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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
OCT 25 2013
DOCKETED BY

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS 2014 RENEWABLE ENERGY STANDARD AND TARIFF IMPLEMENTATION PLAN

DOCKET NO. E-01933A-13-0224

DECISION NO. 74165

ORDER

Open Meeting
October 16 and 17, 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 1, 2013, TEP filed for Commission approval of its 2014 Renewable Energy Standard and Tariff ("REST") Implementation Plan. On August 22, 2013, TEP filed a REST plan summary and a set of PowerPoint slides summarizing its REST plan.

3. On July 30, 2013, the Arizona Solar Deployment Alliance filed to intervene in this proceeding; this request was granted on August 15, 2013. On August 12, 2013, the Residential Utility Consumer Office filed to intervene in this proceeding; this request was granted on August 22, 2013. On August 29, 2013, Freeport-McMoRan Copper and Gold, Inc. filed for intervention in this proceeding; this request was granted on September 11, 2013.

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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, and compliance matters.

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 2014 through 2018.

TEP Energy, Capacity, and Cost Forecast					
	2014	**2015**	**2016**	**2017**	**2018**
Forecast Retail Sales MWh	9,295,417	9,344,117	9,385,944	9,433,394	9,499,416
% Renewable Energy Required	4.50%	5.00%	6.00%	7.00%	8.00%
Overall Renewable Requirement MWh	418,294	467,206	563,157	660,338	759,953
Utility Scale MWh	292,806	327,044	394,210	462,236	531,967
DG Requirement MWh	125,488	140,162	168,947	198,101	227,986
Res DG Requirement MWh	62,744	70,081	84,473	99,051	113,993
Non-Res DG Requirement MWh	62,744	70,081	84,473	99,051	113,993
Total Cumulative Required MW	239	267	322	377	434
Total Program Cost	$33,566,642 - $34,166,642	$50,219,797	$50,417,950	$41,269,384	$43,643,422

TEP REST Experience Under 2013 REST Plan

6. TEP's 2013 implementation plan contemplated total spending of $40.1 million and total recoveries through the REST surcharge of $35.8 million[1].

7. Regarding installations and reservations, the table below summarizes installations and reservations for installations through June 30, 2013 by TEP.

Residential	**Photovoltaics**		**Solar Hot Water**	
	Number of Systems	**kW (kWh)**	**Number of Systems**	**kWh**
2013 Installations	317	2,343 (4,100,250)	39	107,250
Reservations	535	3,672 (6,426,000)	60	177,348

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[1] Decision No. 73637 (January 31, 2013); Docket No. E-01933A-12-0296.

Commercial	Photovoltaics		Solar Hot Water	
	Number of Systems	kW (kWh)	Number of Systems	kW
2013 Installations	3	103.9 (181,825)	15	1,287,634
Reservations	NA	NA	NA	NA

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 2013.

Commercial DG Overcompliance

9. 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. 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 2018.

Commercial	2014	2015	2016	2017	2018
Sales Forecast	9,295,417,000	9,344,117,000	9.385,944,000	9,433,394,000	9.499,416,000
Overall Requirement	4.50%	5.00%	6.00%	7.00%	8.00%
Overall DG kWh Requirement	125,488,127	140,161,750	168,946,990	198,101,275	227,985,972
Non-Residential DG kWh Requirement	62,744,064	70,080,875	84,473,495	99,050,637	113,992,986
Existing Non-Residential kWh Prior to 2013	81,516,000	81,516,000	81,516,000	81,516,000	81,516,000
Incremental Non-Residential DG Requirement	6,865,064	7,336,811	14,392,620	14,577,142	14,942,349
10% Allowed kWh from Wholesale DG per R14.2.805	12,548,813	14,016,175	16,894,69	19,810,127	22,798,597
Estimated kWh from Davis-Monthan DG Project	31,574,684	31,574,684	31,574,684	31,574,684	31,574,684
Total Required kWh Non-Residential DG After Adjustment	-31,320,749	-25,451,300	-13,937,204	-2,275,490	9.678,389

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Leased Versus Non-Leased Systems

10. TEP indicatesthat most residential systems installed in 2013 have been leased systems.

Customer Education and Outreach

11. TEP is proposing to spend $100,000 on customer education and outreach in 2014, the same amount the Commission approved in TEP's 2013 REST budget. TEP has indicated that this money will be spent on a variety of local outreach efforts. Staff believes TEP's request for $100,000 for customer education and outreach is reasonable and recommends inclusion of this amount in the 2014 REST budget.

Labor Costs

12. In the 2013 REST budget approved by the Commission for TEP, there was funding for $1,265,329 in internal labor costs for TEP. TEP's proposed 2014 REST Plan budget reflects an internal labor cost of $339,103, a dramatic reduction in labor cost recovery through the REST Plan.

13. In response to Staff inquiries, TEP has indicated that in its recently concluded general rate proceeding, existing REST labor costs at that time were included in its general operations and maintenance budget recovered through general rates. Therefore, the only REST labor-related costs TEP is now seeking to recover through the REST budget are newly created positions that were not part of the cost recovery shift from the REST budget to base rates. Prior to this cost shift TEP had always recovered all of its REST-related labor costs through the REST budget.

