that was adopted in Decision No. 73183 (May 24, 2012) in the Arizona Public Service Company ("APS") general rate proceeding. As part of TEP's July 2, 2012 filing for Commission approval of the Company's 2013 REST plan, the Company proposed that the Commission charge customers who have received an incentive a REST surcharge at the customer class REST surcharge cap or alternatively charge a REST surcharge at the average (mean) REST surcharge for each REST surcharge customer class. On September 6, 2012, Staff filed a memorandum recommending that the requirement in Decision No. 72736 cited above be

suspended and that the issue be addressed in the Commission's decision on TEP's 2013 REST plan. On September 28, 2012, the Administrative Law Judge issued a recommended opinion and order ("ROO"), recommending adoption of Staff's recommendations to suspend the requirement in Decision No. 72736 and to address the issue in the Commission's decision on TEP's 2013 REST plan.

31. TEP notes in its 2013 REST plan filing that using the alternative method would address a problem which has been identified in regard to the small commercial customer class. Specifically, most small commercial customers pay a monthly REST surcharge far below the REST surcharge cap applicable to small commercial customers. If such a small commercial customer were to participate in TEP's commercial DG program, take an incentive from TEP and then have to pay a REST surcharge at the cap for the small commercial class, this customer would likely pay a much higher REST surcharge than they had been paying. For example, the cap on the small commercial class in 2012 is $130.00, whereas the average (mean) REST surcharge was estimated to be $22.91 for 2012. Such a customer would likely choose not to participate in TEP's commercial DG program to avoid paying a much higher REST surcharge. This problem does not exist in regard to other customer classes.

32. Staff believes that either of TEP's alternatives contained in the Company's initial 2013 REST plan proposal could be adopted. Applying a REST surcharge equivalent to customer class caps, as was approved for APS, is the simplest solution and would provide consistency between TEP and APS. This option has the problem with the small commercial class, but an exception could be made for this class to apply the average (mean) REST surcharge as reflected in the final budget and REST surcharge numbers approved by the Commission for each year's REST plan. A difficulty in applying the APS method to TEP at this time is that the 2012 REST plan order applied the requirement to pay what the customer would have otherwise paid beginning with the effective date of the Commission's order on the 2012 REST plan in January 2012. Many customers would pay less under a calculation of what they otherwise would have paid in comparison to if they had to pay at their customer class cap every month. Thus, such customers

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could claim that they did not know they would be subject to a higher REST surcharge (at the class cap) when they took the incentive and had their system installed.

33. The alternative of charging customers the average (mean) REST surcharge for each customer class would avoid the problem with the small commercial customer class and would in many cases result in smaller charges to customers than under the method approved for APS. This approach would be a little more complicated, however, as the average surcharge numbers would be recalculated each year. Under either method, customers would not know with specificity what their total exposure to future payments would be.

34. Staff believes that either method could be implemented, but that fundamentally it is a policy decision for the Commission. Staff recommends using the annual average.

35. As currently designed, this charge applies to customers who receive an incentive starting in January 2012. It is widely anticipated that the up-front incentives for residential and/or commercial PV will reach zero in the near future. Under the current design, customers who receive no incentive after incentive levels reach zero would not be subject to the surcharge under this provision. Thus, there would be a window of customers who received an incentive starting in January 2012 and likely ending in 2013 or 2014 that would be subject to this provision, while all other customers who had systems installed would not. TEP expresses a concern regarding this small segment of customers that would be subject to this provision. To address this issue, TEP proposes to apply this provision to customers who sign up for net metering in the future in the absence of receiving a utility incentive. TEP notes that such customers, even in the absence of an incentive, enjoy the benefits of net metering.

36. Staff is cognizant of TEP's interest in adjusting this provision to apply not only to a possibly 1-2 year window of customers, but to future customers as well and that the Commission may wish to extend this provision to apply to such customers. However, Staff recognizes that the provision as approved by the Commission in Decision No. 72736 does not provide for application to future customers who do not receive an incentive and thus Staff recommends against application of this provision to customers who do not receive an incentive in the future and who request net metering.

Request to Alter Reporting Requirements for the AZ Goes Solar Website

37. Decision No. 71465 (January 26, 2010) requires utilities to report cost data for renewable energy systems that receive utility incentives. This requirement led to the creation of the AZ Goes Solar website, where a variety of information is reported by Arizona utilities, including TEP. In this proceeding, TEP is requesting that these reporting requirements be adjusted to no longer require reporting of the total system cost for leased systems. TEP states that the total system cost for a leased system is not representative or useful given how current lease projects work. Staff is not aware of any concerns regarding TEP's proposal and Staff supports TEP's proposal to remove this reporting requirement. However, Staff believes TEP should monitor cost information for leased systems and if, in the future, there is useful total cost information to report for leased systems, TEP should bring this to the Commission's attention in a future REST plan filing.

