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BEFORE THE ARIZONA CORPORATION

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Arizona Corporation Commission

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AZ CORP COMMISSION
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IN THE MATTER OF TUCSON ELECTRIC
POWER REQUEST FOR APPROVAL OF
ITS 2014 RENEWABLE ENERGY
STANDARD IMPLEMENTATION PLAN
AND TARIFF IMPLEMENTATION PLAN

DOCKET NO. E-01933A-13-0224

EXCEPTIONS TO THE
RECOMMENDED OPINION AND
ORDER

Arizona Solar Deployment Alliance ("ASDA"), by and through counsel undersigned,
hereby respectfully submits exceptions to the Recommended Opinion and Order ("ROO") filed in
the above captioned docket ("REST Plan").

Introduction

ASDA is an organization formed by Arizona based distributed energy ("DE") solar
companies. The members of the organization are all registered solar contractors and have their
principal place of business in Arizona. The REST plan is vitally important to the health of these
companies as well as the Arizona solar market. For the last several years, the DE incentive has
been an integral part of the REST plan. Staff is recommending no incentive for DE. ASDA
understands the need to carefully consider the amount of an incentive but the reduction of the
incentive to zero will have a chilling effect on the industry. ASDA would respectfully request the
Commission to consider amending the ROO by providing an Up-Front Incentive ("UFI") of \$0.10
and instituting a non profit, school and government program similar to the one in APS's territory.

1 **Distributed Energy**

2 A limited DE incentive program in TEP service territory is in the best interest of
3 ratepayers. The 2013 TEP REST Implementation Plan provided \$744,486 toward residential
4 UFIs at \$0.10/watt for PV and \$0.40/annual kwh for solar hot water systems. There was no non-
5 commercial funding, and no non profit, schools and government programs, as was available in
6 APS service territory.

7 **Residential Results**

8 2013 experienced a major shift in the marketplace. Using the best information available,
9 all but one company saw major declines in new residential PV installations in the TEP service
10 territory. In 2012 there were 20 installation firms that submitted reservations for over 100
11 KWDC, and 23 firms with one reservation per month or more. By June 13th, 2013, the number of
12 firms with reservations for more than 50 KWDC dropped to 6, and there were only 8 firms with 1
13 reservation per month or more. Even 1 system per month is unlikely to be enough to support a
14 business. A more reasonable installation level of 1 system per week shows that there is only one
15 company (down from 5) at this level, and a second which installs less than 2kw systems for a
16 homebuilder. Many companies active in 2010 – 2012 have in fact ceased operations, and those
17 remaining are frequently fielding service calls for stranded systems. While it is impossible to
18 predict the future, the commercial market in TEP’s area has operated without an incentive and
19 looking at what has occurred in that market is a good indicator of what could occur in the
20 residential market.
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2 **TEP Residential Installation Activity (# of Companies)**

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	2011	2012	2013
4 >100kw annualized	17	20	6
5 >1 system/month	22	23	8
6 >1 system/wk	4	5	2*

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8 *one of these companies installs small (1.8 kwdc) systems for a builder. In effect, there is only one company installing more than one system per
9 week in TEP service territory.

10 **Commercial Installations Without Incentives**

11 There appears to have been almost no activity in commercial solar installations without
12 incentives. TEP has indicated that two customers have applied to install non-incentivized
13 commercial systems, one at 1.25 MW, and the other multiple projects totaling 5.6 MW. This is in
14 contrast to a robust small commercial market in years past with 55 projects installed in 2011 and
15 81 projects in 2012 both averaging under 100 kWDC. The small commercial solar opportunity
16 seems to have completely dried up without incentives.

17 **Utility Scale Solar**

18
19 Currently funded or installed utility scale projects will provide enough RECs to exceed the
20 estimated compliance requirements in 2015. ASDA, Staff and TEP agree that it makes sense to
21 continue to fund utility scale projects. By funding projects now, ratepayers benefit from projects
22 which take advantage of the 30% federal tax credit, set to expire in 2016. Also, utility scale
23 requirements rise dramatically in 2016, when the REST requires 1% per year increases instead of
24 0.5%. Planning for this future increase now will reduce the budget impacts later on. Lastly, cost
25 reductions due to an experienced workforce and project pipelines may be missed if there is a two
26 year hold on utility scale projects, followed by significant demand.

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28 And just like the utility scale projects, and for the same reasons, it makes sense to continue

1 support for DE installations.

2 **Utility Scale Projects are more Expensive than DE**

3 While utility scale projects may cost less to build federal tax credit treatment, financing
4 programs and line loss among other reasons make DE projects less expensive to the REST
5 program. Incentivizing DG at \$0.1/watt is much lower than the carrying costs incurred by utility
6 scale projects, which have projected ranges of \$0.23/watt to \$1.9/watt. The Ft. Huachuca project
7 requested in this plan estimates carrying costs to the REST of \$0.53/watt.

8
9 It seems fair that in order to support continued utility scale progress in meeting REST
10 goals at a rate of \$0.5/watt or more, a modest budget of less than \$1M be used to purchase a
11 limited number of RECs at less than half the cost of the utility scale RECs.

12 One project worth mentioning is the Ft. Huachuca project, a 20 MW project that will use
13 \$10.5 million in REST funding, which will be counted as non-residential DE. This is an important
14 project and it should be funded, however, it should apply to utility scale projects rather than non-
15 residential DE. The RFP was won by TEP using the REST funds giving them a competitive
16 advantage. Allowing the Ft. Huachuca project to count as DE and not utility scale while giving it
17 REST funding and at the same time removing all incentives from the DE market is not in the
18 public interest.

20 **Appropriate Incentive Level**

21 A continuation of the current \$0.10/watt incentive for all systems is needed at this time.
22 This is not enough for an overheated market, but will prevent a collapse of the industry. A
23 Residential UFI program should be funded at \$750,000, with \$0.10/watt for PV. This will not
24 only provide enough funding to keep the Tucson solar industry alive, but provides an excellent
25 value to the REST program for RECs.
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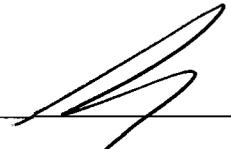
1 **Schools and Government**

2 The Tucson market is in need of a program which has been very successful in the Phoenix
3 market. APS has had year over year success with a non profit, schools and government program.
4 The program for TEP would be based upon a performance based incentive similar to APS with
5 \$0.06/kwh upper limit for 10 years max, limited to 5MW in total projects, with applications
6 reviewed every two months (March 1, May1, July1, Sept 1, Nov 1) and 1 MW offered at every
7 cycle. The maximum system size should be limited to 300kwdc per customer so that a minimum
8 of 4 projects per cycle have a chance at funding. A minimum systems size of 30 kwdc could be
9 instituted to keep the administrative burden modest. This program would add \$540,000 or less to
10 the annual PBI budget for 10 years. This will equate to an incentive of \$1.08 or less per watt to
11 support this important sector, and will cost less than the TO Mine tailings project, especially
12 considering the time value of money. By lowering the operating costs of community
13 organizations, these funds will benefit all the residents of southern Arizona.

14 **Conclusion**

15 ASDA respectfully requests the Commission amend the ROO to include \$0.10 incentive
16 for residential DE, institute a non profit, schools and government program and reclassify the Ft.
17 Huachuca project as utility scale.
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1 RESPECTFULLY SUBMITTED this 10th day of October 2013.
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