14. TEP shifted a total of $720,670 in internal labor costs into base rates. However, TEP has indicated to Staff that the total labor costs related to REST are roughly equivalent to 2013. Staff believes that TEP's proposed labor costs for the 2014 REST plan are reasonable.

Information Systems Integration Costs

15. TEP's filing requests funding of $125,000 for information systems integration costs ("IT") in 2014. 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 completed the upgrade 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. The Commission approved $100,000 in IT funding for 2013. Staff recommends continued funding for IT in TEP's 2013 REST budget at a level of $100,000.

Research and Development

16. The Commission approved research and development ("R&D") funding at a level of $525,000 in 2013. TEP's proposed funding level for R&D in 2014 is $275,000. This includes funding for PV panel degradation testing, test yard maintenance, PV component degradation analysis, the solar and wind forecast integration portal, and dues for industry organizations. Staff believes TEP's proposed funding level for R&D is reasonable and should be approved.

Solar Hot Water Heating Funding

17. TEP's approved 2013 REST plan included the availability of funding for solar hot water heating up to a cap of $300,000, with an incentive of $0.40 per kWh. TEP has indicated that at this incentive level in 2013, there continue to be solar hot water heating installations, but at a slower rate. Staff is not recommending any commercial or residential UFI funding, so no cap would be involved. If the Commission grants funding for residential or commercial UFIs in 2014, Staff believes a cap would be appropriate to place on the amount of funding that could go to solar water heating.

Bright Tucson Solar Buildout Plan

18. In recent years the Commission has approved continuation of TEP's buildout program at a rate of $28 million annually. TEP proposes to continue this funding level in 2014, with a provision for approval of $12 million in 2015 for the Fort Huachuca project.

19. TEP recently completed a general rate proceeding before the Commission where buildout costs up to the time of the rate case were shifted from the REST budget to base rates. 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 into base rates. The tables below show the projects anticipated to

be funded in that timeframe and the costs anticipated to be recovered through the REST budget in 2014-2017.

Projects	**2014Costs**	**2015 Costs**	**2016 Costs**	**2017 Costs**
HQ Rooftop 0.05 MW	$32,817	$31,799	$31,494	
TO Mine Tailings 10 MW	$4,327,269	$4,181,249	$4,088,067	
AREVA 5 MW	$811,704	$1,169,432	$1,086,204	
Ft. Huachuca 10 MW	$58,333	$3,210,485	$3,151,720	
Ft. Huachuca 10 MW		$1,799,153	$2,282,901	
4 MW built in 2015		$16,667	$929,472	
14 MW built in 2016			$58,333	$3,255,825
14 MW built in 2017				$58,333
Total	$5,230,122	$10,408,784	$11,628,191	$3,314,158

Line Item	**2014**	**2015**	**2016**	**2017**
Carrying Costs	$2,979,874	$5,252,994	$5,519,344	$1,715,825
Book Depreciation	$1,845,677	$4,589,376	$5,281,043	$1,458,333
Property Tax Expense	$225,908	$213,534	$399,788	-
Operations and Maintenance	$108,864	$312,880	$388,016	$140,000
Lease Expense	$69,800	$69,800	$69,800	-
Total	$5,230,122	$10,408,784	$11,628,191	$3,314,158

20. 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 inclusion of these generating assets in base rates.

21. Regarding the Fort Huachuca project, TEP's application indicates that TEP plans to bid into a United States Army Request for Proposal to build, own, and operate the 20 MW solar facility. Subsequently, TEP has indicated to Staff that it was awarded the Fort Huachuca project by the Army. The Fort Huachuca project would be considered commercial DG by TEP for REST compliance purposes.

22. TEP's application requests approval of $12 million for the 2015 buildout plan in addition to the $28 million for the 2014 buildout plan to enable TEP to fund the Fort Huachuca project. Staff believes this is a reasonable proposal and recommends approval of $28 million in 2014 and $12 million in 2015 for TEP's buildout program[2].

Commission Track and Record Proceeding

23. TEP is involved in the Commission's on-going Track and Record proceeding, wherein the Commission is considering how utilities will demonstrate compliance in a post-incentive era where the utility no longer acquires renewable energy credits ("RECs") in exchange for incentives. In that proceeding, the hearing has taken place and the briefing phase concluded on September 10, 2013. Given this timeframe, there may not be a final decision issued in that proceeding in time for the results to be incorporated in TEP's REST plan if the Commission acts on the REST plan in late 2013.

24. In response to a question from Staff, TEP indicated that if the Commission does not act on the Track and Record proceeding in time for the results to be incorporated in the 2014 REST plans, then TEP recommends that the Commission should grant a waiver of DG requirements for 2014 and state that utilities would not be subject to penalties for any DG compliance deficiency in 2014.

25. In response to a data request from Staff, TEP indicated that it estimates a total of 15 residential systems totaling 116.4 kW will be installed in its service territory in 2013 without taking any incentive.

