

OPEN MEETING



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ORIGINAL

MEMORANDUM

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Arizona Corporation Commission

TO: THE COMMISSION

DOCKETED

2010 APR -2 P 4:01

FROM: Utilities Division

APR -2 2010

AZ CORP COMMISSION
DOCKET CONTROL

DATE: April 2, 2010



RE: ARIZONA PUBLIC SERVICE COMPANY'S APPLICATION FOR MODIFICATION TO THE RESIDENTIAL DISTRIBUTED ENERGY INCENTIVE (DOCKET NO. E-01345A-09-0338)

On March 31, 2010, Arizona Public Service Company ("APS" or "Company") filed an application to modify, retroactive to March 31, 2010, its residential distributed energy ("DE") incentives that were approved in Decision No. 71459. APS requested an expedited consideration of the application. The APS residential DE program, according to APS, has greatly exceeded its forecasted participation. APS believes that, given the current incentive levels and the pace of residential applications, the funding for residential incentives will probably be exhausted before June 2010.

APS has suggested three possible solutions. First, APS could lower the incentive amounts, thereby spreading the remaining residential incentive funds over a larger number of installations. Second, the Commission could increase the Renewable Energy Standard ("RES") adjustor to increase the funding available for residential incentives. Third, the Commission could approve a combination of lowered incentives and an increase in the RES adjustor.

APS indicated in its filing that if the third option were chosen, in order to meet customer demand at the proposed incentive of \$2.15 per installed watt, APS would need a RES adjustor increase of \$25.9 million. That increase in funding would require an increase of \$1.48 in the residential cap to a new cap of \$4.94 per month.

The number of residential customer DE systems increased significantly in 2009. Unlike past years, the demand for residential incentives did not drop off in the first quarter of 2010 as it historically has in past years. The pace of residential applications for 2010 is 110 applications per week, resulting in almost \$1.5 million in reservation commitments per week. APS believes that the current approved incentives may exceed the level necessary to encourage customer participation.

APS included in its filing a report from an outside consultant, Vermont Energy Investment Corporation ("VEIC"). VEIC has been a consultant on similar topics in many states. VEIC suggested an immediate reduction of PV incentive to \$2.30 per installed watt. VEIC also

suggested that APS divide the remaining incentive funds equally into two funding cycles. VEIC also recommended that, after the first 4 megawatts ("MW") of capacity reserved at \$2.30 per watt was committed, the incentive should automatically drop to \$2.10 per watt. This capacity-based step-down would function independent of the calendar year.

VEIC also suggested a two-tiered PV incentive structure. In this structure, for installed capacity up to 10 kilowatts ("kW"), the incentive would be the \$2.30 incentive proposed by VEIC. However, for capacity greater than 10 kW, the incremental capacity would receive a reduced incentive of 15 percent less than the current incentive level (i.e., 15 percent less than \$2.30). In this instance, that would be \$1.95 per watt.

APS has recommended the first option: a reduction in the incentive for both residential grid-tied photovoltaic ("PV") systems and solar water heaters ("SWH"). The incentive for grid-tied PV systems would drop from the current \$3 per watt to \$2.15 per installed watt (direct current). For solar water heating, the incentive would drop from \$0.75 per first year kilowatt-hour ("kWh") savings to \$0.50 per first year kWh savings. The PV and SWH technologies currently claim 98 percent of the residential DE market.

APS agreed with the VEIC recommendation to split the remaining funding into two funding cycles. APS also recommended, per VEIC's suggestion, that an automatic incentive reduction be made after 4 MW of capacity was reserved. APS chose not to request any additional funding.

Staff has reviewed the APS application and the report by VEIC.

APS' approach is to move quickly to solve an unanticipated problem that, if not promptly corrected, will negatively impact the residential solar marketplace and solar industry in Arizona. In lowering the incentive offered, from \$3 per watt to \$2.15 per watt, APS will increase the number of residential solar systems that will qualify for the limited \$11.4 million that remains in the residential incentive allocation.