Bright Tucson Solar Buildout Plan

38. In TEP's proposal for its 2012 REST plan, TEP requested approval of $28 million for 2013[4] for the build-out plan for the Bright Tucson Community Solar program for 10-12 MW in 2013. This $28 million would include some funding for the Sundt project which was approved as part of the 2012 REST plan as a two-year project in 2012-2013. 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.

39. TEP has a pending rate proceeding in which the Company is asking to recover past costs of the buildout program through base rates, rather than through the REST surcharge.5 Thus, future buildout program expenditures would be recovered through the REST surcharge, until such time as TEP has another general rate proceeding at which time it is expected that TEP would seek to again move those costs in base rates. The tables below show the costs anticipated to be

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[4] The Commission has approved $28 million in funding for TEP's build-out plan in previous years.
[5] Docket No. E-01933A-12-0291.

recovered through the REST budget in 2013-2016 as well as the projects anticipated to be funded in that timeframe.

Line Item	2013	2014	2015	2016
Carrying Costs	$2,865,111	$3,422,679	$5,063,382	$4,441,875
Book Depreciation	$2,726,337	$2,669,313	$4,199,513	$3,819,808
Property Tax Expense	$125,683	$118,394	$277,742	$283,767
Operations and Maintenance	$146,742	$146,650	$221,050	$198,454
Land Leasing	$65,723	0	0	0
Total	$5,929,596	$6,357,036	$9,761,687	$8,743,904

Projects	2013 Costs	2014 Costs	2015 Costs	2016 Costs
Springerville/Tech Park 3.4 MW	$1,050,462			
Tech Park II – 5 MW	$1,483,324			
TO/Rooftop 2.5 MW	$898,797	$1,163,542	$1,132,400	$752,894
Prairie Fire 5 MW	$1,411,939			
TO 3 MW	$984,655	$1,273,980	$1,240,039	$824,522
7 MW to be built in 2013	$100,419	$3,919,514	$3,761,542	$2,388,517
7 MW to be built in 2014			$3,627,706	$2,359,502
7 MW to be built in 2015				$2,418,469
Total	$5,929,596	$6,357,036	$9,761,687	$8,743,904

40. The costs shown above represent only the carrying costs of the various projects until such time as TEP has another general rate proceeding, during which TEP would seek to inclusion of these generating assets in base rates. Staff believes that TEP's proposal for a further $28 million in funding for the Bright Tucson buildout program in 2013 is consistent with how the buildout plan has been funded in prior years and Staff recommends approval of the 2013 buildout plan.

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TEP Request for Guidance on Meeting the DG Requirement in a Post-Incentive Environment

41. Under the current REST rules, to achieve compliance with the DG portion of the REST requirement, TEP pays an incentive to residential and commercial customers who install qualifying renewable energy facilities. As a part of that transaction the associated renewable energy credits ("RECs") goes to the utility, which is then retired to achieve compliance. TEP and other Arizona utilities are at or near the threshold of reaching a point where at least for the residential PV up front incentive, no incentive may be necessary for such systems to be installed. However, in such a scenario, TEP does not have a transaction with the customer whereby the customer provides TEP with the requisite RECs for TEP to meet its DG requirements under the REST rules. TEP's filing in this proceeding requests Commission guidance as to how TEP can have the opportunity to achieve compliance with the REST rules when one or more sectors of the market no longer require an incentive for projects to be undertaken. TEP's filing offers four possible solutions to the situation:

> "1. Change or waive the existing Resource Portfolio Standard ("RPS") to eliminate either the DG requirement, or the requirement to retire REC's associated with the customer-sited distributed generation system and allow the utility to report metered production data in order to show the percentage of sales associated with renewable energy.
>
> 2. Allow utilities to modify their existing net-metering tariffs to require customers to surrender all credits and environmental attributes in exchange for net-metering.
>
> 3. Allow utilities to meet the RPS DG requirement by showing a percentage of their sales through metered data without the requirement of retiring REC's (and without altering the existing rules).
>
> 4. In the absence of existing rule changes, allow the utilities to request waivers for meeting the DG requirement through the use of REC retirement and allow the utility to show compliance in an alternative manner."

