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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

Arizona Corporation Commission
DOCKETED

JAN 31 2013

DOCKETED BY NR

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. 73637

ORDER

Open Meeting
January 23, 2013
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

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

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

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

11 5. The table below shows TEP's forecast for energy, capacity, and costs for its annual
 12 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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1 **TEP REST Experience Under 2012 REST Plan**

2 6. The Commission-approved REST implementation plan for 2012 contemplated total
3 spending of \$34.9 million and total recoveries through the REST surcharge of \$30.0 million¹. TEP
4 projects spending virtually its entire REST budget in 2012, other than a portion of the Legacy
5 budget, as discussed below.

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

8

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

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

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

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

23

	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

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28 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
 11 overcompliant for commercial DG and the Staff Report included a table that summarized the
 12 situation in 2012 and following years². Below is an updated table showing the current and
 13 projected status of commercial DG overcompliance. In summary, the size of the negative number
 14 on the last line indicates the size of the commercial DG overcompliance TEP projects for each year
 15 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.*

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

Commercial

Month	Number of Leased Systems	Number of Non-Leased Systems	
17	January 2011	0	5
18	February 2011	0	1
19	March 2011	0	1
20	April 2011	0	7
21	May 2011	0	8
22	June 2011	0	13
23	July 2011	0	11
24	August 2011	0	0
25	September 2011	0	3
26	October 2011	0	0
27	November 2011	0	2
28	December 2011	1	7

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

8 2012 Legacy Budget

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

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

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

26
 27 14. After lost revenue is calculated at the end of 2012, the estimated remaining balance
 28 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

9 Schools Vocational Program

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

16 Customer Education and Outreach

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

24 Labor Costs

25 17. TEP is requesting inclusion of \$701,525 of internal labor costs and \$409,013 in
 26 external labor costs as part of the 2013 REST budget. TEP's filing indicates that it is requesting
 27 recovery of only half of its internal labor costs related to REST activities through the 2013 REST
 28

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

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

15 **Information Systems Integration Costs**

16 19. TEP's filing requests funding of \$125,000 for information systems integration costs
17 ("IT") in 2013. In 2012, the Commission approved funding of \$500,000 with the understanding
18 that TEP was completing a major upgrade of its IT systems and that the upgrade would be finished
19 in 2012. TEP has indicated to Staff that the upgrade is scheduled for completion in late 2012. In
20 processing TEP's 2012 REST plan, the Company had indicated that after 2012 it would require IT
21 funding at a level of \$100,000 or less annually. Therefore, Staff recommends funding IT in TEP's
22 2013 REST budget at a level of \$100,000.

23 **Research and Development**

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

27
28 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 ...

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

3

4 Year	Residential DG Funding That Went to Homebuilders
5 2010	\$82,740
6 2011	\$225,184
7 2012	\$63,685

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

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

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

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

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

1 additional 0.25 percent in 2013, cumulative 0.50 percent in 2014, and cumulative 0.75 percent in
 2 2015 represents additional residential DG to be undertaken in those years. By the end of 2018 the
 3 percentage would return to being equal to what the existing REST rules require. The tables below
 4 show the existing overall and DG REST requirements and TEP's proposed adjustment to the
 5 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%

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

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

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

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

10 29. Decision No. 72736 states:

11 "We believe that customers who benefit, from the effective date of this
12 Decision, by receiving incentives under the REST rules should provide an
13 equitable contribution to future REST benefits for other customers. We will
14 therefore require that residential, small commercial, large commercial and
15 industrial customers who receive incentives under the REST rules pay a
16 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."

