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BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKET CONTROL

COMMISSIONERS

2013 MAY 30 PM 1 25

- BOB STUMP, Chairman
- GARY PIERCE
- BRENDA BURNS
- BOB BURNS
- SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF
 TUCSON ELECTRIC POWER COMPANY FOR
 APPROVAL OF ITS 2012 RENEWABLE
 ENERGY STANDARD IMPLEMENTATION PLAN
 AND DISTRIBUTED ENERGY
 ADMINISTRATIVE PLAN AND REQUEST FOR
 RESET OF RENEWABLE ENERGY ADJUSTOR

DOCKET NO. E-01933A-11-0269

MARKET FEEDBACK Q1 2013 TEP
SERVICE TERRITORY

The January 23rd decision in this matter reduced the residential incentives to \$0.10/watt. We have now had one quarter to see the impacts of this incentive level. Several significant changes in the market are apparent. The data presented represent data from systems reserved or pending reservations through April 17th, 2013. This data was normalized to a full year by applying a 3.41 multiplier to stretch January 1 – April 17th to the full calendar year.

Market Volume

If the first quarter (plus) is an indication of how 2013 will play out, TEP will see a reduction of solar electric system adoption of about 45% by number of systems as well as kilowatts reserved in the residential market. 'Normalized # of systems x 10' in Figure 1 shows this reduction, as well as what the reduction would look like if the top market player is removed from the data (90%).

Arizona Corporation Commission

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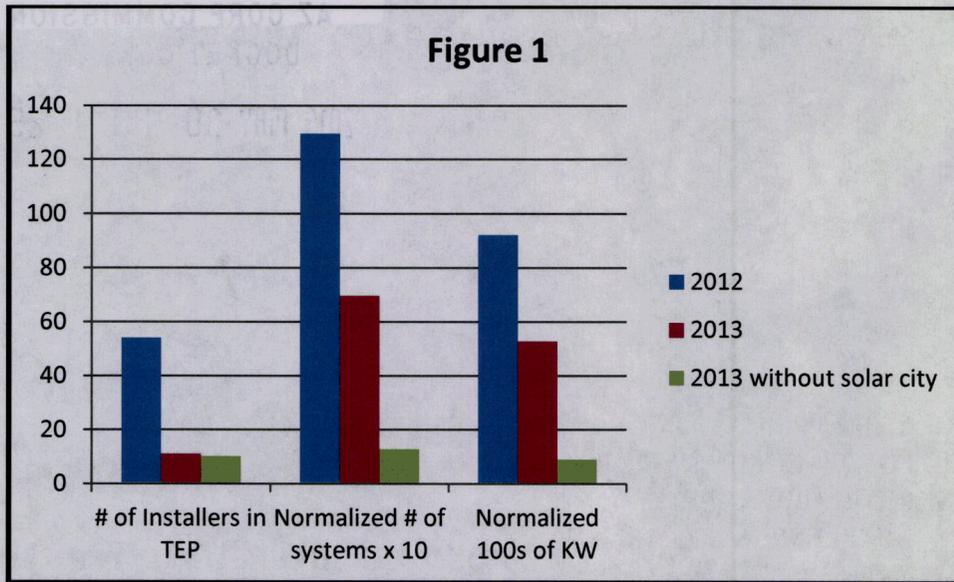
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MAY 28 2013