26. Regarding commercial systems, TEP's estimates a total of 26 projects totaling 11.6 MW will have been installed in 2012-2013 without taking an incentive from TEP. Thus these systems, at this time, are not considered by TEP in regard to compliance with REST requirements.

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[2] This treatment is similar to Decision No. 72736 (January 13, 2012) where the Commission approved funding in a second year for a specific project TEP was pursuing under the buildout program. In that case, the two year project was a solar thermal steam augmentation project at the Sundt Generating Facility. Staff believes that the second year of funding for the Fort Huachuca project should receive similar consideration.

27. However, at this time, TEP is compliant with the commercial DG REST requirement through approximately 2018 and is compliant with the residential DG REST requirement through 2014 or 2015.

28. In light of these circumstances, Staff is not recommending a waiver of the DG requirement in 2014 for TEP. If the Track and Record proceeding is not resolved in a timely fashion in 2014 and if TEP's ability to achieve REST compliance is impaired by the inability to count projects that are not taking an incentive, Staff believes it would be reasonable for TEP to have the ability to seek a waiver or to take appropriate actions to alleviate such a problem.

Self-Direction of Funds

29. TEP's application raises the issue of how customer self-direction of funds should be treated in a circumstance where incentives are either very low or nonexistent. Under R14-2-1801.D, a "Customer Self-Directed Renewable Energy Option" means a Commission-approved program under which an Eligible Customer may self-direct the use of its allocation of funds collected pursuant to an Affected Utility's Tariff."

30. Under R14-2-1809 Customer Self-Directed Renewable Energy Option, utilities were required to file a tariff that allowed customers to self-direct.

31. TEP's application in this proceeding indicates that for 2014 Pima County is seeking self-direction of $300,000 for an 800 kW project and the City of Tucson is seeking self-direction of $200,000 for a 100 kW project. TEP indicates that it is denying the applications due to lack of funds in the budget and because both projects are above the 70 kW-dc limit that currently applies to non-residential up-front incentives. If TEP were to reverse this decision and provide funding for these projects as requested, some combination of budget increase and/or reduction/elimination of funds available for all other TEP customers would have to occur.

32. Specifically, TEP requests guidance from the Commission regarding the following issues:

- Should the Affected Utility authorize self-directed funding to Eligible Customers when no other incentives are available to other customers in that customer class?

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- Should self-directed funding requests be subject to the same incentive level restrictions as other customers, such as $0.10 per watt or 70 kW size limit for up-front incentives?

33. Staff believes that these questions are among those that arise when the market is shifting from a market reliant on utility-based incentives to a market where utility-based incentives are minimal or nonexistent. Regarding the first question, Staff believes that it is equitable in circumstances involving an incentive offered to a customer class for TEP to limit the ability to self-direct funds, thereby putting self-directed and non-self-directed customers on an equal footing. It would be inequitable for customers who can self-direct to have the ability to access significant incentive funds at a time when the rest of TEP's similarly situated customers are unable to access any incentive funds.

34. Further, Staff also believes it is reasonable to limit self-directed customers to self-directing funds at an incentive level, such as $0.10 per watt, equal to that offered to other customers in the same customer class (such as within the non-residential class). Regarding the size limitation, self-directed customers should be subject to the same limitations that other customers are subject to, whether under the commercial UFI segment or the commercial PBI segment.

35. TEP has indicated that the requests for self-directed funds by the City of Tucson and Pima County reflect incentive levels of $2.00 per watt and $0.25 - $0.38 per watt respectively. As TEP's REST plan is currently structured, there is no provision for self-directed funds in 2014. Thus, the budget would need to be adjusted upward if the Commission wished to provide some level of self-direction funding. TEP has indicated to Staff that at a $0.10 per watt UFI level, TEP would need to either waive the 70 kW limit for commercial UFIs if there was an approved commercial UFI budget, or add another $98,800 to the budget to provide for the requested self-directed projects at a $0.10 per watt UFI level. It is unclear whether a $0.10 per watt UFI level would be sufficient for either project to move forward, given the higher incentive levels requested by the City of Tucson and Pima County.

Liquidated Damages

36. In Decision No. 72033 (December 10, 2010), the Commission ordered TEP to "include, as part of future annual REST plan filings, a list of any cases within the previous three

calendar years where Tucson Electric Power has received damages or other considerations as a result of non-compliance related to REST contracts."

37. Recently, the Commission considered a case involving a purchased power agreement with Red Horse Wind 2, LLC, resulting in Decision No. 74014 (July 30, 2013). In this Decision, the Commission added the additional requirement in cases of liquidated damages that "TEP make a recommendation for the disposition of proceeds and if applicable inform the Commission of the measures TEP intends to take in order to comply with the REST requirements in light of existing circumstances."

38. In its application, TEP requests that the additional language from Decision No. 74014 be applied to all of TEP's renewable purchased power agreements ("PPAs"). Staff believes this request is reasonable and will result in the same requirements being applied to all of TEP's renewable PPAs. Thus Staff recommends approval of the application of this additional language to all TEP's renewable PPAs to provide consistent treatment of liquidated damages reporting for all renewable PPAs.