17 30. On June 16, 2012, TEP filed a request for an extension of time to comply with this
18 requirement and to defer this matter to the docket where the Commission would consider TEP's
19 2013 REST plan. TEP indicated that it was unable to meet the October 2012 deadline due to
20 greater than anticipated complexity in reprogramming its billing system and related matters. In
21 this filing TEP suggested that the Commission should consider implementing the methodology for
22 charging a REST surcharge that was adopted in Decision No. 73183 (May 24, 2012) in the
23 Arizona Public Service Company ("APS") general rate proceeding. As part of TEP's July 2, 2012
24 filing for Commission approval of the Company's 2013 REST plan, the Company proposed that
25 the Commission charge customers who have received an incentive a REST surcharge at the
26 customer class REST surcharge cap or alternatively charge a REST surcharge at the average
27 (mean) REST surcharge for each REST surcharge customer class. On September 6, 2012, Staff
28 filed a memorandum recommending that the requirement in Decision No. 72736 cited above be

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

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

17 32. Staff believes that either of TEP's alternatives contained in the Company's initial
18 2013 REST plan proposal could be adopted. Applying a REST surcharge equivalent to customer
19 class caps, as was approved for APS, is the simplest solution and would provide consistency
20 between TEP and APS. This option has the problem with the small commercial class, but an
21 exception could be made for this class to apply the average (mean) REST surcharge as reflected in
22 the final budget and REST surcharge numbers approved by the Commission for each year's REST
23 plan. A difficulty in applying the APS method to TEP at this time is that the 2012 REST plan
24 order applied the requirement to pay what the customer would have otherwise paid beginning with
25 the effective date of the Commission's order on the 2012 REST plan in January 2012. Many
26 customers would pay less under a calculation of what they otherwise would have paid in
27 comparison to if they had to pay at their customer class cap every month. Thus, such customers
28 ...

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

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

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

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

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

1 participate in net metering, under the REST Rules, should provide an equitable contribution to
2 future REST benefits for other customers. This requirement shall apply to renewable systems
3 installed on and after January 1, 2012.

4 **Request to Alter Reporting Requirements for the AZ Goes Solar Website**

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

16 **Bright Tucson Solar Buildout Plan**

17 38. In TEP's proposal for its 2012 REST plan, TEP requested approval of \$28 million
18 for 2013⁴ for the build-out plan for the Bright Tucson Community Solar program for 10-12 MW in
19 2013. This \$28 million would include some funding for the Sundt project which was approved as
20 part of the 2012 REST plan as a two-year project in 2012-2013. The program allows TEP
21 customers to purchase blocks of renewable energy via an optional tariff rider. Customers would
22 buy one or more 1 kW pieces of renewable energy, each representing 150 kWh per month, at a
23 \$0.02 per kWh premium over the regular tariff rate. Such customers would then have that solar
24 capacity component of their bill fixed for 20 years.

25 39. TEP has a pending rate proceeding in which the Company is asking to recover past
26 costs of the buildout program through base rates, rather than through the REST surcharge.⁵ Thus,

27 _____
28 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.

1 future buildout program expenditures would be recovered through the REST surcharge, until such
 2 time as TEP has another general rate proceeding at which time it is expected that TEP would seek
 3 to again move those costs in base rates. The tables below show the costs anticipated to be
 4 recovered through the REST budget in 2013-2016 as well as the projects anticipated to be funded
 5 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

24 40. The costs shown above represent only the carrying costs of the various projects
 25 until such time as TEP has another general rate proceeding, during which TEP would seek to
 26 inclusion of these generating assets in base rates. Staff believes that TEP's proposal for a further
 27 \$28 million in funding for the Bright Tucson buildout program in 2013 is consistent with how the
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1 buildout plan has been funded in prior years and Staff recommends approval of the 2013 buildout
2 plan.

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

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

17 "1. Change or waive the existing Resource Portfolio Standard ("RPS") to
18 eliminate either the DG requirement, or the requirement to retire REC's
19 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.

20 2. Allow utilities to modify their existing net-metering tariffs to require
21 customers to surrender all credits and environmental attributes in exchange
for net-metering.

22 3. Allow utilities to meet the RPS DG requirement by showing a percentage
23 of their sales through metered data without the requirement of retiring
24 REC's (and without altering the existing rules).