42. TEP has not identified which of these options it prefers. TEP has indicated to Staff that the Company believes that the Commission needs to address this issue as part of the Commission's consideration of TEP's 2013 REST plan.

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43. Indeed, TEP's application also requests that the Commission allow TEP to count seven projects at the time of the 2013 REST plan filing, totaling more than 4 MW of DG, that requested net metering but did not request a utility incentive. Regarding these projects and others that occur later in 2012 or thereafter, Staff agrees with TEP's request that the Company should be able to count these projects toward its achievement of REST compliance. While TEP may not have technically acquired the RECs from these seven projects, the DG installations at these locations do replace load that TEP had previously served. The very presence of DG in the REST rules as part of a utility's requirement to meet 15 percent of its load by 2025 with renewable resources requires a utility to count DG production, including that portion that never enters its distribution system, toward meeting the DG portion of REST requirements. Such an understanding is consistent with the spirit and intent of the REST rules and how they have been applied since their inception. To not count such systems would undermine the ability of TEP to achieve compliance and would not accurately represent the level of renewable energy deployments taking place in TEP's service territory. TEP has in the past and intends to continue to install production meters on all renewable systems that interconnect with TEP's system, thus enabling TEP to accurately measure and report the actual metered production from systems that interconnect, but do not take an incentive. Thus, Staff recommends approval of TEP's proposal to count the seven installations discussed herein for compliance as well as all further such installations later in 2012 and in following years.

44. TEP is not the only utility placing this issue before the Commission APS, in its application for approval of its 2013 REST plan , proposes two incentive options, one of which would start 2013 at a zero incentive for residential PV and one of which would start with a small residential PV incentive in 2013.[6] APS proposes to monitor compliance by using a "Track and Record" system under both options to give APS credit for all renewable installations in its service territory. Staff believes the track and record proposal is a reasonable way to both accurately measure a utility's compliance with REST rule requirements and to give the utility credit toward

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[6] Docket No. E-01345A-12-0290

REST rule requirements for all renewable activity within its service territory that interconnects with the utility. Other proposals, such as several of the other options put forward by TEP put much more administrative burden on the utilities and the Commission to determine on-going compliance and may not accurately reflect the true level of installations taking place in a utility's service territory, a key component in assessing compliance with REST rules. Thus, Staff recommends that the Commission approve the "Track and Record" proposal for REST rule compliance requirements to be effective for 2013 and beyond for compliance reporting beginning April 1, 2014.

2013 REST Budget Proposals and DG Incentive Levels

45. TEP and Staff REST plan budget proposals will be discussed in the remainder of this document.

2011 Funds Carried Forward to 2013 REST Budget

46. TEP's filing reflects the carryforward of $4,343,494 in unspent funds from TEP's 2011 REST budget. The table below accounts for what line items of TEP's 2011 REST budget those funds came from.

2011 Revenue Undercollection	-$758,199
Purchased Renewable Energy	$1,692,386
Customer Sited Distributed Renewable Energy	$2,900,493
Information Systems	$3,719
School Vocational Program	$25,171
Net Metering	$378,963
Reporting	$130,484
Outside Coordination and Support and R&D	-$29,523
Total Unspent 2011 Funds	$4,343,494

47. Both TEP's and Staff's REST budget proposals discussed herein reflect this carryforward of unspent 2011 REST funds which reduce the amount of money required to be recovered through the 2013 REST surcharge.

UFI and PBI Levels

48. TEP has seen dramatic reductions in the incentive levels it has offered in many DG areas in recent years. In TEP's 2010 REST plan, the Commission approved incentive levels of

$3.00 per watt for residential DG, $2.50 per watt for commercial DG, and PBI caps as high as $0.182 per kWh.[7] All these incentives have declined significantly, with TEP now at $0.20 per watt for residential and commercial DG and PBI caps of $0.064 per watt to $0.072 per watt. The tables below show the incentive levels in recent years for residential and commercial UFIs and commercial PBIs.

	Residential DG UFI (per watt)	Commercial DG UFI (per watt)
2008	$3.00	$2.50
2009	$3.00	$2.50
2010	$3.00	$2.50
2011	$2.00	$1.50
2012	$0.75	$0.55
As of 8/29/2012	$0.20	$0.20

Note: Yearly incentive levels shown above are Commission-approved incentives at the beginning of the plan year.