Staff recommends that the Commission approve the new \$2.15 per watt PV incentive as an upper limit to incentives that APS may provide. If a customer files an application for a PV incentive that is less than the \$2.15 per watt, Staff recommends APS provide that lower incentive to the customer.

By dividing the remaining funding into two portions, APS will be able to extend availability of residential incentives into the critical fourth quarter of 2010. Historically, sales in the fourth quarter have typically increased significantly over the previous three quarters. Without such action, APS may deplete the remaining residential incentive allocation prior to the fourth quarter, leaving no funding left for residential projects.

Staff appreciates the recommendations of VEIC. Staff agrees with VEIC and APS that the remaining residential incentive funds should be divided into two funding cycles, using the

dates proposed by APS. The first cycle would run from the date of the Commission's order on this matter to August 31, 2010, and the second cycle would run from September 1, 2010 to December 31, 2010. Staff recommends that APS be allowed to use funds in the first cycle up to the amount that would leave a balance of at least \$5.0 million for the second cycle.

Staff agrees with VEIC's suggestion and APS' recommendation that there be an automatic incentive reduction after a certain number of MWs of applications. However, Staff does not agree that 4 MW is the correct number to trigger the automatic incentive reduction.

Staff, using the APS projected remaining funds of \$11.4 million and the recommended incentive reductions, determined that only 25 percent of the remaining funds would be available if the automatic reduction were take place at a 4 MW trigger. Staff recommends using a 3 MW trigger instead. This approach would allow for a better chance of the remaining funds to last until year end.

Staff's Recommendations

Staff generally agrees with APS on its analysis of the problem and the proposed solution. Staff recommends that the Commission approve the following changes to the APS 2010 REST Implementation Plan:

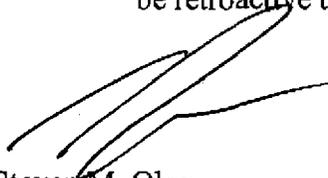
1. A modification in the residential DE incentive to a maximum of \$2.15 per installed watt for residential grid-tied PV systems;
2. APS would be allowed to provide PV incentives at less than the maximum, if requested by the customer.
3. A reduction of the residential PV incentive to \$1.95 per watt after the first 3 MW of additional reserved capacity at the \$2.15 per watt level;
4. A modification in the residential DE incentive to \$0.50 per first-year kWh savings for SWH;
5. A two funding cycle approach where APS shall split the remaining uncommitted residential incentive budget into two funding cycles, with the first cycle to run from the date of the Commission's order on this matter to August 31, 2010, and the second cycle to run from September 1, 2010 to December 31, 2010. The funding for the second cycle shall be a minimum of \$5.0 million.

THE COMMISSION

April 2, 2010

Page 4

6. The implementation of the residential DE incentive modifications adopted herein to be retroactive to March 31, 2010.



Steven M. Olea
Director
Utilities Division

SMO:RTW:lhm\WVC

ORIGINATOR: Ray Williamson

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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman

GARY PIERCE
Commissioner

PAUL NEWMAN
Commissioner

SANDRA D. KENNEDY
Commissioner

BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION)
OF ARIZONA PUBLIC SERVICE)
COMPANY FOR MODIFICATION TO THE)
RESIDENTIAL DISTRIBUTED ENERGY)
INCENTIVE)

DOCKET NO. E-01345A-09-0338

DECISION NO. _____

ORDER

Open Meeting
April 13, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS" or "Company") is engaged in providing electric service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On March 31, 2010, APS filed an application to modify, retroactive to March 31, 2010, its residential distributed energy ("DE") incentives that were approved in Decision No. 71459. APS requested an expedited consideration of the application.

3. The APS residential DE program, according to APS, has greatly exceeded its forecasted participation. APS believes that, given the current incentive levels and the pace of residential applications, the funding for residential incentives will probably be exhausted before June 2010.