25 4. In the absence of existing rule changes, allow the utilities to request
26 waivers for meeting the DG requirement through the use of REC retirement
and allow the utility to show compliance in an alternative manner."

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

4 43. TEP is not the only utility placing this issue before the Commission APS, in its
5 application for approval of its 2013 REST plan , proposes two incentive options, one of which
6 would start 2013 at a zero incentive for residential PV and one of which would start with a small
7 residential PV incentive in 2013.⁶ APS proposes to monitor compliance by using a "Track and
8 Record" system under both options to give APS credit for all renewable installations in its service
9 territory. Staff believes the track and record proposal is a reasonable way to both accurately
10 measure a utility's compliance with REST rule requirements and to give the utility credit toward
11 REST rule requirements for all renewable activity within its service territory that interconnects
12 with the utility. Other proposals, such as several of the other options put forward by TEP put
13 much more administrative burden on the utilities and the Commission to determine on-going
14 compliance and may not accurately reflect the true level of installations taking place in a utility's
15 service territory, a key component in assessing compliance with REST rules.

16 44. A number of stakeholders have filed comments in the REST proceedings for TEP
17 and APS (Docket No. E-01345A-12-0290) on the "Track and Record" proposal. In these
18 comments, stakeholders have raised a variety of concerns that the "Track and Record" proposal.
19 The comments indicate that controversies exist over the "Track and Record" proposal; therefore,
20 the issues related to this proposal and potential alternatives thereto appear to be better suited for a
21 hearing.

22 45. Although Staff believes that the "Track and Record" proposal has merit, Staff
23 understands how some parties may believe that "Track and Record" may be inconsistent with the
24 existing provisions of the REST rules. Because of the number and tenor of the comments, Staff
25 recommends that the "Track and Record" proposal not be adopted at this time, thereby maintaining
26 the status quo.

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28 ⁶ Docket No. E-01345A-12-0290

1 46. Staff believes, however, that the Track and Record proposal merits serious
2 consideration, and the issue should ultimately be addressed by the Commission. At this time, Staff
3 recommends that the Commission act upon all aspects of TEP's plan except the "Track and
4 Record" proposal. Staff recommends that the Track and Record proposal (as well as alternatives
5 thereto) should be subject to a hearing.

6 **2013 REST Budget Proposals and DG Incentive Levels**

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

9 **2011 Funds Carried Forward to 2013 REST Budget**

10 48. TEP's filing reflects the carryforward of \$4,343,494 in unspent funds from TEP's
11 2011 REST budget. The table below accounts for what line items of TEP's 2011 REST budget
12 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

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

23 **UFI and PBI Levels**

24 50. TEP has seen dramatic reductions in the incentive levels it has offered in many DG
25 areas in recent years. In TEP's 2010 REST plan, the Commission approved incentive levels of
26 \$3.00 per watt for residential DG, \$2.50 per watt for commercial DG, and PBI caps as high as

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1 \$0.182 per kWh.⁷ All these incentives have declined significantly, with TEP now at \$0.20 per watt
 2 for residential and commercial DG and PBI caps of \$0.064 per watt to \$0.072 per watt. The tables
 3 below show the incentive levels in recent years for residential and commercial UFIs and
 4 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

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

<i>PBI Caps</i>	<i>10-year contract</i>	<i>15-year contract</i>	<i>20-year contract</i>
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
<i>Customer size</i>	<i>50-500 kW</i>	<i>501-1000 kW</i>	<i>Over 1 MW</i>
2011	\$0.142 per kWh	\$0.122 per kWh	\$0.102 per kWh
<i>Customer size</i>	<i>70-200 kW</i>	<i>201-400 kW</i>	<i>Over 400 kW</i>
2012	\$0.072 per kWh	\$0.068 per kWh	\$0.064 per kWh

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

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

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

25 53. Since TEP filed its application at the beginning of July 2012, the Company has seen
 26 significant activity in the residential UFI area, resulting in multiple triggers being hit for incentive
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28 ⁷ Docket No. E-01933A-10-0266