Incentive Levels for Technologies Other Than Solar Electric and Solar Hot Water

39. In TEP's proposed 2014 REST plan, the Company eliminates incentives for technologies other than solar electric and solar hot water. TEP has indicated to Staff that if an application for an installation of such a technology would be submitted to TEP in the future, TEP would review such an application and create an appropriate incentive on a case-by-case basis. TEP has indicated to Staff that it has not had an installation from any of these other technologies since inception of its REST program.

40. Staff believes it is reasonable and administratively efficient to eliminate these incentives and review any possible future applications related to these technologies on a case-by-case basis. However, Staff believes that any incentive offered under this scenario should be limited to the equivalent incentive level offered for solar electric installations at the time. This would help establish reasonable incentives for other technologies.

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Compliance Requirements

41. The Commission has placed a variety of compliance requirements on TEP in orders approving TEP's REST plans over the years. Staff believes there is value in considering whether any of these compliance requirements may no longer be necessary. Elimination of unnecessary compliance requirements would reduce the burden on both the Company and the Commission in the future. Staff believes there are two requirements that have been placed on TEP by previous REST plan orders that are no longer necessary.

42. First, Decision No. 72033 (December 10, 2010) requires TEP to "notify the Commission as part of all future REST Implementation Plans, whether the inclusion of the Davis-Monthan AFB project in the Company's commercial DG program has precluded any other non-residential renewable DG systems from receiving utility incentives because Tucson Electric Power Company is already in compliance with its non-residential renewable DG requirements as a result of signing the contract with the Davis-Monthan AFB." The Order further requires that "If Tucson Electric Power Company finds that commercial DE projects will be or were precluded, the Company should request from the Commission additional funding for the commercial systems that would otherwise be precluded."

43. Staff believes that such a requirement is no longer necessary given that TEP has offered no commercial incentives in 2013 and may again offer no commercial incentives in 2014. Further, in application of this provision, it would be difficult to determine with certainty what, if any, other projects were actually precluded by the Davis-Monthan AFB project. Therefore, Staff recommends that the Commission no longer require TEP to make this filing in future REST implementation plans.

44. Second, Decision No. 72033 required TEP to file "a one to two page RES summary that will accompany the filings required in R14-2-1812 (Compliance Reports) and R14-2-1813 (Implementation Plans), and a PowerPoint presentation of the REST filing."

45. Staff believes that this filing requirement is largely duplicative of what TEP already provides in its REST implementation plan and compliance reports it files with the Commission. For example, with the REST implementation plan, TEP provides a summary of what is contained

in the filing at the beginning of the filing each year. Therefore, Staff recommends that the Commission no longer require TEP to file this information with its compliance reports and REST implementation plans.

2012 Funds Carried Forward to 2014 REST Budget

46. TEP's filing reflects the carryforward of $6,521,430 in unspent funds from TEP's 2012 REST budget. The table below accounts for the line items of TEP's 2012 REST budget from which those funds came.

2012 Revenue Overcollection	$318,042
Lower Cost Purchased Renewable Energy	$3,147,284
Customer Sited Distributed Renewable Energy	$2,764,986
Meter Reading	$11,931
Information Systems	$2,779
Technical Training	$4,828
Net Metering	$1,301
Labor and Administration	$234,248
Research and Development	$36,031
Total Unspent 2012 REST funds	$6,521,430

47. Both TEP's and Staff's REST budget proposals discussed herein reflect this carryforward of unspent 2012 REST funds which reduces the amount of money required to be recovered through the 2014 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 (see table below). In 2013, TEP offered a $0.10 per watt residential DG incentive and no commercial DG incentives.

	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
2013	$0.10	$0.00

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

49. TEP has indicated to Staff that TEP's estimated total future PBI commitment as of the end of 2013 will be $119,731,531.

50. TEP's application includes three budget options, with the difference among the options being whether there are UFIs offered to just residential, both residential and commercial customers, or neither. TEP Plan A includes $300,000 each for residential and commercial UFIs. TEP Plan B includes $300,000 for residential UFIs. TEP Plan C includes no funding for residential and commercial UFIs. The UFIs under Plans A and B would be set at $0.10 per watt.

51. TEP has reported that it believes it will exhaust the 2013 residential UFI budget toward the end of 2013. As of September 20, 2013, TEP had 95 percent of its residential UFI budget reserved.

Staff Proposal

52. The Commission, in considering TEP's 2013 REST plan, eliminated all commercial DG incentives. TEP continues to be well ahead of compliance for commercial DG, and Staff believes it is reasonable to again offer no commercial DG incentives in 2014. As discussed previously, Staff believes a cap on solar water heating's portion of the residential DG UFI budget of $60,000 is appropriate.