PBI Caps	*10-year contract*	*15-year contract*	*20-year contract*
2008	$0.202 per kWh	$0.187 per kWh	$0.180 per kWh
2009	$0.202 per kWh	$0.187 per kWh	$0.180 per kWh
2010	$0.182 per kWh	$0.168 per kWh	$0.162 per kWh
Customer size	*50-500 kW*	*501-1000 kW*	*Over 1 MW*
2011	$0.142 per kWh	$0.122 per kWh	$0.102 per kWh
Customer size	*70-200 kW*	*201-400 kW*	*Over 400 kW*
2012	$0.072 per kWh	$0.068 per kWh	$0.064 per kWh

Note: From 2008-2010 PBI caps were differentiated by contract length. In 2011 and 2012 PBI caps were differentiated by customer size.

49. TEP has indicated to Staff that TEP's estimated total future PBI commitment as of July 1, 2012 is $135,101,645.

50. TEP's application requests approval of a $0.50 per watt UFI for both residential and commercial DG for 2013, with no trigger mechanism. TEP also is requesting the same commercial PV PBI cap levels as in 2012, of $0.072 per kWh for small systems, $0.068 per kWh for medium systems, and $0.064 per kWh for large systems. Similarly, TEP is requesting retention of the same $0.057 per kWh PBI for solar thermal applications and $0.50 per kwh for first year production for solar hot water heating.

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51. Since TEP filed its application at the beginning of July 2012, the Company has seen significant activity in the residential UFI area, resulting in multiple triggers being hit for incentive reductions. On August 29, 2012, TEP issued a notice indicating the Company had hit the 90 percent trigger for reducing the residential DG incentive to $0.20 per watt. As of September 18, 2012, 92 percent of the residential DG budget had been reserved and TEP has indicated to Staff that it is seeing a steady stream of applications since reducing to a $0.20 per watt incentive level. In accordance with Decision No. 72736, the commercial UFI incentive has triggered down to $0.20 per watt in tandem with the residential DG incentive. TEP has indicated in recent conversations with Staff that it no longer believes that its proposed $0.50 per watt residential DG UFI is necessary given developments in recent months.

Staff Proposal

52. In light of these recent developments, the residential and/or commercial UFI sectors appear to have reached a point at this time where little or no utility incentive is required for installations to take place. However, the SHW and PBI markets have not arrived at such a point yet, and still require utility incentives to make installations happen. This raises the question of how ratepayer funding should be directed. Should funds be focused on areas that require much lower incentives, thus providing the most bang for the buck? Or should funds continue to be allocated toward all sectors to provide funding support to different parts of the renewable energy industry, albeit at a higher cost to ratepayers than if funds had been targeted only to the lower cost areas? This is fundamentally a policy call for the Commission to make as to how funds should be allocated between sectors that need lower or higher incentive levels. Staff's proposal for TEP takes a middle ground, providing continued funding to the solar hot water and PBI sectors, but at lower total dollar amounts, lower incentive levels, and lower caps, as appropriate for each sector. Staff recommends an initial UFI for residential and commercial DG of $0.20 per watt. Under the Legacy budget, Staff recommends a cap of $1,000,000 on commercial UFI spending.

53. For residential SHW, as noted elsewhere, Staff recommends against creating the carve-out for this sector as proposed by TEP, but rather recommends a $300,000 cap on how much of the residential DG UFI budget can be put toward solar hot water. Further, Staff recommends

that the UFI for residential SHW be reduced from $0.50 per kWh for first year production to $0.40 per kWh for first year production. These proposals will provide the opportunity for significant SHW installations in 2013 at a still significant incentive level, but a modestly lower one that would buy more value per ratepayer dollar spent. Likewise, Staff recommends that the commercial SHW UFI be reduced from TEP's proposed $0.50 per kWh for first year production to $0.40 per kWh for first year production.

54. Similarly, for commercial SHW (also known as solar thermal), Staff recommends a reduction in the PBI from the proposed $0.057 per kWh to $0.047 per kWh. For commercial PBIs, Staff would reduce the caps from those proposed by TEP of $0.072 per kWh for 70-200 kW systems, $0.068 per kWh for 201-400 kW systems, and $0.064 per kWh for systems greater than 400 kW to $0.068 per kWh for 70-200 kW systems, $0.064 per kWh for 201-400 kW systems, and $0.060 per kWh for systems greater than 400 kW. Further, Staff recommends that PBI reservations be accepted using the reverse auction process with a bi-monthly cap of $120,000, representing a total annual commitment of $720,000. This is modestly lower than the total commitment from the 2012 REST plan of $80,000 monthly or $960,000 annually. Under Staff's proposal, other incentives as proposed by TEP would be adopted.

