

ORIGINAL

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

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DOCKETED

JUL 03 2013

TO: THE COMMISSION

FROM: Utilities Division

DATE: July 2, 2013

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DOCKETED BY
AM

RE: TUCSON ELECTRIC POWER COMPANY - APPLICATION FOR APPROVAL OF A CUSTOMER AGREEMENT WITH THE CITY OF TUCSON. (DOCKET NO. E-01933A-13-0064)

On March 21, 2013, Tucson Electric Power Company ("TEP") filed an application for approval of an agreement between TEP and the City of Tucson ("City") that would allow City to acquire a large number of blocks of solar energy from TEP under the Bright Tucson Community Solar Program at a lower premium than is provided in TEP's Pricing Plan Rider 5. Subsequent to filing the application, TEP waived the 30-day time limit for the Commission to act on the application.

Background

The Bright Tucson Community Solar Program ("Program") was approved by the Commission under Decision No. 71835, on August 10, 2010. The Program is designed to provide customers with access to solar distributed energy without requiring the customer to invest in a self-owned system, thereby avoiding large upfront costs and requiring a long-term commitment. In addition, the Program provides customers with a hedge against future energy price increases and a means to promote solar energy at a nominal price.

Under the Program, one or more solar photovoltaic ("PV") power plants are either TEP-constructed and owned, or a private developer owns and operates the plant under a Power Purchase Agreement with TEP. A customer may participate in the Program by purchasing one or more blocks ("Solar Blocks") of solar capacity from these solar PV power plants. Each block of solar capacity is equal to one kilowatt and represents 150 kWh (per month) of electric energy. Participating customers pay a Solar Energy Premium of \$0.02 per kWh over the current standard tariff Base Power Charge and this solar component of their bill is fixed at this rate for 20 years. All contracted Solar Block kWhs and associated charges in a billing month are excluded from the calculation of TEP's Purchased Power and Fuel Adjustor Clause ("PPFAC") and Renewable Energy Standard and Tariff ("REST") charges and/or credits.

TEP reports that as of March 31, 2013, 1,004 customers have purchased a total of 10,033 solar blocks under the Program, representing 10,033 kW of capacity and 1,504,950 kWh per month of energy.

The Proposed Agreement

TEP states that it has been approached by City with a proposal whereby City would agree to acquire a large number of Solar Blocks if TEP would agree to a smaller premium for the solar energy. Accordingly, TEP and City have signed an agreement entitled "Bright Tucson Community Solar Rider Agreement Between Tucson Electric Power Company and City of Tucson" ("Agreement").

Under terms of the Agreement, City would purchase between one and ten megawatts of generating capacity from the Program. City would pay a Solar Energy Premium of \$0.010 per kWh. The Base Power Contract Rate would be either at the Municipal Service PS-40 standard tariff rate, or the Large General Service LGS-13 tariff rate. The Solar Block Energy Rate would be \$0.039086 per kWh for City facilities supplied under the PS-40 rate, and \$0.039371 per kWh for facilities supplied under the LGS-13 rate. The Solar Energy Premium and the Base Power Contract Rate (collectively the "Solar Block Energy Rate") would be fixed for 20 years under the Agreement.

Table I
Special Contract Rates

Rate Schedule	Base Power Contract Rate	Solar Energy Premium	Solar Block Energy Rate
Municipal Service PS-40	\$0.029086/kWh	\$0.010000/kwh	\$0.039086/kWh
Large General Service LGS-13	\$0.029371/kWh	\$0.010000/kWh	\$0.039371/kWh

The rates presented in Table I were agreed upon by TEP and City prior to approval of the settlement of TEP's general rate case on June 27, 2013, under Decision No. 73912, and are fixed for the duration of the Agreement. Under the Agreement all other charges to City by TEP will be at the standard offer rates set in the recent general rate case and are subject to change in future rate cases. In addition, City will be charged under the Small General Service GS-10 rate schedule rather than the Municipal Service PS-40 rate, as the latter rate category was abandoned in the general rate case.

The Agreement has a term of 20 years commencing on the date of an Order by the Commission approving the Agreement, or the date of solar system commissioning, whichever is later.

Solar Blocks purchased by City would be applied to the actual energy usage each month. Electricity used in excess of the purchased Solar Blocks will be billed at the applicable standard offer energy rate. If electricity usage is below the amount covered by the Solar Blocks, then the excess kWhs will be rolled forward and credited against City's usage in the following month(s). City would still be responsible for the full monthly cost of the contracted Solar Blocks.

Each year, for the bills produced in October (September usage), TEP would credit any excess kWhs at the energy rate of the Solar Blocks and reset the balance to zero. All contracted Solar Block kWhs and associated charges in a billing month will be excluded from the calculation of PPFAC and REST charges and/or credits.

The Agreement contains provisions for termination for cause based on specific material default situations defined in the Agreement. The Termination for Cause paragraph states that if either party materially defaults in its performance under the Agreement and fails to cure such default for 30 days, the non-defaulting party may immediately terminate the Agreement.

