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Re: APS Renewable Energy Standard Implementation Plan
Docket No. E-01345A-07-0468

In August 2007 APS filed its proposed Renewable Energy Standard (“RES”) Implementation Plan (“IP”). The Solar Advocates¹ provided comments to the ACC on APS’ proposed IP on September 26, 2007. Commissioner Mundell’s October 16, 2007 letter requested that the parties work together to find a common solution.

APS and Solar Advocates held several productive meetings to discuss the APS Implementation Plan. The following letter describes the common understanding and agreement reached by the parties regarding incremental funding levels; trigger mechanisms; APS’ methods used in developing costs for administration, implementation, and marketing; and modifications to the proposed APS RES budget.

With a more thorough understanding of each other’s positions, the parties discussed a variety of proposals and settled on a budget and funding mechanism that permits APS to better synchronize program funding with expected residential distributed energy (“DE”) customer participation. The proposal identifies two areas for reductions in funding requirements: roll-over of uncommitted DE incentive funds from 2007 and a reduction in the Marketing and Outreach budget. The alternative proposal provides for full funding for the non-residential DE and Renewable Generation (“RG”) components as presented in the APS IP. Fundamental to the proposal is a new mechanism to ensure that funding of residential DE incentives is better synchronized with consumer demand created by the RES. In addition to an adjustment of the budget proposed in APS’ IP, APS and Solar Advocates collaborated to develop a two-step funding plan designed to begin at the level established by the RES Sample Tariff and increase to an annualized pace to meet APS’ adjusted IP budget when certain triggers are met.

APS provided the group with a detailed description of the methods used in developing its costs to administer, implement, and market the Program.² APS described to the Solar Advocates that a portion of the Administration and Implementation budgets is a function of the number and type of expected customer installations. In addition, a large portion of the first year Implementation cost is related to technology solutions, such as a workflow management tool, automated customer billing, and performance and reporting tools, APS believes are necessary to effectively and efficiently implement the Program.

Both APS and Solar Advocates acknowledge there is significant value in several of the technology solutions APS has proposed. While Solar Advocates do not *per se* endorse any of the specific costs

¹ A group made up of the Annan Group, Arizona Solar Energy Industries Association, Greater Tucson Coalition for Solar Energy, Solar Alliance, and Vote Solar Initiative. The Solar Alliance is an industry association comprised of the largest photovoltaic companies working in the United States.

² The information was retained by APS at the conclusion of the meeting, solar advocates were unable to analyze or audit all the detailed calculations of APS’ proposed costs.

proposed by APS, they did agree that the methods appeared reasonable in arriving at its proposed budget. The Solar Advocates support the level of funding requested by APS understanding that only actual costs incurred by the program for implementation and administration are charged to the program.

The Commercialization and Integration ("C&I") budget remains as filed in APS' Implementation Plan under both steps. Solar Advocates are willing to accept the APS proposal, provided that only actual costs are charged to the RES and that the benefits of each component of C&I can be demonstrated.

Solar Advocates continue to believe that the success of the DE Program also depends on certain policy issues such as net metering, standby rates and interconnection standards. Solar Advocates and APS acknowledge that there are a number of Commission rulemakings and other activities regarding those and other key issues currently underway that are outside the scope of the APS Implementation Plan.

Identified Reductions in Funding Requirement

APS provided an overview of the 2007 DE budget for incentives and year-end projections and communicated an expectation that roughly \$3.0 million of the planned \$10.5 million in 2007 DE incentive funding would most likely not be committed by year-end due to lower than projected customer reservations. APS further described that the uncommitted \$3.0 million could be available to roll-over into 2008. APS indicated its interest in applying this unused portion of the 2007 funding to the 2008 Implementation Plan already filed, to serve as a reduction in the needed collections.

In addition, under this proposal funding for Marketing and Outreach would be reduced by \$1.5 million to \$4.8 million. While APS and Solar Advocates agree that customer awareness and education is integral to success of the DE Program, both groups believe that through cooperative efforts the budget can be reduced. The Parties also understand that \$4.8 million is a significant commitment of customer funds for Marketing and Outreach efforts, but both Solar Advocates and APS believe that the intent of the Commission is to be sure that APS customers are aware of and understand the DE Program. APS believes that its compliance obligation to the ACC and its customers demands its full effort. A significant portion of that effort involves customer knowledge, acceptance, and participation in the DE Program.

As part of Marketing and Outreach, APS commits to periodic forums with all interested stakeholders to discuss efforts, to solicit feedback and suggestions, and to develop metrics to track marketing costs and results. The progress and results of these metrics will be discussed during the stakeholder sessions and will be used as an input in adjusting or reinforcing future marketing and outreach efforts. If the level of customer participation is not trending toward achieving full compliance during the 2008 implementation year, APS may revisit the level of marketing, outreach, and incentive levels that was originally proposed in the IP.

In addition to the above identified areas of cost reduction, the Parties explored other funding reduction opportunities. Both Solar Advocates and APS agreed that as additional experience is gained with the program and its implementation further efficiencies are likely to be identified. One such area was collaboration with commercial system developers on metering arrangements that provide all parties access to the data necessary while reducing duplication of meters and associated costs.