55. The table below summarizes the major incentives proposed under the budget scenarios.

	TEP Proposal	Staff Proposal
Residential DG UFI	$0.50 per watt	$0.20 per watt
Commercial DG UFI	$0.50 per watt	$0.20 per watt
Residential SHW UFI	$0.50 per kWh	$0.40 per kWh
Commercial SHW UFI	$0.50 per kWh	$0.40 per kWh
Commercial SHW PBI	$0.57 per kWh	$0.47 per kWh
Commercial PBI	$0.072 per kWh small systems $0.068 per kWh medium systems $0.064 per kWh large systems	$0.068 per kWh small systems $0.064 per kWh medium systems $0.060 per kWh large systems

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Triggers for Residential and Commercial UFIs

56. In recent years TEP has had trigger mechanisms which cause incentive levels for residential and/or commercial DG UFIs to drop if certain milestones are reached by certain dates. In 2012, TEP's residential and commercial incentives have hit several such triggers, dropping these incentives to the current level of $0.20 per watt. Given the already current low level of TEP's UFI incentives, Staff does not believe that it is necessary or desirable to create a full series of triggers for 2013. Thus, Staff is proposing that TEP's residential and commercial UFIs trigger to zero at such time as the funding allotted to each sector reaches zero.

Legacy Budget

57. As discussed above, TEP's Legacy budget was created in Decision No. 72736 which approved TEP's 2012 REST plan. The Legacy budget for 2012 provided for, among other things, recovery of TEP lost revenue related to commercial DG projects in 2012 that were in excess of TEP's compliance requirements in 2012. TEP has indicated in its application that it is not seeking lost revenue in the 2013 REST budget and thus no lost revenue is projected to come from the Legacy budget in 2013. The Legacy budget would therefore fund certain allotments of commercial UFIs and PBIs, with the remainder being carried forward in the Legacy budget to pay for future PBI commitments.

58. Decision No. 72736 did not specify exactly how carryforward money in the Legacy budget would be used to help meet future PBI commitments. TEP has indicated to Staff that it intends to use the remaining Legacy budget at the end of 2012, estimated to be $333,565, toward the PBI component of TEP's 2014 REST budget. Staff believes that remaining Legacy funds (including on-going interest accumulated on the existing balance) should be applied in a manner where half of the funds are applied each upcoming year, with the remaining half of the funds carried forward for use in future years. So, for example, of the $333,565 estimated to remain at the end of 2012, half, or $166,783, would be applied to the 2014 REST budget PBI line item, with the other half, or $166,782, carried forward to years beyond 2014.

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59. Regarding the Legacy budget in the 2013 REST plan, Staff agrees with TEP's proposal to fund it at a $3,000,000 level, as was done in 2012. The proposed commitments for 2013 in the Legacy budget under the budget proposals are shown below.

2013 Legacy Commitments	TEP Proposal	Staff Proposal
Commercial UFI	Up to $1,500,000	$1,000,000
Commercial PBI	Up to $1,500,000	$720,000
Lost Revenue	$89,700	$0

60. Under TEP's proposal the Company would recover its lost revenue from 2012 through the 2013 Legacy budget and thus a total of $2,910,300 would be available to meet the commercial UFI and commercial PBI commitment caps of $1.5 million each. Under the Staff proposal, a total of $1,720,000 of Legacy budget funds would be committed toward commercial UFIs and commercial PBIs for 2013, with at least the remaining $1,028,000 being carried forward to meet future years' PBI commitments, absent further Commission approval.

Proposed TEP and Staff Budgets

61. The table below summarizes the budgets being proposed by TEP and Staff.

Budget Components	**2012 Approved Budget**	**2013 TEP Proposed Budget**	**2013 Staff Proposal Budget**
Purchased Renewable Energy			
Above market cost of conventional generation	$12,377,000	$23,021,000	$23,021,000
SunEdison	$1,045,500	$1,275,000	$1,275,000
TEP Owned	$4,228,918	$5,929,596	$5,929,596
Subtotal	*$17,651,418*	*$30,225,596*	*$30,225,596*
Customer Sited Distributed Renewable Energy			
Residential UFI	$5,000,000	$2,907,100	$1,462,840
Residential SHW UFI		$565,269	$0
Legacy Budget	$3,000,000	$3,000,000	$3,000,000
Commercial PBI On-Going Commitments	$5,753,375	$6,453,375	$6,453,375
Meter Reading	$19,531	$29,832	$29,832

