BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS 2015 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN.

Docket No. E-01933A-14-0248

ORIGINAL

RUCO'S COMMENTS

RUCO submits these comments on Tucson Electric Power Company's 2015 Renewable Energy Standard and Tariff (REST) plan. Before diving into the specifics of the plan, RUCO offers a policy statement that covers recent developments in utility owned rooftop solar programs.

RUCO POLICY STATEMENT ON UTILITY OWNED DG

RUCO supports sensible and cost effective utility involvement in distributed generation (DG). In fact as long as a balanced, level playing field is established between third-party owned business models and the utility, involvement should be encouraged. The two models, running in parallel, can only benefit consumers. Third party developers bring unique business models and techniques honed by competition while the utility can offer a suite of different services that confer system benefits and consumer protection while minimizing rate impacts.

RUCO believes that the key is to strive towards creating a balanced and level playing field. The utility should not be completely immune from market forces while having a "blank check" to install systems. Likewise, third party developers should not be overly compensated through generous rate design while having no responsibility to grid management concerns. Finding the right balance will require study and policy decisions by the Commission. To that end, RUCO submits a few key principles to structure a level playing field:

1. Lowest cost program design for utility owned DG that does not cost more to ratepayers than the third party "revenue loss/cost shift"
2. Shared commit to providing accurate information and quality systems to customers
3. Fair interconnection polices for third party owned systems
4. Shared responsibilities around grid safety and vitality as issues arise with higher levels of penetration
5. Appropriate rate design for customers of third party systems that avoids gross over or under compensation
6. Transparent sharing of non-confidential information between the utility and third party developers
7. Utility focus on serving markets not optimally suited for third party developers

While some of these principles are already in place, others still need to be incorporated into statewide policy. Nevertheless, in the near term RUCO believes that the current stage of policy development is suitable enough to allow Arizona utilities the ability to take first steps into the rooftop market.

IS THERE A LIMIT TO EITHER MODEL?

A broader question may arise around the allowance of either third party or utility owned DG to propagate beyond the compliance levels (at least temporally) of a governmental policy. Arizona's low cost of doing business mixed with abundant sunshine allows it to be one of the first US states possessing a more "typical" energy landscape (e.g. no oil on the margin, no highly tiered rates) to have solar DG thrive solely on retail rates. This is especially true for

Tucson's residential leased solar market. In 2014, solar DG deployment is breaking records on just a standard residential ~10 cent/kWh retail rate. Since there are no meaningful direct state incentives offered, particularly for leased systems, there are few foreseeable economic barriers to the continued spreading of DG PV absent Commission action or federal tax credit changes.

This begs the question, is it open season for PV deployment?

While solar PV likely passes a more traditional cost benefit test (with a properly applied discount rate) in utility territories with capacity needs, it does not mean that the value per dollar is maximized. It is RUCO's opinion that the net metering (NEM) policy adopted by the Commission in 2013 recognized this "value gap" with NEM based residential PV – at least for one of Arizona's utilities. Again, this likelihood that measured DG PV deployment at low penetration levels offers long term benefits that outweigh near term cost does not mean the investment is optimized for Arizona as a whole. This is especially true given the competing value proposition of wholesale DG. There must be balance.

While RUCO argues that in measured doses Arizona can realize "no regret" investments from DG PV even if it is beyond compliance with the REST, Arizona must work to optimize investment strategies to maximize ratepayer benefits per dollar invested. That said, RUCO acknowledges the growing customer choice trends. RUCO also acknowledges the rapid change in technology and thus the changing value streams. This, in conjunction with an expiring federal tax credit, is reason enough to allow for, or even pursue, temporary over-compliance.

The important concept to stress is that in a non-incentive, noncompliance driven market, there is no investment optimization or portfolio management tool to maximize ratepayer dollars. In a limited resource environment, this is troubling. Both the utility owned rooftop generation and third party installed/owned business models must continually innovate to provide benefits to the entire system. The ACC, should work with stakeholders to ensure that the compensation mechanisms afforded to these business models are appropriate when compared to both value provided and technology alternatives. Moreover, due to the rapidly changing technology landscape, technology attributes and costs are constantly moving. This requires the creation of ratepayer focused valuation/investment models that are just as dynamic. These models must then be coupled with straight forward mechanisms that can be used to modify compensation levels.

In the end, if the seven guiding principles RUCO stresses above are followed, RUCO envisions more benefits - not less - due to utility involvement in rooftop DG. It is then up to the Commission to determine the optimal level of investment in rooftop DG for Arizona. Finally, stakeholders must be vigilant about properly recognizing the impact of new rate designs on customers and the utility system as a whole under both business models.