53. Regarding residential UFI funding, it appears that TEP will exhaust its residential UFI budget before the end of 2013, thus dropping the incentive level from $0.10 per watt to zero at that time. Thus, it appears that TEP's approved residential UFI level as of the end of 2013 will be zero. The $0.10 per watt incentive is small, representing $700 for a 7 kW system, a small part of the total cost of a typical residential DG installation. The Commission has been moving toward elimination of incentives in recent years, including elimination of TEP's commercial incentives in the 2013 REST plan. Staff believes that it is reasonable to set TEP's residential UFI budget at zero for 2014, offering no incentives. TEP should not have a compliance problem with meeting its residential DG requirement in 2014, and the Commission can reassess this situation in considering TEP's 2015 REST plan.

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54. Thus, regarding incentive levels, Staff is in agreement with TEP's Plan C. The overall budget level Staff is proposing is slightly lower due to a small adjustment to the information technology budget.

Proposed TEP and Staff Budgets

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

Budget Components	2013 Approved Budget	2014 TEP Proposed Plan A	2014 TEP Proposed Plan B	2014 TEP Proposed Plan C	2014 Staff Proposal
Purchased Renewable Energy					
Above market cost of conventional generation	$23,021,000	$25,481,208	$25,481,208	$25,481,208	$25,481,208
DMAFB SunEdison	$1,275,000				
TEP Owned	$5,929,596	$5,230,122	$5,230,122	$5,230,122	$5,230,122
Subtotal	*$30,225,596*	*$30,711,330*	*$30,711,330*	*$30,711,330*	*$30,711,330*
Customer Sited Distributed Renewable Energy					
Residential UFI	$744,000	$300,000	$300,000	$0	$0
Commercial UFI	$0	$300,000	$0	$0	$0
Commercial PBI On-Going Commitments	$6,453,375	$7,944,363	$7,944,363	$7,944,363	$7,944,363
Meter Reading	$29,832	$35,363	$35,363	$35,363	$35,363
Customer Education and Outreach	$100,000	$100,000	$100,000	$100,000	$100,000
Subtotal	*$7,327,693*	*$8,679,726*	*$8,379,726*	*$8,079,726*	*$8,079,726*
Technical Training					
Internal and Contractor Training	$75,000	$75,000	$75,000	$75,000	$75,000
Subtotal	*$75,000*	*$75,000*	*$75,000*	*$75,000*	*$75,000*
Information Systems					
Subtotal	*$100,000*	*$125,000*	*$125,000*	*$125,000*	*$100,000*
Metering					
Subtotal	*$131,365*	*$118,204*	*$118,204*	*$118,204*	*$118,204*
Labor and Administration					
Internal Labor	$1,265,329	$339,103	$339,103	$339,103	$339,103
External Labor	$409,013	$300,710	$300,710	$300,710	$300,710
Materials, Fees, Supplies	$60,000	$60,000	$60,000	$60,000	$60,000
AZ Solar Website	$4,000	$4,000	$4,000	$4,000	$4,000
Subtotal	*$1,738,342*	*$703,813*	*$703,813*	*$703,813*	*$703,813*
Research and Development					
PV Degradation Testing and Analysis		53,000	53,000	53,000	53,000
Solar Test Yard Maintenance Equipment		$25,000	$25,000	$25,000	$25,000
Solar and Wind Forecast Integration Portal		$182,000	$182,000	$182,000	$182,000
Dues and Fees		$15,000	$15,000	$15,000	$15,000
Subtotal	*$525,000*	*$275,000*	*$275,000*	*$275,000*	*$275,000*
Total Spending	*$40,122,996*	*$40,688,072*	*$40,388,072*	*$40,088,072*	*$40,063,072*
Carryover of Previous Year's Funds	*-$4,343,494*	*-$6,521,430*	*-$6,521,430*	*-$6,521,430*	*-$6,521,430*
Total Amount for Recovery	*$35,779,502*	*$34,166,642*	*$33,866,642*	*$33,566,642*	*$33,541,642*

Note: The 2013 line item SunEdison DMAFB is now reflected as part of the Commercial PBI On-going Commitments line item in 2014.

Recovery of Funds Through 2014 REST Charge

56. Staff's proposed caps and per kWh charge are designed to recover Staff's proposed $33,541,642.

57. 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 2013.

	2013 Approved	2014 TEP Proposed Plan A	2014 TEP Proposed Plan B	2014 TEP Proposed Plan C	2014 Staff Proposal
REST Charge (per kWh)	$0.008	$0.008	$0.008	$0.008	$0.008
Class Caps					
Residential	$3.80	$3.80	$3.80	$3.80	$3.80
Small General Service (Small Commercial)	$130.00	$115.65	$107.03	$100.67	$100.00
Large General Service (Large Commercial)	$1,050.00	$1,050.00	$1,050.00	$1,050.00	$1,015.00
Industrial and Mining	$7,700.00	$7,700.00	$7,700.00	$7,700.00	$8,000.00
Public Authority	$140.00	$180.00	See SGS	See SGS	See SGS
Lighting	$130.00	$115.65	$107.03	$100.67	$100.00

Note: In TEP's recent general rate proceeding, the small commercial class and large commercial class were renamed the small general service and large general service classes respectively. The public authority class was merged into the small general service class.