Lost Revenue		$89,700	$0
Customer Education and Outreach	$100,000	$100,000	$100,000
Subtotal	*$13,872,906*	*$13,145,276*	*$13,145,276*
Technical Training			
Schools Program	$350,000	$0	$0
Internal and Contractor Training	$75,000	$75,000	$75,000
Subtotal	*$425,000*	*$75,000*	*$75,000*
Information Systems			
Subtotal	*$500,000*	*$125,000*	*$125,000*
Metering			
Subtotal	*$227,982*	*$131,365*	*$131,365*
Labor and Administration			
Internal Labor	$1,127,607	$701,525	$1,265,329
External Labor	$446,031	409,013	409,013
Materials, Fees, Supplies	$71,362	$60,000	$60,000
AZ Solar Website	$4,000	$4,000	$4,000
Subtotal	*$1,649,000*	*$1,174,538*	*$1,174,538*
Research and Development			
Solar test yard		$300,000	
AZRISE		$250,000	
Transmission, Distribution, Storage Modeling		$50,000	
Dues and Fees		$15,000	
Subtotal	*$525,000*	*$615,000*	*$525,000*
Total Spending	*$34,851,305*	*$45,491,775*	*$43,841,350*
Carryover of Previous Year's Funds	*-$4,875,000*	*-$4,343,494*	*-$4,343,494*
Total Amount for Recovery	*$29,976,305*	*$41,148,281*	*$39, 497,856*

Note: TEP shows the 2012 lost revenue as a separate line item in the 2013 budget. Staff believes that the 2012 lost revenue was intended to be recovered out of the 2012 Legacy budget and thus Staff has removed that separate line item in the 2013 Staff proposed budget. Staff has reflected the lost revenue via a smaller carryover Legacy budget at the end of 2012.

Recovery of Funds Through 2013 REST Charge

62. TEP's proposed caps and per kWh charge are designed to recover TEP's proposed amount of $41.1 million in 2013 and Staff's proposed caps and per kWh charge are designed to recover Staff's proposed budget of $39.5 million.

63. The table below shows the proposed surcharge per kWh for the TEP and Staff options as well as the proposed caps under each option, in comparison to what is currently in effect for 2012 and what was in effect in 2011.

	2011 Approved	**2012 Approved**	**2013 TEP Proposal**	**2013 Staff Proposal**
REST Charge (per kWh)	$0.007121	$0.007182	$0.008000	$0.008000
Class Caps				
Residential	$4.50	$3.15	$4.75	$4.45
Small Commercial	$160.00	$130.00	$195.00	$150.00
Large Commercial	$1,000.00	$810.00	$1,225.00	$1,225.00
Industrial and Mining	$5,500.00	$5,500.00	$8,300.00	$9,000.00
Public Authority	$180.00	$180.00	$195.00	$200.00
Lighting	$160.00	$160.00	$195.00	$150.00

64. The cost recovery by customer class for the approved 2012 REST plan and estimates for the TEP and Staff options for the 2013 REST plan are shown in the table below. For comparison purposes, the table below also shows the projected MWH sales by customer class for 2013.

	2012 Approved	**2013 TEP Proposal**	**2013 Staff Proposal**	**2013 Projected Sales (MWH)**
Residential	$11,953,769 (39.9%)	$18,468,678 (44.9%)	$17,452,922 (44.2%)	3,837,249 (40.8%)
Small Commercial	$9,947,281 (33.2%)	$11,891,330 (28.9%)	$10,974,613 (27.8%)	1.984,460 (21.1%)
Large Commercial	$4,870,571 (16.2%)	$6,531,310 (15.9%)	$6,531,310 (16.5%)	1,232,058 (13.1%)
Industrial and Mining	$2,310,137 (7.7%)	$3,183,532 (7.7%)	$3,446,732 (8.7%)	2,106,725 (22.4%)
Public Authority	$651,864 (2.2%)	$820,800 (2.0%)	$831,395 (2.1%)	206,910 (2.2%)
Lighting	$243,974 (0.8%)	$259,780 (0.6%)	$259,028 (0.7%)	28,215 (0.3%)
Total	$29,977,594	$41.155,429	$39,496,000	9,395,617

65. The table below shows the contribution, per kWh consumed, for each customer class (projected class cost recovery divided by projected class kWh sales). The table thus provides

a comparison of the relative contribution to REST funding by each customer class on a per kWh basis. 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)	**2012 Approved (per kWh)**	**2013 TEP Proposed (per kWh)**	**2013 Staff Proposed (per kWh)**
Residential	$0.0030	$0.0048	$0.0045
Small Commercial	$0.0049	$0.0060	$0.0055
Large Commercial	$0.0021	$0.0053	$0.0053
Industrial/ Mining	$0.0011	$0.0015	$0.0016
Public Authority	$0.0031	$0.0040	$0.0040
Lighting	$0.0074	$0.0092	$0.0092

66. 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.

