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FROM: The Solar Alliance
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The Solar Alliance appreciates this chance to address the Arizona Corporation Commission with regard to Arizona Public Service's (APS) 2009 Renewable Energy Standard Implementation Plan and Distributed Energy Administrative plan, as well as provide comments in response to the Commission Staff (Staff) Recommended Order and Opinion.

APS should be commended on its efforts to draft a thorough, workable, and user-friendly plan to meet its renewable energy goals. APS has been responsive to stakeholder comments and many of the changes in the 2009 plan seem to be in response to the suggestions of those who work with the program daily.

APS has submitted a plan that, with several modifications, and coupled with the extension of the solar and wind investment tax credits recently passed by Congress, should provide the appropriate level of incentives and stability that industry partners need to help APS meet 2009 Renewable Energy Standard (RES) goals.

APS will most likely not meet their 2008 goals for the Distributed Generation (DG) portion of the RES. While this is unfortunate, it is not necessarily an indicator that the goal is unreasonable, or that APS will not be able to meet their 2009 goals. Uncertainty over the extension of the federal investment tax credits likely played a large role in the shortfall of DG installations in 2008.

For much of the year DG non-residential solar and wind projects throughout the country were put on hold. Most solar installers, and many of their customers, believed that the federal tax incentives that provide a tax credit worth up to 30% of the total system cost were going to expire at the end of 2008. For that reason it was believed that non-residential solar systems had to be up and running by the end of the year to be eligible for the investment tax credit. For a large commercial solar system it can often be 6 months from inception to commissioning. For this reason after the middle of the year many solar installers simply quit doing non-residential systems because they did not believe they would be able to complete the systems in time for their clients to be eligible for the credit. This almost shut down non-residential solar development and, without question, negatively affected APS' ability to meet its non-residential and overall DG goals.

Ironically, renewal of the investment tax credit may have also hindered APS in meeting its DG goals. When Congress passed the credit in October they also lifted the residential solar tax credit cap. Previously, purchasers of residential solar systems were eligible for no more than $2000 worth of tax credits; they are now, like non-residential customers, eligible for tax credits worth up to 30% of the total system cost. This is a dramatic increase in federal incentives and in some cases has cut the after-incentive price of residential solar in half. Unfortunately, only residential solar purchasers who commission their systems in 2009 can take advantage of the improved incentives. Accordingly, there is a powerful economic disincentive to commission systems in 2008 and there are currently large number of people who are either waiting until 2009 to purchase a system or our have installed a system and are waiting until the end of the year to turn it on. Obviously, inactive systems do not provide renewable energy credits to APS. While non-residential solar is ramping back up, this timing issue has lead to a dramatic drop in the number of residential systems commissioned in Arizona, and across the country, in 2008. This drop will likely be followed by a rush to commission systems in 2009.

It is the intent of this analysis to first suggest several structural changes for the 2009 implementation plan.

APS has put forward three funding analyses, two of which APS believes will provide for full compliance in 2008. Regardless of which scenario is ultimately adopted, full compliance with REST goals is a necessity. Approval by the Commission of a forward-looking plan that is not designed to reach compliance constitutes a *de facto* endorsement of noncompliance and accordingly would make the RES an abstract goal rather than a requirement.

Of the two scenarios that are compliant, the Solar Alliance prefers a modified version of the full compliance funding plan. However, we would like to see modifications to this plan that would relax the requirement that half of the DG energy production come from residential and half come from non-residential. This is reasonable as demand for non-residential and residential solar may vary from year to year. In fact, the Solar Alliance (as part of the Solar Advocates) supported this concept as part of our response to the staff report on APS' 2008 plan (April, 3 2008 E- E-01345A-07-0468). Our recommended changes have to do with the percentages and doing away with a "hard" split, even or otherwise, between the two categories. APS proposes, "...reaching the total distributed energy target, with a ratio of 25% residential and 75% non residential."