4. APS has suggested three possible solutions. First, APS could lower the incentive amounts, thereby spreading the remaining residential incentive funds over a larger number of

1 installations. Second, the Commission could increase the Renewable Energy Standard ("RES")
2 adjutor to increase the funding available for residential incentives. Third, the Commission could
3 approve a combination of lowered incentives and an increase in the RES adjutor.

4 5. APS indicated in its filing that if the third option were chosen, in order to meet
5 customer demand at the proposed incentive of \$2.15 per installed watt, APS would need a RES
6 adjutor increase of \$25.9 million. That increase in funding would require an increase of \$1.48 in
7 the residential cap to a new cap of \$4.94 per month.

8 6. The number of residential customer DE systems increased significantly in 2009.
9 Unlike past years, the demand for residential incentives did not drop off in the first quarter of 2010
10 as it historically has in past years. The pace of residential applications for 2010 is 110 applications
11 per week, resulting in almost \$1.5 million in reservation commitments per week. APS believes
12 that the current approved incentives may exceed the level necessary to encourage customer
13 participation.

14 7. APS included in its filing a report from an outside consultant, Vermont Energy
15 Investment Corporation ("VEIC"). VEIC has been a consultant on similar topics in many states.
16 VEIC suggested an immediate reduction of the PV incentive to \$2.30 per installed watt. VEIC
17 also suggested that APS divide the remaining incentive funds equally into two funding cycles.
18 VEIC also recommended that, after the first 4 megawatts ("MW") of capacity reserved at \$2.30
19 per watt was committed, the incentive should automatically drop to \$2.10 per watt. This capacity-
20 based step-down would function independent of the calendar year.

21 8. VEIC also suggested a two-tiered PV incentive structure. In this structure, for
22 installed capacity up to 10 kilowatts ("kW"), the incentive would be the \$2.30 incentive proposed
23 by VEIC. However, for capacity greater than 10 kW, the incremental capacity would receive a
24 reduced incentive of 15 percent less than the current incentive level. In this instance, that would
25 be \$1.95 per watt.

26 9. APS has recommended the first option: a reduction in the incentive for both
27 residential grid-tied photovoltaic ("PV") systems and solar water heaters ("SWH"). The incentive
28 for grid-tied PV systems would drop from the current \$3 per watt to \$2.15 per installed watt (direct

1 current). For solar water heating, the incentive would drop from \$0.75 per first year kilowatt-hour
2 ("kWh") savings to \$0.50 per first year kWh savings. The PV and SWH technologies currently
3 claim 98 percent of the residential DE market.

4 10. APS agreed with the VEIC recommendation to split the remaining funding into two
5 funding cycles. APS also recommended, per VEIC's suggestion, that an automatic incentive
6 reduction be made after 4 MW of capacity was reserved. APS chose not to request any additional
7 funding.

8 11. Staff has reviewed the APS application and the report by VEIC.

9 12. APS' approach is to move quickly to solve an unanticipated problem that, if not
10 promptly corrected, will negatively impact the residential solar marketplace and solar industry in
11 Arizona. In lowering the incentive offered, from \$3 per watt to \$2.15 per watt, APS will increase
12 the number of residential solar systems that will qualify for the limited \$11.4 million that remains
13 in the residential incentive allocation.

14 13. Staff recommends that the Commission approve the new \$2.15 per watt PV
15 incentive as an upper limit to incentives that APS may provide. If a customer files an application
16 for a PV incentive that is less than the \$2.15 per watt, Staff recommends that APS be authorized to
17 provide that lower incentive to the customer.

18 14. By dividing the remaining funding into two portions, APS will be able to extend
19 availability of residential incentives into the critical fourth quarter of 2010. Historically, sales in
20 the fourth quarter have typically increased significantly over the previous three quarters. Without
21 such action, APS may well reach the fourth quarter with no funding left for residential projects.