ARIZONA CORP. COMM
 600 W CONGRESS STE 218 TUCSON AZ 85701

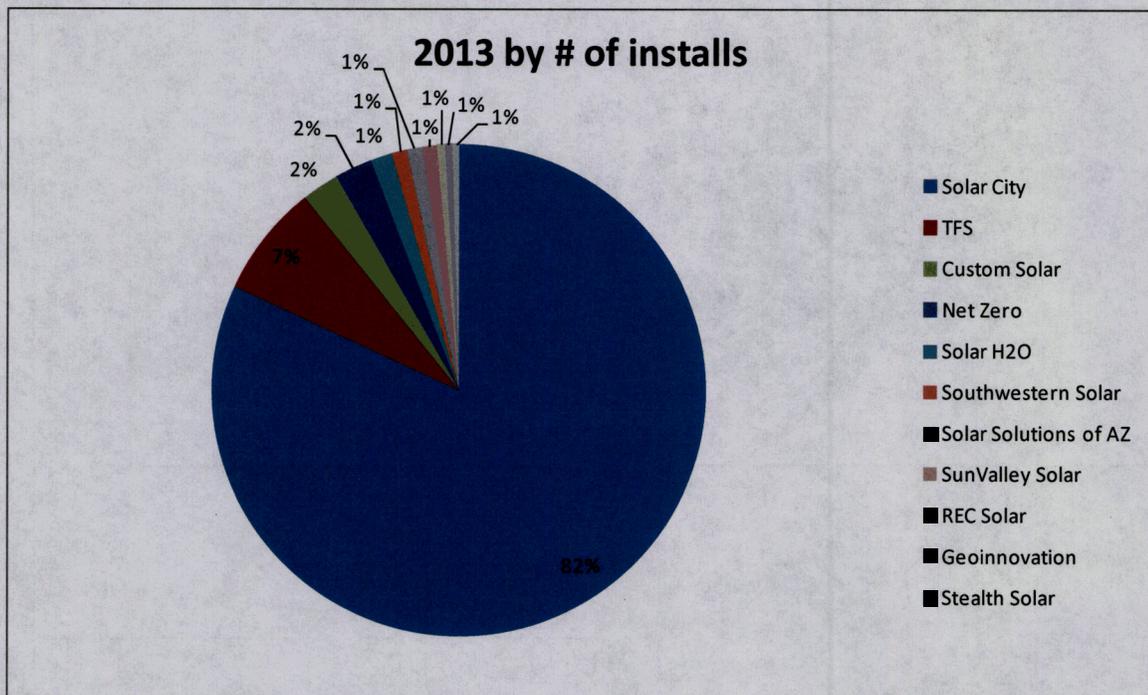
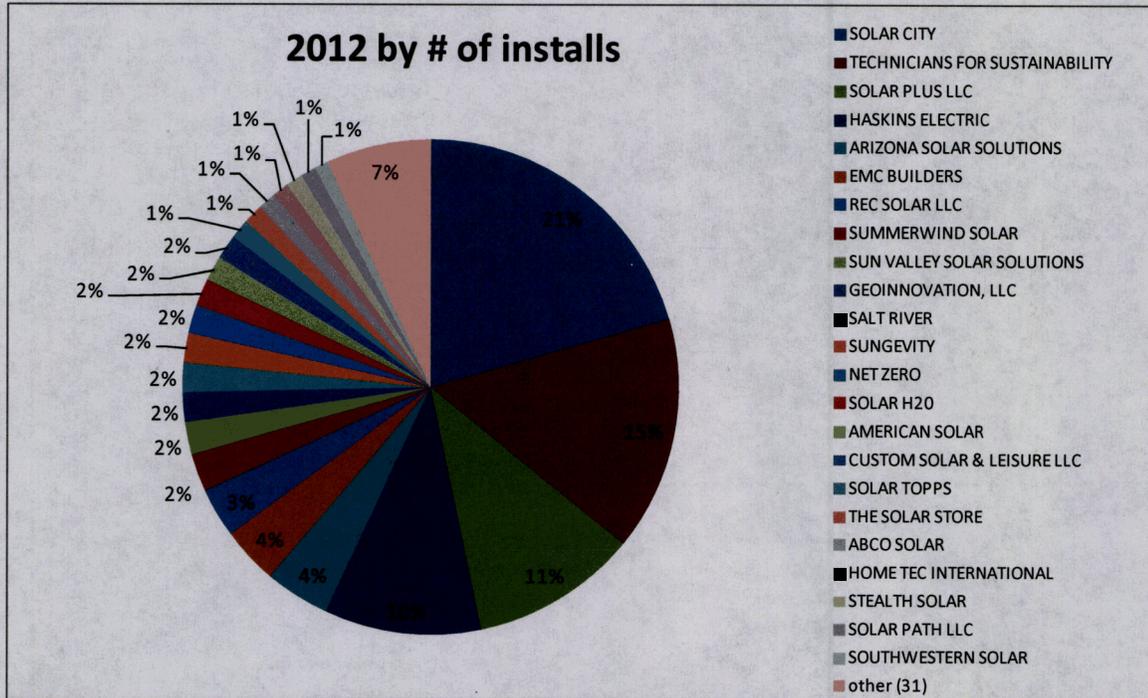


