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The **Solar Alliance**

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May 18, 2009

Docket Control

Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
AZ CORP COMMISSION
DOCKET CONTROL

RE: In the Matter of the Application of Arizona Public Service Company for the Approval of a Distributive Energy Initiative: The Community Power Project – Flagstaff Pilot

Docket No. E-01345A-09-0227

The Solar Alliance would like to take this opportunity to address the Arizona Corporation Commission with regard to the approval of Arizona Public Service Company's (APS) proposed Distributive Energy Initiative: The Community Power Project Flagstaff Pilot.

While there are some concerns, the Solar Alliance generally supports this proposal, and wishes to commend APS on their proactive efforts to develop and study Distributed Generation (DG) under high grid-penetration scenarios. There are a number of potential benefits to this pilot program. These include, but are not limited to, the creation of another option for customers worried about rising energy costs; providing low-income customers access to the benefits of renewable energy; obtaining valuable data for future DG planning; and creating for the utilities a vested interest in promoting Distributed Generation and the myriad of associated public benefits.

The Solar Alliance recognizes that this proposal is a limited pilot program and is supportive of Commission approval. However, if APS plans to implement utility ownership on a larger scale, then there are a number of guiding principles that the Solar Alliance believes should be included as part of any program design. These principles have been developed through work in other states where the Solar Alliance has been an active participant in decisions related to the sensitive issue of utility ownership.

- Where utilities propose to own solar assets, these programs should not foreclose other market deployment options. To that end:
 - 1) Utility asset ownership should not account for more than 50% of total program design, based on total capacity (MW), energy generation (MWh) or funding levels.
 - 2) Utility programs should explicitly allow for customer-owned systems served by independent solar companies.
- Where systems are deployed that provide electricity directly to a utility, ratepayers are best served by providing for competition between utility and third-party development and/or ownership.

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- The Solar Alliance supports utility ownership (including internal utility development) of solar assets where the cost advantages are clear.
 - 1) In cases where a utility proposes to construct projects using internal resources, the full costs of deployment, including project management, should be used in comparing ratepayer impact to the costs of projects developed by third parties and sold to a utility.
 - 2) The competitive process should include comparing the ratepayer impact of a third party providing electricity under a long-term Solar Service Agreement (SSA) with the lifetime per-kWh cost of energy of a system owned by the utility.
- Regulations should make utilities indifferent between owning a solar asset and entering into a Solar Service Agreement (SSA). Policy options to accomplish this end can include:
 - 1) Utilities offering third-party project developers standard contract terms with SSA pricing equivalent to the utility's cost structure, including reasonable profits. In other words, SSA providers should be able to sell electricity to utilities, at a rate equivalent to the price a utility would have to charge it's ratepayers to own and operate a system of the same size.
 - 2) Allowing utilities to earn a regulated rate of return on SSAs.

The Solar Alliance appreciates APS's initiative in promoting Distributed Generation and its member look forward to working with APS to make the project a success.

Respectfully submitted,



Carrie Cullen Hitt
President
The Solar Alliance