1 reductions. On August 29, 2012, TEP issued a notice indicating the Company had hit the 90
2 percent trigger for reducing the residential DG incentive to \$0.20 per watt. As of September 18,
3 2012, 92 percent of the residential DG budget had been reserved and TEP has indicated to Staff
4 that it is seeing a steady stream of applications since reducing to a \$0.20 per watt incentive level.
5 In accordance with Decision No. 72736, the commercial UFI incentive has triggered down to
6 \$0.20 per watt in tandem with the residential DG incentive. TEP has indicated in recent
7 conversations with Staff that it no longer believes that its proposed \$0.50 per watt residential DG
8 UFI is necessary given developments in recent months.

9 *Staff Proposal*

10 54. In light of these recent developments, the residential and/or commercial UFI sectors
11 appear to have reached a point at this time where little or no utility incentive is required for
12 installations to take place. However, the SHW and PBI markets have not arrived at such a point
13 yet, and still require utility incentives to make installations happen. This raises the question of
14 how ratepayer funding should be directed. Should funds be focused on areas that require much
15 lower incentives, thus providing the most bang for the buck? Or should funds continue to be
16 allocated toward all sectors to provide funding support to different parts of the renewable energy
17 industry, albeit at a higher cost to ratepayers than if funds had been targeted only to the lower cost
18 areas? This is fundamentally a policy call for the Commission to make as to how funds should be
19 allocated between sectors that need lower or higher incentive levels. Staff's proposal for TEP
20 takes a middle ground, providing continued funding to the solar hot water and PBI sectors, but at
21 lower total dollar amounts, lower incentive levels, and lower caps, as appropriate for each sector.
22 Staff recommends an initial UFI for residential and commercial DG of \$0.20 per watt. Under the
23 Legacy budget, Staff recommends a cap of \$1,000,000 on commercial UFI spending. However,
24 because there have been a steady stream of applications at \$0.20 per watt in 2012 the Commission
25 believes that residential UFI incentives should be at \$0.10 per watt. In addition, there will be no
26 Legacy budget in 2013.

27 55. For residential SHW, as noted elsewhere, Staff recommends against creating the
28 carve-out for this sector as proposed by TEP, but rather recommends a \$300,000 cap on how much

1 of the residential DG UFI budget can be put toward solar hot water. Further, Staff recommends
2 that the UFI for residential SHW be reduced from \$0.50 per kWh for first year production to \$0.40
3 per kWh for first year production. These proposals will provide the opportunity for significant
4 SHW installations in 2013 at a still significant incentive level, but a modestly lower one that would
5 buy more value per ratepayer dollar spent. Likewise, Staff recommends that the commercial SHW
6 UFI be reduced from TEP's proposed \$0.50 per kWh for first year production to \$0.40 per kWh
7 for first year production.

8 56. Similarly, for commercial SHW (also known as solar thermal), Staff recommends a
9 reduction in the PBI from the proposed \$0.057 per kWh to \$0.047 per kWh. For commercial PBIs,
10 Staff would reduce the caps from those proposed by TEP of \$0.072 per kWh for 70-200 kW
11 systems, \$0.068 per kWh for 201-400 kW systems, and \$0.064 per kWh for systems greater than
12 400 kW to \$0.068 per kWh for 70-200 kW systems, \$0.064 per kWh for 201-400 kW systems, and
13 \$0.060 per kWh for systems greater than 400 kW. Further, Staff recommends that PBI
14 reservations be accepted using the reverse auction process with a bi-monthly cap of \$120,000,
15 representing a total annual commitment of \$720,000. This is modestly lower than the total
16 commitment from the 2012 REST plan of \$80,000 monthly or \$960,000 annually. Under Staff's
17 proposal, other incentives as proposed by TEP would be adopted. However, the Commission
18 believes that there shall be no further PBI funding.