Industry Health

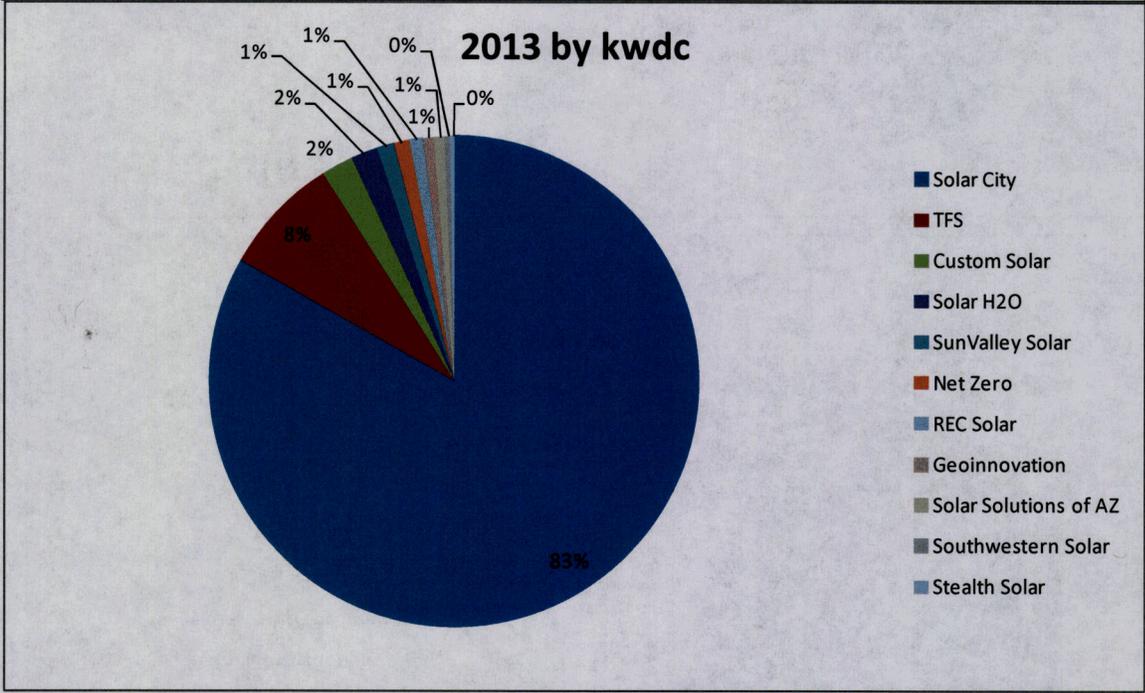
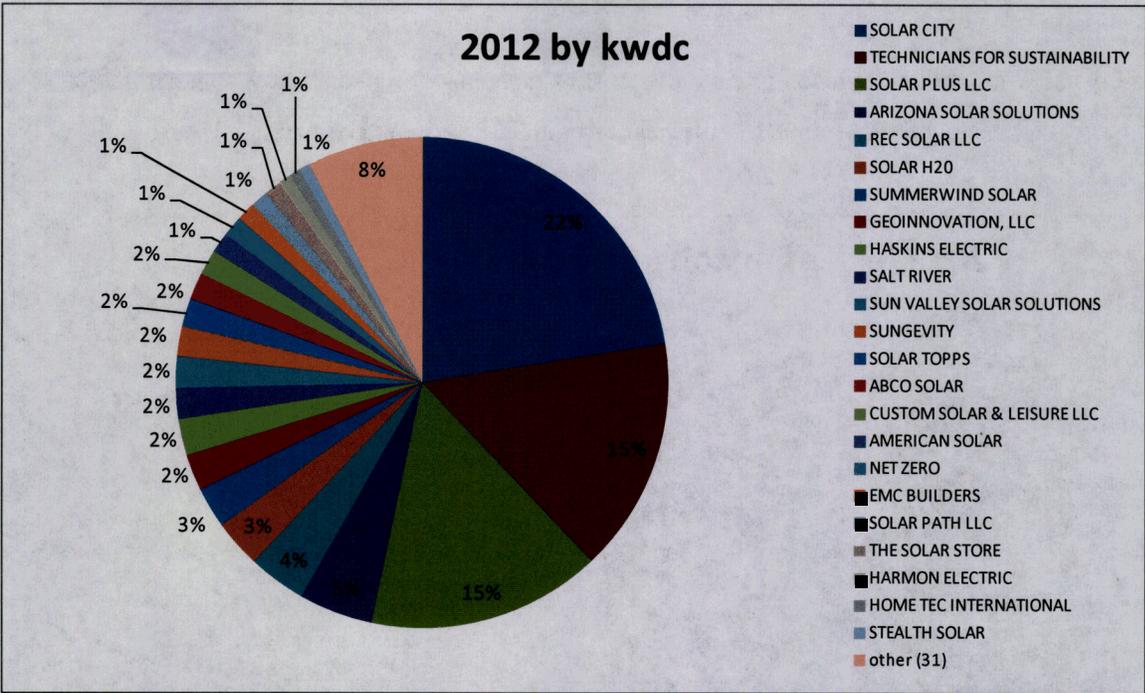
The installer landscape has changed significantly in two regards. The first is that there are a lot less installers submitting reservations. In 2012 there were 51 installers represented. So far in 2013 there are 11. See Figure 1: '# of Installers in TEP.' This represents a significant market contraction. The same pattern was true between 2011 and 2012, and the reduction was seen as progress, because the 140+ installers seemed like too many. However, in my view the drop to 11 participants is a sign of an unhealthy solar marketplace. Relatively large players, as well as smaller but long standing players, are no longer on the list. Solar Plus and The Solar Store are notable examples.

