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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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PROPOSED RULEMAKING TO MODIFY THE RENEWABLE ENERGY STANDARD RULES IN ACCORDANCE WITH ACC DECISION NO. 74365 Arizona Corporation Commission DOCKETED APR 21 2014 DOCKETED BY	DOCKET NO. RE-00000C-14-0112 **COMMENTS OF TUCSON ELECTRIC POWER COMPANY AND UNS ELECTRIC, INC. ON STAFF'S OPTIONS FOR POTENTIAL CHANGES TO THE REST RULES** ORIGINAL

Tucson Electric Power Company ("TEP") and UNS Electric, Inc. ("UNS Electric") (together, "Companies"), through undersigned counsel, hereby submit comments regarding seven concepts for modifying the Renewable Energy Standard Tariff ("REST") Rules that were proposed by the Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission").

A. Summary.

The Companies continue to believe the REST Rules should be modified to reflect significant changes that have taken place since the rules were adopted in 2007. Most significantly, the reduced price of solar photovoltaic ("PV") technology and the emergence of leased ownership models have encouraged more widespread use of distributed renewable generation ("DG")/distributed renewable energy ("DE") resources despite reduced incentives. Although TEP no longer provides DG incentives, the Company anticipates that DG systems totaling approximately 10 megawatts ("MW") of capacity will be interconnected with its distribution grid during 2014. That amount is well above the 7 MW necessary to meet the annual DG increase required for TEP under the current REST Rules. However, compliance with the REST Rules requires the submission of the Renewable Energy Credits ("RECs") associated with those DG systems. While utilities traditionally acquired those RECs in exchange for incentives, such transactions are not possible without incentives. This is precisely the dilemma that the Commission identified in Decision No. 74365 (February 26, 2014) in ordering that the REST Rules be reopened and revised.

In response to Decision No.74365, Staff has set forth seven concepts that would serve as guidance for specific revisions to the REST Rules. While several of the concepts merit further consideration, others would unnecessarily increase costs for utility customers. The Companies have sought to evaluate the merits of these concepts based on their compatibility with cost-effective compliance with REST goals and their impact on all utility customers, including those who employ DG systems and the much larger number who do not. The Companies' specific comments on Staff's seven concepts are set forth below.

B. Comments on Staff's Seven Options.

I. Track & Monitor.

The Companies understand that this option would adopt REST Rule revisions that are consistent with Staff's Track & Monitor proposal from Docket Nos. E-01345A-12-0290, E-01933A-12-0296, and E-04204A-12-0297. The Companies continue to support Track & Monitor for all of the reasons set forth in their testimonies and briefs previously filed in that docket. Track & Monitor will achieve the goal of fully capturing DE generation activity in a given utility's service territory when incentives are no longer necessary to encourage installations. Moreover, the Companies support the conclusion of Commission Staff that Track & Monitor would not result in the double-counting of RECs. By appropriately incorporating the Track & Monitor approach into the REST Rules, affected utilities would be less likely to require annual waivers of the REST's DG requirement. Most importantly, this approach would allow compliance with the REST in the most cost-effective manner, with no additional costs for customers.

II. Process where utilities would purchase least-cost RECs or kilowatt-hours ("kWh").

This option would unecessarily increase the cost of compliance, leading to higher bills for customers. Because the deployment of DG systems in TEP's service territory without incentives is more than sufficient to meet the DG carveout requirement, using the proceeds of REST surcharges to fund the additional cost of purchasing RECs would be duplicative and unnecessary.

III. Creation of maximum conventional energy requirement.

The complexity of this concept diminishes its appeal. This approach would create a new paradigm and, as Staff notes, would require a complete rewrite of the REST Rules. Further, the Companies believe determination of the "maximum conventional energy requirement" would be complicated and potentially contentious. For example, the calculation would have to address factors such as retail and wholesale sales, impacts of energy efficiency, "lumpy" changes in load when large customers enter or exit the system and a variety of other factors.

IV. Mandatory up-front incentives ("UFIs").

The reinstatement of UFIs in service territories where they are not needed would, as noted by Staff, lead to higher REST surcharges. As with Option II, these higher surcharges would unnecessarily increase the cost of compliance for customers.

V. REC Transfer Associated with Net Metering.

The Companies initially offered this option during the proceedings in 2013 and continue to believe it has merit as a simple, straightforward approach that provides due consideration to DG system owners in exchange for RECs. However, the Companies recognize that significant controversy surrounds net metering and understand that some related issues are being addressed in another generic docket. Therefore, although the Companies would not object to this option, they do not advocate for it in this proceeding.

VI. Recovery of DG/DE costs through the standard rate case process.

This option raises significant concerns. For example, the Companies have made multi-year commitments to pay up to $6 million each year in performance-based incentives ("PBIs") that were previously available for larger DG systems through Commission-approved REST programs. If the Companies are precluded from funding these commitments through the REST, as originally intended, they would bear the unfair burden of absorbing these costs until their next rate case. As Staff notes, the Companies would object to this approach unless they are allowed to fully recover those costs (including any carrying costs incurred until new rates are in place) through a regulatory asset or some other mechanism. Also, future investments to meet REST Rules requirements would raise regulatory lag concerns that would need to be addressed. Moreover, ambiguity about what would constitute "financial hardship" under this option would create additional uncertainty about the Companies' ability to fully recover its costs of complying with a Commission mandate. Finally, this option would contribute to larger rate increases, a result that would be inconsistent with the Commission's preference for smoother, more gradual increases, as expressed in the resolution of TEP's most recent rate case.

VII. Track & Record.

This option is comparable to the Track & Monitor system (Option I) but would likely engender more controversy due to greater concerns about claiming compliance without REC ownership and/or double-counting RECs. For this reason, the Companies prefer the Track & Monitor option.

C. Conclusion.

The Companies believe that the Track & Monitor proposal is the best of the seven options proposed by Staff. It offers the most cost-effective way to achieve compliance with the DG requirements of the REST, ensuring that customers do not bear undue or unnecessary increases in their monthly electric bills.

RESPECTFULLY SUBMITTED this 21st day of April, 2014.

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