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

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	TEP Proposal	Staff Proposal	Modified Proposal
Residential DG UFI	\$0.50 per watt	\$0.20 per watt	\$0.10 per Watt
Commercial DG UFI	\$0.50 per watt	\$0.20 per watt	\$0
Residential SHW UFI	\$0.50 per kWh	\$0.40 per kWh	\$0.40 per kWh
Commercial SHW UFI	\$0.50 per kWh	\$0.40 per kWh	\$0
Commercial SHW PBI	\$0.57 per kWh	\$0.47 per kWh	\$0
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	\$0

Triggers for Residential and Commercial UFIs

58. 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

59. 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.

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

10 61. Regarding the Legacy budget in the 2013 REST plan, Staff agrees with TEP's
11 proposal to fund it at a \$3,000,000 level, as was done in 2012. The proposed commitments for
12 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

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18 62. Under TEP's proposal the Company would recover its lost revenue from 2012
19 through the 2013 Legacy budget and thus a total of \$2,910,300 would be available to meet the
20 commercial UFI and commercial PBI commitment caps of \$1.5 million each. Under the Staff
21 proposal, a total of \$1,720,000 of Legacy budget funds would be committed toward commercial
22 UFIs and commercial PBIs for 2013, with at least the remaining \$1,028,000 being carried forward
23 to meet future years' PBI commitments, absent further Commission approval. However, the
24 Commission believes that there shall be no funding for a Legacy Budget in 2013.

25 **Proposed TEP and Staff Budgets**

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

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Budget Components	2012 Approved Budget	2013 TEP Proposed Budget	2013 Staff Proposal Budget	2013 Modified Proposed Budget
<i>Purchased Renewable Energy</i>				
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	
<i>Customer Sited Distributed Renewable Energy</i>				
Residential UFI	\$5,000,000	\$2,907,100	\$1,462,840	\$744,486
Residential SHW UFI		\$565,269	\$0	\$0
Legacy Budget	\$3,000,000	\$3,000,000	\$3,000,000	\$0
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	\$11,046,047	
<i>Technical Training</i>				
Schools Program	\$350,000	\$0	\$0	
Internal and Contractor Training	\$75,000	\$75,000	\$75,000	
Subtotal	\$425,000	\$75,000	\$75,000	
<i>Information Systems</i>				
Subtotal	\$500,000	\$125,000	\$100,000	
<i>Metering</i>				
Subtotal	\$227,982	\$131,365	\$131,365	
<i>Labor and Administration</i>				
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	\$1,738,342	
<i>Research and Development</i>				
Solar test yard		\$300,000		
AZRISE		\$250,000		

1	Transmission, Distribution, Storage Modeling		\$50,000		
2					
3	Dues and Fees		\$15,000		
4	Subtotal	\$525,000	\$615,000	\$525,000	
5	Total Spending	\$34,851,305	\$45,491,775	\$43,841,350	
6	Carryover of Previous Year's Funds	-\$4,875,000	-\$4,343,494	-\$4,343,494	
7	Total Amount for Recovery	\$29,976,305	\$41,148,281	\$39,497,856	\$35,779,502

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

12 Recovery of Funds Through 2013 REST Charge

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

16 65. The table below shows the proposed surcharge per kWh for the TEP and Staff
17 options as well as the proposed caps under each option, in comparison to what is currently in effect
18 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
<i>Class Caps</i>				
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

27 66. The cost recovery by customer class for the approved 2012 REST plan and
28 estimates for the TEP and Staff options for the 2013 REST plan are shown in the table below. For

1 comparison purposes, the table below also shows the projected MWH sales by customer class for
2 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

12 67. The table below shows the contribution, per kWh consumed, for each customer
13 class (projected class cost recovery divided by projected class kWh sales). The table thus provides
14 a comparison of the relative contribution to REST funding by each customer class on a per kWh
15 basis. Staff's proposal for class caps and the per kWh charge is intended to gradually move the
16 customer classes closer to one another in terms of their contribution per kWh consumed in each
17 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

1 68. The table below shows the average REST charge by customer class as well as the
2 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%

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

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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

70. 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

71. 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.

