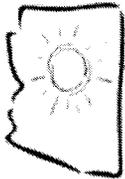


OPEN MEETING AGENDA ITEM



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AriSEIA

Arizona Solar Energy Industries Association

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AZ CORP COMMISSION
DOCKET CONTROL

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ORIGINAL

To: Arizona Corporation Commission
From: The Arizona Solar Energy Industries Association (AriSEIA)
Date: August 21, 2009

RE: IN THE MATTER OF ARIZONA PUBLIC SERVICE COMPANY'S
REQUEST FOR AUTHORIZATION FOR INCREASE IN RECOVERY
GUARANTEE FOR PRODUCTION BASED INCENTIVES FOR
DISTRIBUTED RENEWABLE ENERGY GENERATION. (Docket No.
E-01345A-09-0263).

The Arizona Solar Energy Industries Association (AriSEIA) is a trade association that represents a large number of distributed solar energy companies. These companies include contractors, who design, build and install solar energy systems, companies who represent investors in solar projects, manufacturers of solar equipment, and various other companies involved in the solar industry. AriSEIA has been active in these RES proceedings since their inception. We appreciate the opportunity to comment on the Arizona Public Service (APS) filing and applaud the Commission's willingness to so quickly address these issues which are critical to the solar industry.

Arizona Corporation Commission
DOCKETED

AUG 21 2009

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Background

There are two issues that we wish to comment on in this letter. The first is APS's request for an increase in their lifetime PBI commitment cap from \$77 million to \$220 million. The second is APS's request to transfer unused residential funds to be used for solar energy systems for schools. As this Commission is aware, the RES Rule and model implementation plan developed by the UCPP Working Group involved thousands of hours of effort by Commission, Staff, the utilities, industry, and other stakeholders. At the time of development of the RES and model plan, there was limited distributed renewable energy in the State. The RES and implementation plan was developed under an educated best guess scenario of how the distributed market might develop. Given those circumstances, we believe that the program is working remarkably well, although not perfectly. The current situation is simply a glitch in an otherwise successful program.

Lifetime PBI Cap Commitment

AriSEIA appreciates the work by Staff, but believes Staff has not fully discussed in its report the cause for possible over-subscription in the non-residential PBI portion of its program. The underlying problems must be fully discussed and mitigated in the future in order to promote growth in all sectors of the industry. AriSEIA believes that a program that will promote sustainable growth in the solar industry must have some flexibility and be as transparent as possible. When the APS 2009 implementation plan was adopted by the Commission, APS was allowed to rate base up to \$77 million dollars should the REST go away due to Commission action or other unforeseen events. This led to the removal of the change of law provisions in the APS credit purchase agreement. Now, APS's commercial program is overwhelmed with \$240 million worth of reservation requests, far exceeding the \$77 million figure. We support the request by APS to raise the cap to \$220 million. We recognize that APS must be able to do business freely without the concerns that the law may change and leave them holding the bag. As the program was developed, it was recognized that there would be long term financial commitments that would need to be met.

However, Staff also indicates that this cap should cover the non-residential PBI through 2010. AriSEIA believes that this should be clarified to identify that the \$220 million includes some projects reserved in 2009 but not completed until 2010. Reservations made in 2010 will be subject to a separate lifetime commitment, as indicated in the APS filing for its 2010 Plan. Additionally, we feel that other measures can be taken to prevent the slowdown of the commercial market in the future.

AriSEIA is currently working with APS and other stakeholders to develop solutions to this problem for the program year beginning in 2010. We believe it will be of upmost importance to incorporate these solutions into the program and provide the upmost transparency and flexibility that the program can provide.

Only with access to some basic information regarding the projects currently under reservation with APS, can we fully understand the steps that should be taken to help alleviate the problem.

There are some basic measures that will help to solve some of the current problems. First, we should insist that only well qualified projects receive reservations and insure that projects have firm milestones to verify that they are moving forward. AriSEIA members are concerned that the current cap on reservations linked to the lifetime funding commitment may not adequately reflect the potential cancellation rate of projects which are currently taking up allocated funds and preventing the reservations for any new projects in APS service territory. APS has indicated that the number of reservations that have been cancelled to date is approximately 13%. This is based on a relatively small sample of projects. A review of solar incentive programs in other states reveals "drop out" rates as high as 62%. Cancellation rates at this level would leave APS far short of the required number of RECs to comply with the RES.

The cancellation rate issue was not fully addressed by the Working Group due to the belief that funds from cancelled projects would reenter the program in a way that would not significantly slow industry progress. The Working Group's recommendations did not anticipate the decision to establish a "lifetime cap" on non-residential PBI projects. The lifetime cap has necessitated that the cancellation rate issue be reviewed.

Another concern of AriSEIA members is that a small number of projects represent a disproportionately large percentage of the overall budget. It is our understanding that some of these projects individually represent more solar capacity than all the PV that was installed in the state in 2008. Many of these large projects do not have all the elements in place required to guarantee their completion, or even to start construction. To insure that large projects do not stall the program in the future, APS is proposing a project size cap and to treat funding for such projects separately in 2010 and going forward. Under the RES, we need to be sure that there is a structure for larger projects to move forward without affecting the reservation process for the smaller distributed projects.

We also must understand that the vast majority of the projects to date have been PV projects. As other *non-residential distributed technologies* play a greater role in the market place, we will see some relief for the program funding.