58. The cost recovery by customer class for the approved 2013 REST plan and estimates for the TEP and Staff options for the 2014 REST plan are shown in the table below. For comparison purposes, the table below also shows the projected MWH sales by customer class for 2014.

	2013 Approved	2014 TEP Proposed Plan A	2014 TEP Proposed Plan B	2014 TEP Proposed Plan C	2014 Staff Proposal	2014 Projected Sales (MWH)
Residential	$15,251,396 (42.6%)	$14,490,645 (42.4%)	$14,490,645 (42.8%)	$14,490,645 (43.2%)	$14,490,645 (43.2%)	3,819,740 (41.7%)
Small General Service	$10,565,550 (29.5%)	$10,933,894 (32.0%)	$10,624,451 (31.4%)	$10,335,067 (30.8%)	$10,304,762 (30.7%)	2,152,146 (23.5%)
Large General Service	$5,977,898 (16.7%)	$5,734,336 (16.8%)	$5,734,336 (16.9%)	$5,734,336 (17.1%)	$5,734,336 (16.8%)	1174755 (12.8%)
Industrial and Mining	$2,956,735 (8.3%)	$2.772,000 (8.1%)	$2,772,000 (8.2%)	$2,772,000 (8.3%)	$2,880,000 (8.6%)	1,984,548 (21.6%)
Public Authority	$764,696 (2.1%)	See SGS	See SGS	See SGS	See SGS	See SGS
Lighting	$257,273 (0.7%)	$236,001 (0.7%)	$235,384 (0.7%)	$234,783 (0.7%)	$234,711 (0.7%)	37,472 (0.4%)
Total	$35,774,548	$34,166,876	$33,856,817	$33,566,832	$33,536,702	9,168,661

59. 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)	2013 Approved	2014 TEP Proposed Plan A	2014 TEP Proposed Plan B	2014 TEP Proposed Plan C	2014 Staff Proposal
Residential	$0.0040	$0.0038	$0.0038	$0.0038	$0.0038
Small Commercial	$0.0053	$0.0051	$0.0049	$0.0048	$0.0048
Large Commercial	$0.0049	$0.0049	$0.0049	$0.0049	$0.0048
Industrial/ Mining	$0.0014	$0.0014	$0.0014	$0.0014	$0.0015
Public Authority	$0.0037	See SGS	See SGS	See SGS	See SGS
Lighting	$0.0092	$0.0063	$0.0063	$0.0063	$0.0063

60. 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.

	2013 Approved	2014 TEP Proposed Plan A	2014 TEP Proposed Plan B	2014 TEP Proposed Plan C	2014 Staff Proposal
Residential - Average Bill	$3.21	$3.22	$3.22	$3.22	$3.22
Small Commercial - Average Bill	$24.10	$20.09	$19.52	$18.99	$18.94
Large Commercial - Average Bill	$797.05	$793.90	$793.90	$793.90	$778.98
Industrial and Mining - Average Bill	$7,283	$7,700	$7,700	$7,700	$8,000
Public Authority - Average Bill	$46.20	See SGS	See SGS	See SGS	See SGS
Lighting - Average Bill	$12.05	$15.57	$15.53	$15.49	$15.49
Residential – Percent at Cap	71.3%	72.0%	72.0%	72.0%	72.0%
Small Commercial – Percent at Cap	4.8%	4.8%	8.4%	8.4%	8.4%
Large Commercial – Percent at Cap	46.0%	45.2%	45.2%	45.2%	46.9%
Industrial and Mining – Percent at Cap	93.4%	100.0%	100.0%	100.0%	100.0%
Public Authority – Percent at Cap	20.1%	See SGS	See SGS	See SGS	See SGS
Lighting – Percent at Cap	0.2%	0.4%	0.5%	0.7%	0.7%

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

Example Customer Types	kWh / mo.	2013 Approved	2014 TEP Proposed Plan A	2014 TEP Proposed Plan B	2014 TEP Proposed Plan C	2014 Staff Proposal
Residence Consuming	400	$3.20	$3.20	$3.20	$3.20	$3.20
Residence Consuming	862 (2013) 850 (2014)	$3.80	$3.80	$3.80	$3.80	$3.80
Residence Consuming	2,000	$3.80	$3.80	$3.80	$3.80	$3.80
Dentist Office	2,000	$16.00	$16.00	$16.00	$16.00	$16.00
Hairstylist	3,900	$31.20	$31.20	$31.20	$31.20	$31.20
Department Store	170,000	$130.00	$115.65	$107.03	$100.67	$100.00
Mall	1,627,100	$1050.00	$1050.00	$1050.00	$1050.00	$1015.00
Retail Video Store	14,400	$115.20	$115.20	$107.03	$100.67	$100.00
Large Hotel	1,067,100	$1050.00	$1050.00	$1050.00	$1050.00	$1015.00
Large Building Supply	346,500	$1050.00	$1050.00	$1050.00	$1050.00	$1015.00
Hotel/Motel	27,960	$130.00	$115.65	$107.03	$100.67	$100.00
Fast Food	60,160	$130.00	$115.65	$107.03	$100.67	$100.00
Large High Rise Office Bldg	1,476,100	$1050.00	$1050.00	$1050.00	$1050.00	$1015.00
Hospital (< 3 MW)	1,509,600	$1050.00	$1050.00	$1050.00	$1050.00	$1015.00
Supermarket	233,600	$1050.00	$1050.00	$1050.00	$1050.00	$1015.00
Convenience Store	20,160	$130.00	$115.65	$107.03	$100.67	$100.00
Hospital (> 3 MW)	2,700,000	$7,700.00	$7,700.00	$7,700.00	$7,700.00	$8,000.00
Copper Mine	72,000,000	$7,700.00	$7,700.00	$7,700.00	$7,700.00	$8,000.00