	2012 Approved	**2013 TEP Proposed**	**2013 Staff Proposed**
Residential - Average Bill	$2.69	$3.89	$3.67
Small Commercial - Average Bill	$22.91	$27.12	$25.03
Large Commercial - Average Bill	$652.37	$870.84	$870.84
Industrial and Mining - Average Bill	$5,360	$7,841	$8,489
Public Authority - Average Bill	$48.97	$57.42	$58.16
Lighting - Average Bill	$11.45	$12.10	$12.07
Residential – Percent at Cap	71.8%	71.2%	71.3%

Small Commercial – Percent at Cap	4.7%	4.6%	4.6%
Large Commercial – Percent at Cap	52.3%	38.3%	38.3%
Industrial and Mining – Percent at Cap	98.6%	92.6%	92.6%
Public Authority – Percent at Cap	19.7%	15.0%	14.7%
Lighting – Percent at Cap	0.2%	0.0%	0.2%

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

Example Customer Types	kWh / mo.	2012 Approved	2013 TEP Proposal	2013 Staff Proposal
Residence Consuming 400 kWh	400	$2.87	$3.20	$3.20
Residence Consuming 869 kWh	862	$3.15	$3.89	$3.67
Residence Consuming 2,000 kWh	2,000	$3.15	$4.75	$4.45
Dentist Office	2,000	$14.36	$16.00	$16.00
Hairstylist	3,900	$28.01	$31.20	$31.20
Department Store	170,000	$130.00	$195.00	$150.00
Mall	1,627,100	$810.00	$1,225.00	$1,225.00
Retail Video Store	14,400	$103.42	$115.00	$115.20
Large Hotel	1,067,100	$810.00	$1,225.00	$1,225.00
Large Building Supply	346,500	$810.00	$1,225.00	$1,225.00
Hotel/Motel	27,960	$130.00	$195.00	$150.00
Fast Food	60,160	$130.00	$195.00	$150.00
Large High Rise Office Bldg	1,476,100	$810.00	$1,225.00	$1,225.00
Hospital (< 3 MW)	1,509,600	$810.00	$1,225.00	$1,225.00
Supermarket	233,600	$810.00	$1,225.00	$1,225.00
Convenience Store	20,160	$130.00	$161.28	$150.00

Hospital (> 3 MW)	2,700,000	$5,500.00	$8,300.00	$9,000.00
Copper Mine	72,000,000	$5,500.00	$8,300.00	$9,000.00

68. Staff recommends approval of the Staff proposal. The Staff proposal provides continued funding to all sectors, while focusing more resources on the lowest cost sectors.

Staff Recommendations

69. Staff has recommended that the Commission approve the Staff budget option for the 2013 REST plan, reflecting a REST surcharge of $0.00800 per kWh, and related caps. This includes total spending of $43,841,350 and a total amount to be recovered through the REST surcharge of $39,497,856.

70. Staff has further recommended that the residential and commercial PV UFI be set at $0.20 per watt on January 1, 2013.

71. Staff has further recommended that the commercial PV UFI be limited to $1,000,000 for 2013 under the Legacy budget.

72. Staff has further recommended that the residential and commercial PV UFI trigger down to zero at such time as the budgeted amount for each is fully expended in 2013.

73. Staff has further recommended that the upper limit for the non-residential PBI be set at $0.068 per kWh for 70-200 kW systems, $0.064 per kWh for 201-400 kW systems, and $0.060 per kWh for systems greater than 400 kW, with a bi-monthly caps of $120,000 for a total annual cap of $720,000 under the Legacy budget.

74. Staff has further recommended that the commercial thermal PBI incentive be set at $0.047 per kWh.

75. Staff has further recommended that the residential and commercial SHW UFI be set at $0.40 per kWh of first year production.

76. Staff has further recommended against approval of the carve-out of funds for residential SHW, but rather recommends that the residential SHW funding be limited to $300,000 in 2013.

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77. Staff has further recommended that TEP's 2013 Bright Tucson Solar buildout plan for $28 million be approved.

78. Staff has further recommended that the 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.

79. Staff has further recommended approval of the Legacy budget as proposed by Staff.

80. Staff has further recommended approval of the Staff proposal regarding how to use future unutilized Legacy budget funds from previous years, beginning with the 2012 Legacy budget.

81. Staff has further recommended approval of TEP's proposal to not offer a separate carve-out of residential PV funds for the homebuilding sector.