Program Funding

In discussing the 2008 compliance requirement, the Parties recognized that missing the first year (2007) of the designed ramp detailed in the RES for the DE requirement results in a significant leap over current customer participation levels. APS has accepted approximately 500 reservations for installations in 2007, but expects to need over 7,000 installations (including photovoltaics, solar hot water and other technologies) in 2008 to achieve customer participation at levels required by the RES. Most of the

needed installations are residential and ramp up in that market segment will put a major strain on distributed technology vendors. Specifically, the ramp up will require acquisition and training of new installation designers, technicians, and sales staff and will also require expanded development of relations with new home builders, who are currently suffering from a market downturn. Thus, the parties believe that phasing in the funding to better synchronize with customer participation would be appropriate. Achieving full compliance with DE requirements remains the goal for all parties.

The proposal mutually offered by APS and Solar Advocates requests authorization from the Commission for funding of \$43.7³ million in two steps (see Exhibit A). This would initially set funding for the residential DE program at a level four times higher than that offered in 2007 and have the ability to increase funding to an annualized pace needed to support APS' budget for compliance with all RES requirements. Step 1 sets funding consistent with the RES Sample Tariff at an annualized level of \$36.9 million. Step 2 would be an automatic increase to an annualized level of \$43.7 million, contingent upon certain triggers being met. If the amount of customer participation exceeds the funding provided by Step 2, APS may seek Commission authorization for funding to meet all customer demand. The parties propose that the triggers be one of two events based on the pace of residential incentive requests:

1. APS receives new 2008 residential incentive requests of more than \$13 million before June 30, 2008 (or the mid-point of the remaining calendar year if ACC approval is received after January 1, 2008) or,
2. APS receives new 2008 residential incentive requests of more than \$17.5 million before August 31, 2008 (or the two-third point of the remaining calendar year if ACC approval is received after January 1, 2008).

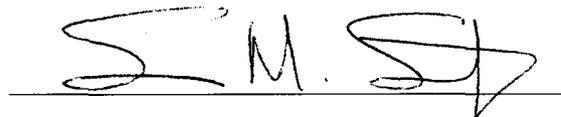
The parties request that the ACC authorize APS to automatically increase the charges and caps contained in the RES Adjustment Schedule with prior notice to the ACC, Staff, and interested stakeholders. That notice would be in the form of an informational filing 30 days prior to the increase that would include documentation of the residential incentive request level, the date of the increase, and the anticipated amount of collections for the remainder of the year.

Summary

The Solar Advocates and APS have agreed in principal on an RES Program that allows APS to begin RES program implementation at the Sample Tariff level of approximately \$37 million annually. The parties also agreed that if the pace of residential incentive requests meets defined goals that, with proper notification to the Commission and Staff, APS should be permitted to automatically increase the RES funding to an annualized level of \$43.7 million. APS further commits to periodic forums with all interested stakeholders to discuss marketing and outreach efforts and to develop metrics to track marketing costs and results. APS will make a supplemental filing describing this alternative with the ACC within 10 business days of the filing date of this letter to reflect this agreement. This filing will also include RES Adjustment Schedules for both the Step 1 and Step 2 levels of funding.



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Sean M. Seitz
Solar Advocates

³ This includes funding from both the RES Adjustment Schedule and System Benefits Charge (Base Rates).

Exhibit A (\$ millions)

| | Amended APS Plan Filed August 30, 2007 | APS/Solar Advocates Alternative Plan | | |
|---|---|--------------------------------------|-------------------------------|--|
| | | Revised Total | Step 1 Proposed Funding | Step 2 Additional Funding ² |
| Renewable Generation: | | | | |
| Energy Purchase | \$5.3 | \$5.3 | \$5.3 | |
| Administration | 0.7 | 0.7 | 0.7 | |
| Implementation | 0.4 | 0.4 | 0.4 | |
| Commercialization & Integration | 0.5 | 0.5 | 0.5 | |
| Renewable Generation – Subtotal | 6.9 | 6.9 | 6.9 | |
| Estimated Green Power Revenue | (1.0) | (1.0) | (1.0) | |
| Renewable Generation - RES | \$5.9 | \$5.9 | \$5.9 | |
| Distributed Energy: | | | | |
| Incentives | \$28.7 | \$28.7 | \$22.7 | \$6.0 |
| Customer Self Directed | - | - | - | - |
| Administration | 1.6 | 1.6 | 1.4 | 0.2 |
| Implementation | 5.2 | 5.2 | 4.6 | 0.6 |
| Marketing & Outreach | 6.3 | 4.8 | 4.8 | - |
| Commercialization & Integration | 0.5 | 0.5 | 0.5 | - |
| Distributed Energy – Subtotal | \$42.3 | \$40.8 | \$34.0 | \$6.8 |
| NET TOTAL | \$48.2 | \$46.7 | \$39.9 | \$6.8 |
| 2007 Estimated Incentive Roll-over ¹ | | (3.0) | (3.0) | - |
| TOTAL | \$48.2 | \$43.7 | \$36.9 | \$6.8 |

1. The Estimated Incentive Roll-over represents the anticipated unspent incentive dollars from 2007
2. Represents the annualized collection resulting from affecting Step 2 funding. Actual collection resulting from Step 2 will vary based on the month the increase is put in place.