The Agreement contains provisions for termination for convenience wherein either party may terminate the agreement by providing 90-day written notice to the counter-party. However, TEP shall not terminate the Agreement solely to capture any REST or PPFAC charges in excess of the premium paid by City.

If City terminates the Agreement for convenience, City would pay TEP an early termination fee equal to the sum of the avoided REST surcharges plus any net differences in Power Supply charges, less the sum of premiums paid. "Power Supply" charges are defined as including Base Power Supply and PPFAC charges. The early termination fee would be due thirty days after the date of TEP's invoice thereof following such termination by City.

Staff Analysis and Recommendations

Staff has reviewed the Agreement and finds that it is consistent with the terms of TEP's Pricing Plan Rider-5 (except the proposed change to the Solar Energy Premium). Staff believes that the proposed reduction in the Solar Energy Premium is reasonable in light of the magnitude of City's intended Solar Block purchases, and the fact that the beneficiary of the Agreement will be a local government entity. Staff further believes that the other terms and conditions of the Agreement are reasonable. Staff further believes that large Solar Block purchases will enhance and promote the continued success of community solar programs in general and the Program specifically. Finally, for the purposes of evaluating this special contract, any impact to TEP's fair value rate of return would likely be de minimus.

Based on the above analysis, Staff recommends approval of the Agreement.



Steven M. Olea
Director
Utilities Division

SMO:RBL:sms\RRM

ORIGINATOR: Rick Lloyd

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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

IN THE MATTER OF TUCSON ELECTRIC
POWER COMPANY'S APPLICATION FOR
APPROVAL OF A CUSTOMER
AGREEMENT WITH THE CITY OF
TUCSON.

DOCKET NO. E-01933A-13-0064
DECISION NO. _____
ORDER

Open Meeting
July 17 and 18, 2013
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP") is certificated to provide electric service as a public service corporation in the State of Arizona.

2. On March 21, 2013, TEP filed an application for approval of an agreement between TEP and the City of Tucson ("City") that would allow City to acquire a large number of blocks of solar energy from TEP under the Bright Tucson Community Solar Program at a lower premium than is provided in TEP's Pricing Plan Rider 5. Subsequent to filing the application, TEP waived the 30-day time limit for the Commission to act on the application.

Background

3. The Bright Tucson Community Solar Program ("Program") was approved by the Commission under Decision No. 71835, on August 10, 2010. The Program is designed to provide customers with access to solar distributed energy without requiring the customer to invest in a self-

1 owned system, thereby avoiding large upfront costs and requiring a long-term commitment. In
2 addition, the Program provides customers with a hedge against future energy price increases and a
3 means to promote solar energy at a nominal price.

4 4. Under the Program, one or more solar photovoltaic ("PV") power plants are either
5 TEP- constructed and owned, or a private developer owns and operates the plant under a Power
6 Purchase Agreement with TEP. A customer may participate in the Program by purchasing one or
7 more blocks ("Solar Blocks") of solar capacity from these solar PV power plants. Each block of
8 solar capacity is equal to one kilowatt and represents 150 kWh (per month) of electric energy.
9 Participating customers pay a Solar Energy Premium of \$0.02 per kWh over the current standard
10 tariff Base Power Charge and this solar component of their bill is fixed at this rate for 20 years.
11 All contracted Solar Block kWhs and associated charges in a billing month are excluded from the
12 calculation of TEP's Purchased Power and Fuel Adjustor Clause ("PPFAC") and Renewable
13 Energy Standard and Tariff ("REST") charges and/or credits.

14 5. TEP reports that as of March 31, 2013, 1,004 customers have purchased a total of
15 10,033 solar blocks under the Program, representing 10,033 kW of capacity and 1,504,950 kWh
16 per month of energy.

17 The Proposed Agreement

18 6. TEP states that it has been approached by City with a proposal whereby City would
19 agree to acquire a large number of Solar Blocks if TEP would agree to a smaller premium for the
20 solar energy. Accordingly, TEP and City have signed an agreement entitled "Bright Tucson
21 Community Solar Rider Agreement Between Tucson Electric Power Company and City of
22 Tucson" ("Agreement").

23 7. Under terms of the Agreement, City would purchase between one and ten
24 megawatts of generating capacity from the Program. City would pay a Solar Energy Premium of
25 \$0.010 per kWh. The Base Power Contract Rate would be either at the Municipal Service PS-40
26 standard tariff rate, or the Large General Service LGS-13 tariff rate. The Solar Block Energy Rate
27 would be \$0.039086 per kWh for City facilities supplied under the PS-40 rate, and \$0.039371 per
28 kWh for facilities supplied under the LGS-13 rate. The Solar Energy Premium and the Base

1 Power Contract Rate (collectively the "Solar Block Energy Rate") would be fixed for 20 years
2 under the Agreement.

3 **Table I**
4 **Special Contract Rates**

5 Rate Schedule	Base Power Contract Rate	Solar Energy Premium	Solar Block Energy Rate
6 Municipal Service PS-40	\$0.029086/kWh	\$0.010000/kwh	\$0.039086/kWh
7 Large General Service LGS-13	\$0.029371/kWh	\$0.010000/kWh	\$0.039371/kWh