Given all of the factors outlined, AriSEIA believes that we will not be in a money shortage situation in future program years. Nonetheless, due to this unexpected situation, the market is stagnating and we urge the Commission to increase the cap to \$220.

Staff also proposes that the non-residential incentive for PV be reduced retroactive to June 2009 instead of the current date of January 1, 2011 as a way to further spread incentive dollars. AriSEIA believes that this idea, although sound in theory should not be adopted at this time due to the reality of the

situation. As noted above, the current incentive price is not too high; other factors have combined to create what appears to be over-demand.

The Uniform Credit Program Working Program developed a formula for a decline in incentives. That first decline was recommended to take place in 2011. We believe that the incentive should remain unchanged for both the general commercial market and for the schools. We believe that the market determine the incentive level. Under the current program, anyone who has a project that they feel can move forward with a lower PBI is welcome to ask for a lower PBI, which will give them a better rating in the ranking calculator. This will increase their chances for funding. This process, when it was developed by the UCCP Working Group, was meant to help bring the cost of the PV down and the corresponding incentive rate. It is a market based method of bringing down program costs.

In addition, AriSEIA believes that it is *very important* that the increase in funding be spread evenly throughout the remainder of the year. This is best accomplished by dividing the additional funding by the following reservation periods:

May-June	\$35.75 million
July-August	\$35.75 million
September-October	\$35.75 million
November-December	\$35.75 million

This will insure that the program does not end up in the same position that it currently is in. (This division may vary slightly based on monies already committed for the May-June auction period.) However, as noted earlier, we need to develop a method of moving larger projects forward with our slowing down the market for smaller projects.

Reallocation of Funds

AriSEIA does not have any objections to transferring the unused residential funds to be used for schools at the end of 2009. We believe that this will not only offer schools an excellent opportunity to save money that can be used in the classroom, but will offer an excellent educational opportunity for students. We are however concerned that this will set a precedent and this move should be considered a one time opportunity that will allow schools to take advantage of federal stimulus funds to invest in our school buildings. We do have concerns with Staff's proposal to immediately allocate \$20 million of residential funds to schools since it does not take into consideration the nuances of the residential market. Traditionally, the residential market for solar energy systems increases significantly during the last two quarters of the year, the fourth quarter is by far the busiest time of the year for those in the residential solar business.

We do not believe that Staff's proposal to allocate the \$20 million of residential funds to schools considers the year end market increase and could leave a shortfall of funds at the end of the year. Interruption of the market during its peak would have a devastating effect on many companies, especially new entrants into the market. We encourage the Commission to insure that the residential program remains fully funded throughout the year.

We believe that opening up funding to schools during this unique time, however, is a good idea for the program. Schools should be eligible for immediate funding on a first-come, first-served basis up to a \$15 million cap. According to the Staff report, even if the residential installations double, there will still be \$15 million unspent residential dollars at the end of 2009 that could beneficially fund school projects that may not otherwise be funded. In addition, if there are other unspent residential funds remaining at the end of 2009, these should also be allocated to this special, one-time school program.

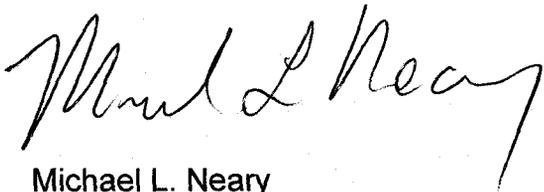
AriSEIA also opposed counting the RECS generated by the school projects under the residential category. While the residential program has gotten off to a slower start, there is still an enormous potential for Arizona homeowners to participate in the program. We are seeing an increase in the number of reservations for solar water heating systems which is a technology that is affordable to most homeowners. Many homeowners purchase solar energy systems at the end of the year due to tax considerations. It is easier to afford to install a solar energy system if you can recoup your tax credits as soon as possible by filing federal and state income tax returns shortly after January 1st. Should the residential program run out of funds late in the year, it would not be financially feasible for many homeowners to participate in the program.

We believe that APS is doing an excellent job of promoting the program and that the residential market will continue to grow. Additionally, the increasing market share of residential water heating systems will help bring program costs down and make up for some of the funds lost to the schools program. AriSEIA also wishes to note that solar thermal for schools should be considered at the current level for up front incentives. This would include \$2.50/watt for a PV, \$1.00/kWh for space cooling, \$0.45/kWh for space heating, \$0.75/kWh for water heating, and \$0.10/kWh for pool heating. This incentive calculation for an upfront payment should be consistent with how the non-residential solar thermal RECs are currently counted, for consistency and accuracy as non-residential projects differ widely from residential projects. The incentive should be calculated based on the projected first year useful energy output as certified by a professional engineer.

AriSEIA believes that the Commission, Staff, and the Working Group have developed the groundwork for an excellent program that will achieve its intended goals. Further refinement of the 2010 Plan based on the recommendations

submitted in this letter will insure that any current problems are diminished in the future. The Solar Energy Industries Association looks forward to working with APS and all other stakeholders to make program changes that will lead to a sustainable market for solar energy systems in the future and thank the Commission for this opportunity to comment on this matter. .

Respectfully submitted

A handwritten signature in black ink, reading "Michael L. Neary". The signature is written in a cursive style with a large, prominent initial "M".

Michael L. Neary
President
Arizona Solar Energy Industries Association