82. Staff has further recommended against adoption of TEP's request to be able to adjust incentives in real time based upon market conditions and without Commission approval.

83. Staff has further recommended against approval of the residential PV compliance floor proposed by TEP.

84. Staff has further recommended approval of TEP's alternative for charging the REST surcharge to customers who receive a REST incentive by using the average REST surcharge paid by each customer class.

85. Staff has further recommended approval of TEP's proposal to no longer report the total system cost for leased systems on the AZ Goes Solar website.

86. Staff has further recommended approval of TEP's request to count seven projects within TEP's service territory, but which did not receive utility incentives, toward TEP's REST compliance. Such approval would extend to all other such projects within TEP's service territory in 2013 and in future years.

87. Staff has further recommended approval of the "Track and Record" proposal for REST rule compliance requirements, as discussed herein, to be effective for 2013 and beyond for compliance reporting beginning April 1, 2014.

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88. Staff has further 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. Tucson Electric Power Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Tucson Electric Power Company and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated October 18, 2012, concludes that it is in the public interest to approve Tucson Electric Power Company's 2012 Renewable Energy Standard and Tariff Implementation Plan as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the Staff budget option for Tucson Electric Power Company's 2013 REST plan, reflecting a REST surcharge of $0.00800 per kWh, and related caps, be and hereby is approved. This includes total spending of $43,841,350 and a total amount to be recovered through the REST surcharge of $39,497,856.

IT IS FURTHER ORDERED that the residential and commercial PV UFI be set at $0.20 per watt on January 1, 2013.

IT IS FURTHER ORDERED that the commercial PV UFI budget be limited to $1,000,000 for 2013 under the Legacy budget.

IT IS FURTHER ORDERED that the residential and commercial PV UFI front incentives trigger down to zero at such time as the budgeted amount for each is fully expended in 2013.

IT IS FURTHER ORDERED that the upper limit for the non-residential PBI be set at $0.068 per kWh for 70-200 kW systems, $0.064 per kWh for 201-400 kW systems, and $0.060 per kWh for systems greater than 400 kW, with a bi-monthly caps of $120,000 for a total annual cap of $720,000 under the Legacy budget.

IT IS FURTHER ORDERED that the commercial thermal PBI incentive be set at $0.047 per kWh.

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IT IS FURTHER ORDERED that the residential and commercial SHW UFI be set at $0.40 per kWh of first year production.

IT IS FURTHER ORDERED that Tucson Electric Power Company's request to carve-out funds for residential solar hot water is denied, and that the residential solar hot water funding should instead be limited to $300,000 in 2013.

IT IS FURTHER ORDERED that Tucson Electric Power Company's Bright Tucson Solar Buildout Plan for $28 million is approved.

IT IS FURTHER ORDERED that the reasonableness and prudency of buildout plan costs be examined in Tucson Electric Power Company's next rate case and that any costs determined not to be reasonable and prudent be refunded by the Company.

IT IS FURTHER ORDERED the Legacy budget as proposed by Staff is approved.

IT IS FURTHER ORDERED the Staff proposal regarding how to use future unutilized Legacy budget funds from previous years, beginning with the 2012 Legacy budget, is approved.

IT IS FURTHER ORDERED that Tucson Electric Power Company's proposal to not offer a separate carve-out of residential PV funds for the homebuilding sector is approved.

IT IS FURTHER ORDERED that Tucson Electric Power Company's request to be able to adjust incentives in real time based upon market conditions and without Commission approval is denied.

IT IS FURTHER ORDERED that the residential PV compliance floor proposed by Tucson Electric Power Company is denied.

IT IS FURTHER ORDERED that Tucson Electric Power Company's alternative for charging the average REST surcharge paid by each customer class to customers who receive a REST incentive is approved.

IT IS FURTHER ORDERED that Tucson Electric Power Company's proposal to no longer report the total system cost for leased systems on the AZ Goes Solar website is approved.

IT IS FURTHER ORDERED TEP's request to count seven projects within Tucson Electric Power Company's service territory, but which did not receive utility incentives, toward Tucson Electric Power Company's REST compliance is approved. Such approval shall extend to all other such projects within Tucson Electric Power Company's service territory in 2013 and in future years.

IT IS FURTHER ORDERED that the "Track and Record" method for REST rule compliance requirements, as discussed herein, be effective for 2013 and beyond for compliance reporting beginning April 1, 2014.

IT IS FURTHER ORDERED that Tucson Electric Power Company file 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 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 __________________, 2012.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: ____________________________

DISSENT: ____________________________

SMO:RGG:lhm\RM

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