RUCO'S COMMENTS ON TEP'S 2015 REST PLAN

TEP's proposed utility owned distributed generation (UODG) program should be seen as a marker for solar technology reaching the next stage of maturity. According to RUCO's analysis, TEP's unique program design can deliver solar energy at rates 30% below the non-participant cost of a comparable NEM based system. For a utility with a 10 cent/kWh retail rate, this is impressive.

The value proposition for the participating customer is equally beneficial as the customer locks in a predictable bill, is immune to fuel and rate price increases, has an opportunity to eventually own the system, and is dealing with reputable companies - all for $250 down. Most noteworthy is that this program is being delivered without increasing the REST surcharge.

RUCO believes there is something for everyone in this innovative program:

To those who like consumer choice – This program offers another choice and a different value proposition to customers.

To those who don't like subsidies – The long-term benefits of this TEP program almost certainly outweigh the costs to the ratepayer at this stage of solar penetration.

To those who want renewable energy to spread – Making rooftop solar mainstream and maximizing its benefits will take more than small local installers and leasing companies. Getting the utility involved in an appropriate way will only help propagate solar in a sustainable manner.

To those who want to maximize the value and reliability of DG – Utilities can drive innovation in advanced inverters, geo-targeting, and communication technology.

To those that believe in a balanced portfolio that mitigates risk – This program does that and only would account for a small portion of DG installed under the REST if successful and renewed.

Perhaps more exciting are the system-wide benefits and technical opportunities that Arizona DG PV has yet to explore. With geo-targeting, capacity value improving orientations, and advanced inverters, the utility is in a unique position to maximize the value of DG resources to the grid. Moreover, TEP will learn from this experience and be better able to integrate future DG.

There will also be benefits by integrating energy efficiency and residential demand response offerings with the delivery of the UODG program. This integration will:

- Lower the total costs of the energy system for all ratepayers.
- Deliver capacity savings via energy efficiency and residential demand response.
- Ensure that oversized solar systems are not installed — saving money, expanding the total number of customers who can participate in program, and ensuring that ratepayer monies are invested as prudently as possible.

- Ensure customers in the program receive better and more comprehensive services and the associated benefits of these services.
- Boost the cost-effectiveness of existing DSM programs by streamlining delivery.

To that end, once the UODG program is off the ground, RUCO expects TEP to fully integrate delivery of its robust suite of demand side management (DSM) offerings with the UODG program. RUCO would also like to ensure that the annual usage thresholds provide the customer proper price signals to save energy and engage in DSM opportunities. RUCO very much views this first year as a pilot in many respects and looks forward to reviewing detailed cost numbers, sign-ups, and general implementation processes once the program is running along.

Finally to point number one on the above policy statement, RUCO does not believe in an unbalanced playing field or "blank check" polices. RUCO has worked with TEP on this issue. Moreover, RUCO fully intends the utility to uphold the cheaper or equal to third party NEM concept. The potential absence of grandfathering and the implications of rate design changes must be similarly applied to the utility. If future rate design changes reduce retail rates to a point where NEM systems are at a lower cost than that of the UODG program, the utility must find a way absorb the difference. This could mean that the utility would not fully recover their revenue requirement. Given the current spread between NEM based systems and the program design TEP proposes, RUCO does not anticipate this issue arising.

Regarding TEP proposed storage and R&D programs, it is clear that the utility industry is going through a time of transition. From new customer trends, more stringent environmental regulations, and the lower cost of renewables, it is apparent that adaptation is needed. Therefore, RUCO supports an energy storage solicitation and the R&D projects outlined by

TEP. RUCO would like the utility to continue to commit to leveraging partnerships as much as possible to reduce R&D costs.

In the past, RUCO has been concerned about large and chronic REST over collection; however, TEP has indicated that the Company will no longer request recovery of new utility scale expenditures through the REST surcharge. First, RUCO welcomes treating renewable resources more like traditional resource additions. Second, because less recovery will be drawn from the REST budget, RUCO's concern about over collection is minimized because the remainder of the budget is largely out of TEP's control.

To conclude, RUCO is in support TEP's 2015 REST plan, particularly the newly proposed utility owned rooftop program. As long as there is a level playing field and a program design that minimizes costs in relation to a NEM based system, then UODG should be encouraged. RUCO applauds TEP for taking this important first step into cost effective rooftop solar.

RESPECTFULLY SUBMITTED this 17th day of October, 2014.

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