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

3 73. Staff has further recommended that the commercial PV UFI be limited to
4 \$1,000,000 for 2013 under the Legacy budget.

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

7 75. Staff has further recommended that the upper limit for the non-residential PBI be
8 set at \$0.068 per kWh for 70-200 kW systems, \$0.064 per kWh for 201-400 kW systems, and
9 \$0.060 per kWh for systems greater than 400 kW, with a bi-monthly caps of \$120,000 for a total
10 annual cap of \$720,000 under the Legacy budget.

11 76. Staff has further recommended that the commercial thermal PBI incentive be set at
12 \$0.047 per kWh.

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

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

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

20 80. Staff has further recommended that the reasonableness and prudence of buildout
21 plan costs be examined in TEP's next rate case and that any costs determined not to be reasonable
22 and prudent be refunded by the Company.

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

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

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

ORDER

1
2 IT IS THEREFORE ORDERED that the Staff budget option for Tucson Electric Power
3 Company's 2013 REST plan, reflecting a REST surcharge of \$0.00800 per kWh, and related caps,
4 be and hereby is approved. This includes total spending of \$40,122,996 and a total amount to be
5 recovered through the REST surcharge of \$35,779,502.

6 IT IS FURTHER ORDERED that the residential PV UFI be set at \$0.10 per watt on
7 January 1, 2013.

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

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

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

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

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

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

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

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

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

1 IT IS FURTHER ORDERED that customers who have received incentives under the REST
2 Rules, shall pay the average of the REST surcharge paid by members of their customer class. This
3 requirement shall apply to renewable systems reserved on and after January 1, 2012.

4 IT IS FURTHER ORDERED that customers who have a renewable installation without
5 incentives that is interconnected with Tucson Electric Power Company's system shall pay the
6 average of the REST surcharge paid by members of their customer class. This requirement shall
7 apply to renewable systems reserved on and after February 1, 2013.

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

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

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

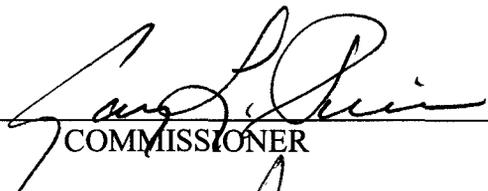
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1 IT IS FURTHER ORDERED that Tucson Electric Power Company file the REST-TS1,
2 consistent with the Decision in this case, within 15 days of the effective date of the Decision.

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

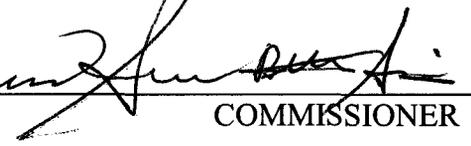
4
5 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

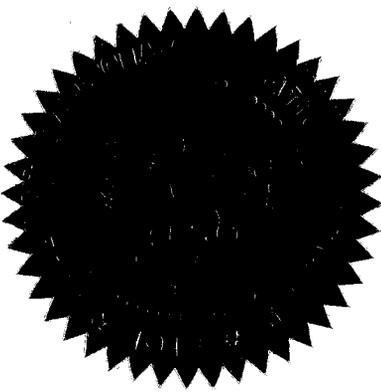
6
7 
8 CHAIRMAN

9 
10 COMMISSIONER

11 
12 COMMISSIONER

13 
14 COMMISSIONER

15 
16 COMMISSIONER



17 IN WITNESS WHEREOF, I, JODI JERICH, Executive
18 Director of the Arizona Corporation Commission, have
19 hereunto, set my hand and caused the official seal of this
20 Commission to be affixed at the Capitol, in the City of
21 Phoenix, this 31st day of January, 2013.

22 
23 JODI JERICH
24 EXECUTIVE DIRECTOR

25 DISSENT: _____

26 DISSENT: _____

27 SMO:RGG:lm\RM

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