

Solar Power Surge Prompts TEP to Seek Changes to SunShare Rebate Program

TUCSON, Ariz., Jul 14, 2010 (BUSINESS WIRE) -- A surge in the popularity of solar energy systems has prompted Tucson Electric Power (TEP) to propose new, lower subsidies for residential customers who install photovoltaic (PV) arrays.

Nearly 1,100 local homeowners have reserved TEP SunShare rebates for PV systems this year, exceeding the total number of residential solar power systems completed over the previous nine years combined. Local businesses also have rushed to invest in solar power systems, draining the funds designated for up-front commercial incentives in 2010.

In response to this unprecedented demand, TEP has asked the Arizona Corporation Commission (ACC) to reduce residential SunShare rebates from \$3 to \$2.25 per watt for grid-tied PV arrays. TEP has requested that the new, lower incentive level be applied to any applications received after the close of business on July 7, 2010.

"We're hopeful that this new, lower rebate level will allow us to extend the availability of our SunShare incentives, which have been a key factor in the success of Tucson's renewable energy marketplace," said David Hutchens, Vice President of Energy Efficiency and Resource Planning for TEP and its parent company, UniSource Energy Corporation (NYSE: UNS).

TEP proposed several alternatives for commercial customers, whose requests for up-front incentives are being placed on a waiting list until the ACC determines how to proceed. The company could wait until new resources are available next year, restore up-front rebates by tapping funds now preserved for performance-based incentives or raise additional resources through customer surcharges.

The surge in demand for TEP's SunShare subsidies has been driven in part by reduced costs for solar power systems, Hutchens said. The prices of installed PV systems in the Tucson area have dropped to about \$5 per watt from nearly \$12 per watt in 2006, while TEP's incentives have remained unchanged.

"As the market for distributed solar power systems has matured, rooftop arrays are becoming much more affordable, allowing us to make this modest reduction in SunShare incentives while still providing strong support for renewable energy development," Hutchens said.

Lower incentive payments would help hold down future renewable energy costs for TEP customers, who fund the SunShare program through monthly surcharges set by the ACC under Arizona's Renewable Energy Standard (RES). The RES calls on electric utilities to increase their use of renewable energy each year until it represents 15 percent of their power in 2025.

TEP's residential customers have reserved more than \$12.2 million of the \$17.6 million in up-front SunShare incentives available this year for residential customers. Rebate requests from local businesses, meanwhile, have exceeded the \$5 million budget for those up-front incentives.

The pace of reservations quickened after Phoenix-based utility Arizona Public Service (APS) reduced its PV incentive levels to \$1.95 per watt in April, encouraging PV installers to step up their marketing efforts in Tucson.

"The SunShare incentive levels we've proposed remain higher than those offered by many other utilities, so Tucson should continue to be a hot market for solar power installations," Hutchens said.

For 2011, TEP has proposed making \$28.9 million available through up-front SunShare incentives that would be paid out at \$2.25 per watt for grid-tied residential systems and \$2 per watt for commercial installations. That proposal is subject to review by the ACC later this year.

The ACC could take action on TEP's proposed changes to 2010 incentives at an open meeting scheduled for July 27-28, 2010. If the commission does not reduce TEP's residential incentive levels or make additional resources available, the available funding for those rebates is likely to be exhausted in August, Hutchens said.

TEP complements the solar energy generated by SunShare-subsidized systems with its own utility scale resources and renewable power purchased from outside providers. Through the first quarter of 2010, TEP had developed nearly 10 MW of company-owned renewable energy generating capacity in addition to nearly 6 MW of customer-owned PV systems.

In 2010, TEP will add 1.8 MW of capacity to its 4.6-MW Springerville Generating Station Solar System, which already is one of the largest grid-tied PV arrays in the United States. The company also will build a 1.6 MW single-axis tracking PV array in the

Tucson area.

TEP also has agreed to purchase the output of a dozen new solar power systems, a landfill gas generation project and a new wind farm that together would generate nearly 190 megawatts, enough renewable energy to power nearly 40,000 Tucson homes. Those systems, which are being built by private developers, are scheduled to come online in 2011 and 2012, pending ACC approval, site selection and other contingencies.

Tucson Electric Power provides safe, reliable power to more than 400,000 customers in southern Arizona. To learn more, visit tep.com. For more information about UniSource Energy, TEP's parent company, visit uns.com.

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