There are three necessary changes:

1. There should be no hard split between the two categories. As was suggested as part of the Solar Alliances' 2008 filling, there should be a minimum requirement for each category. In other words APS should be required to get a minimum percentage from the residential and non-residential categories. This would allow, for instance, residential DG to meet 70% of the requirement one year, and 70% non-residential the next. This float would allow the Commission to avoid the practice of predicting the business model, "winners and losers." It is important to add that considering the current development of contracts to install residential solar as a standard feature on new homes, as well as the dramatic decrease in the price of residential solar as a result of the

lifting of the federal tax incentive cap, it is likely that residential DG systems could meet far more than 25% of the total DG requirement.[1]

2. The 25% number proposed in the alternative plan is two low, and maintains a hard split between the residential and non-residential categories. As stated above, there should be minimum requirements for both residential and non-residential categories. This number should be 30% (it would allow residential or non-residential to meet up to 70% of the total DG requirement, depending on demand, in any given year. Developing the necessary business infrastructure to install the large amounts of distributed generation capacity requires the ability to plan ahead several years. What is needed most is long-term market condition stability. It is easy to imagine a situation where in one year 70% of the DG requirement is met by the a non-residential installations on a big-box store chain and in the subsequent year the easiest way to meet the DG carve out is to do hundreds of homes in a new housing development. The problem is that without maintaining a minimum requirement of at least 30% it could be very difficult for renewable energy developers to maintain the necessary capacity to take on big projects regardless of whether they are residential or non-residential.

3. There is a great need for better reporting on the progress of the current program. The Solar Alliance receives many inquires from policy makers, the media, member companies and the public at large requesting information on the status of the REST goals. Unfortunately, this information is very difficult, if not impossible to obtain. The following informational categories should be updated on a monthly basis and made public on the APS website. Access to this information will allow the public and policy makers to monitor REST goal progress and allow renewable energy installation companies to more easily plan for future demand.

    a. Total and program-year-to-date number of Megawatts of renewable energy installed throughout the service territory broken out by technology type, residential vs. non-residential categories, and by quarter going back to the beginning of 2007.
    b. Total and program-year-to-date number of renewable energy systems installed throughout the service territory broken out by technology type, residential vs. non-residential categories, and by quarter going back to the beginning of 2007.
    c. Total amount of monies remaining for current program year with breakouts for residential and non-residential categories.
    d. Total and program-year-to-date number of renewable energy systems installed throughout the service territory broken out by technology type, residential vs. non-residential categories, and **zip code.**

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[1] The 2009 APS Renewable Energy Standard Implementation plan was drafted before extension of the Investment Tax Credit.

e. Due to the current economic downturn it is prudent that APS provide estimates of the total number of megawatts of renewable energy that will be needed to meet REST goals under two scenarios:
    i. Conservative estimate over the next five years for growth of new service throughout territory, assuming lower than average growth as a result of recessionary economy
    ii. Business as usual growth in new service over the next five years based on past trends.

The above three points are the most pressing concerns to the Solar Alliance associated with APS' filling. However, there is one matter of great concern with regard to the Staff Recommended Order and Opinon (ROO) that it is important to address.

1. In Staff recommendation # 8 they suggest that the Commission not provide assurance of cost recovery for APS to continue Performance Based Incentives (PBI) payments in the event that there are substantial changes to REST rules that might otherwise limit APS' ability to recover costs. This is a significant hurdle to market development. The Solar Alliance submitted comments in this docket on September 18th with regard to this issue. The primary concern expressed in the Alliance filing was that uncertainty over the future of the REST program, and the associated issues with regard to cost recovery for long term PBI contracts, has lead APS to include change of contract language in its PBI contracts. This language essentially states that should APS no longer have the ability to recover costs associated with PBI contracts they would no longer be under any obligation to continue payments. This provision has proven to be a significant barrier to obtaining financing for PBI projects. APS in their October 10th supplemental filling to this docket provided a solution that the Alliance supports: The remedy would be for the Commission to provide some assurance that were the REST program to be discontinued APS would still be able to recover costs associated with PBI contracts entered into under REST rules. This would allow APS to remove the disputed change of contract language from their PBI contracts. This is a situation where a small change in language could eliminate a serious roadblock to the adoption of solar.

2. APS has proposed an amendment that we feel will remedy the above concerns. Accordingly, The Solar Alliance supports the APS Proposed Amendment #3 "Change in Law Contractual Provision" that is included in their "Company Comments to the Proposed Recommended Opinion and Order" and submitted to this Docket.

We appreciate this opportunity to submit comments. Overall, as the various parties involved gain experience with the REST program, we feel that it is becoming a truly viable mechanism for meeting renewable energy goals in a manner responsible to the rate payers. We feel that if the above suggestions are implemented the conditions will be right for APS to successfully` reach full compliance in 2009.

Respectfully submitted,

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