22 15. Staff appreciates the recommendations of VEIC. Staff agrees with VEIC and APS
23 that the remaining residential incentive funds should be split into two funding cycles, using the
24 dates proposed by APS. The first cycle would run from the date of the Commission's order on this
25 matter to August 31, 2010, and the second cycle would run from September 1, 2010 to
26 December 31, 2010. Staff recommends that APS be allowed to use funds in the first cycle up to
27 the amount that would leave a balance of at least \$5.0 million for the second cycle.

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1 16. Staff agrees that VEIC's suggestion and APS' recommendation that there be an
2 automatic incentive reduction after a certain number of MWs of applications. However, Staff does
3 not agree that 4 MW is necessarily the correct number to trigger the automatic incentive reduction.

4 17. Staff, using the APS projected remaining funds of \$11.4 million and the
5 recommended incentive reductions, determined that only 25 percent of the remaining funds would
6 be available if the automatic reduction were to take place at a 4 MW trigger. Staff recommends
7 using a 3 MW trigger instead. This approach would allow for a better chance of the remaining
8 funds to last until year end.

9 Staff's Recommendations

10 18. Staff generally agrees with APS on its analysis of the problem and the proposed
11 solution. Staff recommends that the Commission approve the following changes to the APS 2010
12 REST Implementation Plan:

- 13 • A modification in the residential DE incentive to a maximum of \$2.15 per installed
14 watt for residential grid-tied photovoltaic systems;
- 15 • APS would be allowed to provide photovoltaic incentives at less than the maximum, if
16 requested by the customer;
- 17 • A reduction of the residential photovoltaic incentive to \$1.95 per watt after the first 3
18 MW of additional reserved capacity at the \$2.15 per watt level;
- 19 • A modification in the residential DE incentive to \$0.50 per first-year kWh savings for
20 SWH;
- 21 • A two funding cycle approach where APS shall equally divide the remaining
22 uncommitted residential incentive budget into two funding cycles, with the first cycle
23 to run from the date of the Commission's order on this matter to August 31, 2010, and
24 the second cycle to run from September 1, 2010 to December 31, 2010. Funding for
25 the second cycle shall be a minimum of \$5.0 million.
- 26 • The implementation of the residential DE incentive modifications adopted herein to be
27 retroactive to March 31, 2010.

28 CONCLUSIONS OF LAW

1. APS is an Arizona public service corporation within the meaning of Article XV,
Section 2, of the Arizona Constitution.

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IT IS FURTHER ORDERED that the implementation of the residential distributed energy incentive modifications adopted herein is retroactive to March 31, 2010.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:RTW:lh\WVC

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO. E-01345A-09-0338

3
4 Ms. Deborah R. Scott
5 Pinnacle West Capital Corporation
6 400 North Fifth Street
7 Post Office Box 53999/MS 8695
8 Phoenix, Arizona 85072-3999

Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

9 Mr. C. Webb Crockett
10 Mr. Patrick J. Black
11 Fennemore Craig, PC
12 3003 North Central Avenue, Suite 2600
13 Phoenix, Arizona 85012-2913

Ms. Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

14 Mr. Scott Wakefield
15 Ridenour, Hinton & Lewis, P.L.L.C.
16 201 North Central Avenue, Suite 3300
17 Phoenix, Arizona 85004-1052

18 Mr. Adam Browning
19 Executive Director
20 The Vote Solar Initiative
21 300 Brannan Street, Suite 609
22 San Francisco, California 94107

23 Mr. David L. Townley
24 Vice President, US Sales & Marketing
25 Infinia Corporation
26 6811 West Okanogan Place
27 Kennewick, Washington 99336

28 Mr. Herbert Abel
Chief Executive Officer, Green Choice Solar
15344 North 83rd Way, Suite 101
Scottsdale, Arizona 85260

Mr. Michael L. Neary
President
Arizona Solar Energy Industries Association
111 West Renee Drive
Phoenix, Arizona 85027