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November 8, 2010

Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

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AZ CORP COMMISSION
DOCKET CONTROL



Southern Arizona Green
Chamber of Commerce

RE: Docket NO. E-01933A-10-0266

Dear Commissioners:

The Southern Arizona Green Chamber of Commerce (SAGCC) welcomes the opportunity to comment on TUCSON ELECTRIC POWER (TEP) COMPANY'S APPLICATION FOR APPROVAL OF ITS 2011 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN (DOCKET NO. E-01933A-10-0266).

SAGCC commends the Arizona Corporation Commission and Tucson Electric Power for making 2010 the best year for solar energy in Southern Arizona to date. SAGCC believes that TEP's 2011 implementation plan continues this exciting advancement of solar energy in Arizona. While SAGCC supports TEP's application, we do, however, want to bring attention to the impact of the Davis Monthan Air Force Base (DMAFB) solar project on the commercial distributed generation (DG) market and address several questions put forward by chairman Mayes in her October 21st letter.

The 15 MW Davis Monthan Air Force Base solar project reduces the small commercial DG market and the large commercial PBI market by 50% over the next 5 years. Although this project fits well within the parameters of the REST, SAGCC encourages the commission to examine the impacts this will have on the commercial market and explore possible policy options to maintain a vibrant commercial marketplace.

Potential policy alternatives:

- Encourage over compliance by separating the budget from compliance targets. TEP would require approximately \$1,833,832 to maintain the levels of commercial DG activity seen prior to the DMAFB solar installation. This would increase the commercial surcharge cap by 18%.

As we have witnessed, when demand is steady and in proper volumes, costs come down. Significant market contraction, whether in commercial or residential sectors, can shift solar back to a boutique industry with correspondingly high prices. Furthermore, the customers who pay into the REST will be unable to participate proportionally into incentive programs if their market is curtailed significantly.

Southern Arizona's Future under the Renewable Energy Standard:

Arizona is a renewable resource rich state with vast potential for creating a vibrant solar and clean technology industry, which, in turn, can drive economic growth for years to come. SAGCC applauds the Renewable Energy Standard and Tariff (REST) and its ability to set Arizona on a path toward such a goal. A mature and vibrant renewable energy industry; however, requires a steady and stable market. In two years, utilities will fulfill their DG requirements. As seen in TEP's 5 year budget, the number of systems needing to be installed in 2013 will be 40% less than the year previous. This will lead to a severe contraction in the industry with subsequent job loss and warranty issues for consumers. Although the solar industry is making great strides in being less dependent on utility incentives, 2013 is too soon for that level of cutback. A volatile economic climate composed of extreme "bull" and "bear" markets will discourage long-term investment and the subsequent job creation Southern Arizona so desperately needs.

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SAGCC proposes that the Commission use the REST as a minimum standard and encourage cost effective over compliance through the following mechanisms:

- Cost recovery for utilities, including a bonus when certain goals are reached, such as 2,000 residential systems installed within the utility territory.
- Detach incentive budgets from compliance targets.
- If a large project can pose significant market disruption, options to mitigate impact should be required.

Other options going forward:

- Modify the manner in which the REST surcharge is presented on a ratepayer's bill. A lack of accuracy in how REST funds are utilized and what the surcharge means to the ratepayer can lead to confusion. As stated in the utilities MCCCCG figures and RW Beck's report on the benefits of DG, the REST is less expensive than the figure on customers' bills. The avoided fuel costs alone would reduce the ultimate surcharge by 40% (see Appendix 1). This figure does include the other benefits of DG as well.
- Establish a third-party administrator to handle the REST funds for smaller cooperatives. Unlike larger utilities in the state, co-ops do not have the resources or administrative capacity to quickly and efficiently convert REST funds into deployed renewable energy projects. A third-party administrator would provide consistency for solar installers and project developers wishing to partner with co-ops, allowing for a more efficient distribution of REST funds.
- Explore on-bill financing. An on-bill tariff, tied to the meter, would effectively eliminate the need for a utility incentive (UFI). Consequently, ratepayers would save significantly and be made whole (recoup their investment) at the end of the loan term. By lowering or eliminating the upfront cost, more customers would be able to obtain solar. To implement such a system, a third party would most likely need to be involved to handle tariff servicing and billing, also a change in Arizona administrative code (R14-2-211 Termination of service) may need to be modified.
- Offer Feed-in Tariffs (FIT) in the wholesale market and for rate classes with high demand charges. A well-designed FIT can greatly accelerate renewable energy deployment. A FIT program should be designed to automatically adjust rates when certain volume based goals are met, enabling continuous market growth at a responsible cost without having to revisit rates on a calendar-based schedule. SAGCC believes that a FIT rate of \$.24 is a prudent starting point for the 1 MW and under market.
- Provide assistance to nonprofits. If the 1603 Treasury Grant program is allowed to sunset, nonprofits will face high barriers when trying to obtain solar. As REST ratepayers, a special incentive program may be required.

The REST has been instrumental in promoting the growth of the renewable energy industry in Arizona. It can proudly claim to have substantially lowered the cost for solar, strengthened Arizona's energy security by diversifying energy supply, and created economic opportunity for countless Arizonans. TEP's 2011 implementation plan successfully embodies the vision laid out in the REST, and we are proud to support

it. We are also grateful to be a part of the dialogue as the ACC looks to position the REST for long-term success in the years to come.

Thank you for your time and consideration,



Melissa Black
President



Matthew McDonnell
Policy Lead, Governmental Affairs

Appendix 1

		APS REST Calculations		
MWh	kWh	Money Saved	Market Cost of Comparable Conventional Gene	
674,627	674,627,000	\$ 37,539,619	Solar PV	\$ 0.0595 kWh
		Program Cost	Wind	\$ 0.0518
		\$ 94,400,000	Average	
		(minus R&D)	\$ 0.0556	
		40% of cost recouped		