62. Staff recommends approval of the Staff proposal.

Staff Recommendations

63. Staff recommended that the Commission approve the Staff budget option for the 2014 REST plan, reflecting a REST surcharge of $0.00800 per kWh, and related monthly caps of $3.80 for the residential class, $100.00 for the small general service class, $1,015.00 for the large general service class, $8,000.00 for the industrial and mining class, and $100.00 for the lighting class. This includes total spending of $40,063,072 and a total amount to be recovered through the REST surcharge of $33,541,642.

64. Staff further recommended that no incentive funding be provided for new residential or commercial DE projects in 2014.

65. Staff further recommended that TEP's 2014 buildout plan for $28 million be approved, with a further $12 million approved for the Fort Huachuca project in 2015.

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66. Staff 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.

67. Staff further recommended approval of the proposal to limit self-directed funding and that self-directed customers be subject to the same limitations as other customers within the class.

68. Staff further recommended that in cases where TEP offers incentives to a customer class, that self-directed projects be limited to the incentive level offered to other customers in the same customer class.

69. Staff further recommended that the liquidated damages provisions contained in Decision No. 74014 be applied to all TEP renewable energy purchased power agreements.

70. Staff further recommended approval of TEP's proposal to eliminate incentives for technologies other than solar electric and solar hot water. TEP would be able to offer incentives on a case-by-case basis for such technologies, with the limitation that such incentives would not be greater than the equivalent incentive offered for solar electric installations at the time.

71. Staff further recommended that the Commission eliminate the compliance requirement from Decision No. 72033 related to Davis-Monthan AFB possibly displacing other commercial DG projects.

72. Staff further recommended that the Commission eliminate the compliance requirement from Decision No. 72033 requiring TEP to file a one to two page summary and PowerPoint slides with its compliance reports and REST implementation plans.

73. Staff further recommended that TEP file a revised REST-TS1 to become effective January 1, 2014, consistent with the Decision in this case, within 15 days of the effective date of the Decision. <u>Voluntary Contribution Program</u>

74. Given the widespread support of distributed generation in Arizona as evidenced by the thousands of communications recently received by the Commission, it is in the public interest for TEP to establish a voluntary contribution program to provide an opportunity for all who would like to contribute to funding solar rooftop distributed energy projects.

75. TEP shall file a proposed plan or plans of administration for this voluntary contributions program for Commission consideration by January 7, 2014. The proposed plan may include, for example, the following:

- Establishment of a segregated interest bearing account for voluntary contributions;
- How bill format will be modified to allow for voluntary contributions from customers;
- Details of method by which persons and entities may make direct voluntary contributions, i.e., not using the TEP bill method;
- Regular and periodic reporting (at least semi-annually) to the Commission concerning the funds received, the interest reinvested, the expenditures, ,and balance in the voluntary contributions account;
- Funds in this voluntary contributions account shall be used only for UFIs for DG installations;
- The level of the UFIs for each type of DG installation;
- Method of how and when UFIs will be available from this voluntary contribution account;
- Regular and periodic reporting concerning TEP's efforts to promote and advertise to encourage voluntary contributions from ratepayers, stakeholders, the general public, and any other entities;
- Regular and periodic reporting concerning the effectiveness of the voluntary contributions program in promoting DG installations.

76. We find that TEP's proposed budget for 2014 as found appropriate by Staff, is sufficient to include as part of the administrative costs, the initial administrative costs to file a proposed plan or plans of administration for the voluntary contributions program described herein and for the initial establishment of a segregated interest bearing account for the voluntarily contributed funds.

77. We believe that residential solar water heating should be funded at an incentive level of $0.40 per kWh of first year production up to a total of $60,000 in 2014. Staff's proposal is thus adjusted to reflect a residential UFI budget of $60,000, total spending of $40,123,072, a total amount to be recovered of $33,601,642, and a monthly residential cap of $3.83.

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 September 30, 2013, concludes that it is in the public interest to approve Tucson Electric Power Company's 2014 Renewable Energy Standard and Tariff Implementation Plan as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the Staff budget option, adjusted to include $60,000 of residential solar water heating funding, for the Tucson Electric Power Company 2014 REST plan, reflecting a REST surcharge of $0.00800 per kWh, and related monthly caps of $3.83 for the residential class, $100.00 for the small general service class, $1,015.00 for the large general service class, $8,000.00 for the industrial and mining class, and $100.00 for the lighting class, be and hereby is approved. This includes total spending of $40,123,072 and a total amount to be recovered through the REST surcharge of $33,601,642.

