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ARIZONA CORPORATION COMMISSION  
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Arizona Corporation Commission

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OCT 17 2014

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7  
8 IN THE MATTER OF THE APPLICATION OF  
TUCSON ELECTRIC POWER COMPANY  
9 FOR APPROVAL OF ITS 2015 RENEWABLE  
ENERGY STANDARD IMPLEMENTATION  
10 PLAN.

Docket No. E-01933A-14-0248

**ORIGINAL**

11  
12 **RUCO'S COMMENTS**

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

17 **RUCO POLICY STATEMENT ON UTILITY OWNED DG**

18 RUCO supports sensible and cost effective utility involvement in distributed generation  
19 (DG). In fact as long as a balanced, level playing field is established between third-party owned  
20 business models and the utility, involvement should be encouraged. The two models, running  
21 in parallel, can only benefit consumers. Third party developers bring unique business models  
22 and techniques honed by competition while the utility can offer a suite of different services that  
23 confer system benefits and consumer protection while minimizing rate impacts.  
24

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

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

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

### 23 **IS THERE A LIMIT TO EITHER MODEL?**

24 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

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

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

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

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

21 The important concept to stress is that in a non-incentive, noncompliance driven market,  
22 there is no investment optimization or portfolio management tool to maximize ratepayer dollars.  
23 In a limited resource environment, this is troubling. Both the utility owned rooftop generation  
24 and third party installed/owned business models must continually innovate to provide benefits

1 to the entire system. The ACC, should work with stakeholders to ensure that the compensation  
2 mechanisms afforded to these business models are appropriate when compared to both value  
3 provided and technology alternatives. Moreover, due to the rapidly changing technology  
4 landscape, technology attributes and costs are constantly moving. This requires the creation  
5 of ratepayer focused valuation/investment models that are just as dynamic. These models  
6 must then be coupled with straight forward mechanisms that can be used to modify  
7 compensation levels.

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

#### 14 **RUCO'S COMMENTS ON TEP'S 2015 REST PLAN**

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

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

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

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

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

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

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

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

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

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

- 21 • Lower the total costs of the energy system for all ratepayers.
  - 22 • Deliver capacity savings via energy efficiency and residential demand response.
  - 23 • 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.
- 24

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

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

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

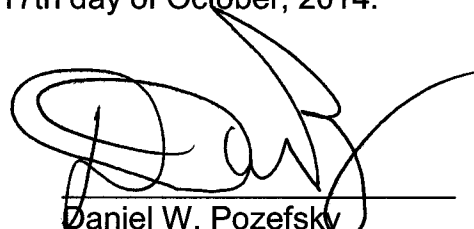
19 Regarding TEP proposed storage and R&D programs, it is clear that the utility industry  
20 is going through a time of transition. From new customer trends, more stringent environmental  
21 regulations, and the lower cost of renewables, it is apparent that adaptation is needed.  
22 Therefore, RUCO supports an energy storage solicitation and the R&D projects outlined by  
23

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

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

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

14 RESPECTFULLY SUBMITTED this 17th day of October, 2014.

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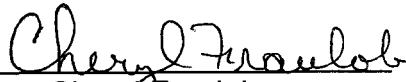
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