9
10 8. The rates presented in Table I were agreed upon by TEP and City prior to approval
11 of the settlement of TEP's general rate case on June 27, 2013, under Decision No. 73912, and are
12 fixed for the duration of the Agreement. Under the Agreement all other charges to City by TEP
13 will be at the standard offer rates set in the recent general rate case and are subject to change in
14 future rate cases. In addition, City will be charged under the Small General Service GS-10 rate
15 schedule rather than the Municipal Service PS-40 rate, as the latter rate category was abandoned in
16 the recent general rate case.

17 9. The Agreement has a term of 20 years commencing on the date of an Order by the
18 Commission approving the Agreement, or the date of solar system commissioning, whichever is
19 later.

20 10. Solar Blocks purchased by City would be applied to the actual energy usage each
21 month. Electricity used in excess of the purchased Solar Blocks will be billed at the applicable
22 standard offer energy rate. If electricity usage is below the amount covered by the Solar Blocks,
23 then the excess kWhs will be rolled forward and credited against City's usage in the following
24 month(s). City would still be responsible for the full monthly cost of the contracted Solar Blocks.

25 11. Each year, for the bills produced in October (September usage), TEP would credit
26 any excess kWhs at the energy rate of the Solar Blocks and reset the balance to zero. All
27 contracted Solar Block kWhs and associated charges in a billing month will be excluded from the
28 calculation of PPFAC and REST charges and/or credits.

1 12. The Agreement contains provisions for termination for cause based on specific
2 material default situations defined in the Agreement. The Termination for Cause paragraph states
3 that if either party materially defaults in its performance under the Agreement and fails to cure
4 such default for 30 days, the non-defaulting party may immediately terminate the Agreement.

5 13. The Agreement contains provisions for termination for convenience wherein either
6 party may terminate the agreement by providing 90-day written notice to the counter-party.
7 However, TEP shall not terminate the Agreement solely to capture any REST or PPFAC charges
8 in excess of the premium paid by City.

9 14. If City terminates the Agreement for convenience, City would pay TEP an early
10 termination fee equal to the sum of the avoided REST surcharges plus any net differences in Power
11 Supply charges, less the sum of premiums paid. "Power Supply" charges are defined as including
12 Base Power Supply and PPFAC charges. The early termination fee would be due thirty days after
13 the date of TEP's invoice thereof following such termination by City.

14 Recommendations

15 15. Staff has reviewed the Agreement and found that it is consistent with the terms of
16 TEP's Pricing Plan Rider-5 (except the proposed change to the Solar Energy Premium). Staff
17 believes that the proposed reduction in the Solar Energy Premium is reasonable in light of the
18 magnitude of City's intended Solar Block purchases, and the fact that the beneficiary of the
19 Agreement will be a local government entity. Staff further believes that the other terms and
20 conditions of the Agreement are reasonable. Staff further believes that large Solar Block
21 purchases will enhance and promote the continued success of community solar programs in
22 general and the Program specifically. Finally, for the purposes of evaluating this special contract,
23 any impact to TEP's fair value rate of return would likely be de minimus.

24 16. Based on the above analysis, Staff has recommended approval of the Bright Tucson
25 Community Solar Rider Agreement Between Tucson Electric Power Company and City of
26 Tucson.

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CONCLUSIONS OF LAW

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1. TEP is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over TEP and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated July 2, 2013, concludes that the Agreement between TEP and City should be approved as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that the Bright Tucson Community Solar Rider Agreement between Tucson Electric Power Company and the City of Tucson is hereby approved, as discussed herein.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, 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 _____, 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:RBL:sms\RRM

1 SERVICE LIST FOR: TUCSON ELECTRIC POWER COMPANY
2 DOCKET NO. E-01933A-13-0064

3 Mr. Bradley S. Carroll
4 Tucson Electric Power Company
5 88 East Broadway, MS HQE910
6 P.O. Box 71 1
7 Tucson, Arizona 85702

8 Ms. Kimberly A. Ruht
9 Tucson Electric Power Company
10 88 East Broadway, MS HQE910
11 P.O. Box 71 1
12 Tucson, Arizona 85702

13 Mr. Michael W. Patten
14 Roshka, DeWulf & Patten, PLC
15 400 East Van Buren Street, Suite 800
16 Phoenix, Arizona 85004

17 Mr. Steven M. Olea
18 Director, Utilities Division
19 Arizona Corporation Commission
20 1200 West Washington Street
21 Phoenix, Arizona 85007

22 Ms. Janice M. Alward
23 Chief Counsel, Legal Division
24 Arizona Corporation Commission
25 1200 West Washington Street
26 Phoenix, Arizona 85007

27 Ms. Lyn Farmer
28 Chief Administrative Law Judge
Hearings Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007