IT IS FURTHER ORDERED that no incentive funding be provided for new residential or commercial DE projects in 2014, with the exception of $60,000 provided for residential solar water heating at an incentive level of $0.40 per kWh of production in the first year.

IT IS FURTHER ORDERED that Tucson Electric Power Company's 2014 buildout plan for $28 million be approved, with a further $12 million approved for the Fort Huachuca project in 2015.

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 Tucson Electric Power Company.

IT IS FURTHER ORDERED that Tucson Electric Power Company may limit self-directed funding and that self-directed customers be subject to the same limitations as other customers within the class that are not self-directed be and hereby is approved.

IT IS FURTHER ORDERED that in cases where Tucson Electric Power Company offers incentives to a customer class, that self-directed projects be limited to the incentive level offered to other customers in the same customer class.

IT IS FURTHER ORDERED that the liquidated damages provisions contained in Decision No. 74014 be applied to all Tucson Electric Power Company renewable energy purchased power agreements.

IT IS FURTHER ORDERED that Tucson Electric Power Company's proposal to eliminate incentives for technologies other than solar electric and solar hot water be and hereby is approved. Tucson Electric Power Company would be able to offer incentives on a case-by-case basis for such technologies, with the limitation that such incentives would not be greater than the equivalent incentive offered for solar electric installations at the time.

IT IS FURTHER ORDERED that the compliance requirement from Decision No. 72033 related to Davis-Monthan AFB possibly displacing other commercial DG projects be and hereby is eliminated.

IT IS FURTHER ORDERED that the compliance requirement from Decision No. 72033 requiring Tucson Electric Power Company to file a one to two page summary and PowerPoint slides with its compliance reports and REST implementation plans be and hereby is eliminated.

IT IS FURTHER ORDERED that Tucson Electric Power Company file a revised REST-TS1 to become effective January 1, 2014, consistent with the Decision in this case, within 15 days of the effective date of the Decision.

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IT IS FURTHER ORDERED that Tucson Electric Power Company shall file by January 7, 2014, a proposed plan or plans of administration for a voluntary contributions program consistent with the requirements set forth herein in the Commission's findings.

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, 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 25th day of October, 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: Brenda Burns

DISSENT: ______________________

SMO:RGG:lhm\CHH

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ARIZONA CORPORATION COMMISSION

October 25, 2013

RE: Tucson Electric Power 2014 REST Implementation Plan; Docket No. E-01933A-13-0224

Dissent by Commissioner Brenda Burns

In my support for solar generated energy as part of a balanced portfolio, my focus as a Commissioner has been to apply ratepayer funds in a way that puts as much renewable energy on the grid for the lowest cost possible. Tucson Electric Power (TEP) has been a leader in solar generation and has worked well with the Commission to meet its renewable energy goals in a cost effective manner. However, I must respectfully dissent from the Commission's decision approving TEP's 2014 Renewable Energy Standard and Tariff (REST) Implementation Plan. Although many of TEP's renewable energy programs in its 2014 Plan have merit, I cannot support the Plan due to its inclusion of the Fort Huachuca project.

The TEP 2014 REST Implementation Plan authorizes TEP to use investor supplied capital to construct a 20 MW solar generation facility to serve the Fort Huachuca military base. This project carries a $40 million price tag. The Plan allows TEP to recover from ratepayers approximately $10.5 million in carrying costs for the project through the REST surcharge for the next three years. At TEP's next rate case, traditional ratemaking practices will place the Fort Huachuca project into ratebase and TEP will be allowed the opportunity to earn a rate of return on the value of the Fort Huachuca project.

I cannot support the Fort Huachuca project being funded by TEP and ultimately its ratepayers for three reasons. First, the Fort Huachuca project is not needed to comply with TEP's obligation to meet its Commission-mandated renewable energy requirement. Not only is TEP currently meeting its 2014 renewable energy goals, it has enough renewable energy projects either on-line or planned to meet its overall renewable energy goal as well as its commercial distributed energy goal through 2017.[1] Second, TEP already has sufficient generation to provide safe and reliable electric service to its customers. An additional 20 MW power plant is not needed. Finally, TEP informed the Commission that the Department of Defense would build the facility regardless of TEP's participation. There would have been 20 MW of carbon-free solar generated electric capacity on the grid without having TEP ratepayers pay for it.

[1] I am aware, however, that while TEP will have enough renewable energy to meet its overall renewable energy goal as well as its commercial distributed generation goal by 2017, TEP will need to bring on-line additional residential distributed generation projects beginning in 2015 to meet its residential distributed generation goal.

I do not find that TEP's REST Implementation Plan strikes the proper balance between setting just and reasonable rates for ratepayers and providing TEP the opportunity to comply with the Commission's Renewable Energy Standard.

Brenda Burns
Commissioner