The second change is that market share diversity has reduced to disturbing levels. In years past, a single company held no more that about 40% market share. In 2012, Solar City held 21%, and 3 to 4 companies made up 50% of the market, with an abundance of smaller participants offering competition and choice in the selection of solar installer. In 2013 there do not appear to be any participants able to offer compelling residential solutions besides Solar City, inferred from the fact that they have 82% market share, and the fact that the non-Solar City projected annual volume is about 130 systems. Why Solar City is able to lease systems in large volumes when SunRun, Sungevity and SunPower, (the other three major lease players) cannot, is unknown to me. However, one can imagine that it may be more important for their company's stock valuation that they maintain growth in the market and deploy the significant capital which has been invested in the company, than that they are profitable in every market in which they operate. Whatever the reason, the reduction of total numbers of reservations anticipated for the year is down, the number of installers is down, and the market share has become unbalanced.

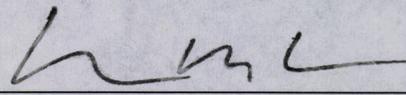
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2 It is my assessment that the incentive/avoided cost balance has dropped too low to meet the REST
3 compliance targets for residential customers in the near term in TEP service territory.



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Dated this 28th of May, 2013.


Kevin Koch

ORIGINAL and 13 copies filed this 28th day of May, 2013 with:

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