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AZ CORP COMMISSION  
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KRISTIN K. MAYES, Chairman  
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IN THE MATTER OF THE  
APPLICATION OF TUCSON ELECTRIC  
POWER COMPANY FOR APPROVAL  
OF ITS 2011 RENEWABLE ENERGY  
STANDARD AND TARIFF  
IMPLEMENTATION PLAN AND  
REQUEST FOR RESET OF  
RENEWABLE ENERGY ADJUSTOR.

DOCKET NO. E-01933A-10-0266

THE SOLAR ALLIANCE'S NOTICE  
OF FILING RESPONSE TO  
CHAIRMAN MAYES' LETTER

The Solar Alliance ("Solar Alliance"), by its counsel undersigned, provides notice of filing the attached response to Chairman Mayes' October 21, 2010 letter in the above-referenced matter.

Dated this 9<sup>th</sup> day of November, 2010.

Arizona Corporation Commission

DOCKETED

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DOCKETED BY

RIDENOUR, HIENTON, & LEWIS, P.L.L.C.

By

Scott S. Wakefield  
201 North Central Avenue, Suite 3300  
Phoenix, Arizona 85004-1052  
Attorneys for The Solar Alliance

ORIGINAL and 13 copies filed  
this 9<sup>th</sup> day of November, 2010 with:

Docket Control  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, AZ 85007

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1 COPY of the foregoing HAND-  
2 DELIVERED this 9<sup>th</sup> day of  
November, 2010 to:

3 Commissioner Kristin K. Mayes, Chairman  
4 Commissioner Gary Pierce  
5 Commissioner Paul Newman  
6 Commissioner Sandra D. Kennedy  
7 Commissioner Bob Stump  
8 1200 W. Washington Street  
9 Phoenix, Arizona 85007

7 Lyn Farmer  
8 Chief Administrative Law Judge  
9 Hearing Division  
10 Arizona Corporation Commission  
11 1200 West Washington Street  
12 Phoenix, Arizona 85007

10 Janice M. Alward, Esq.  
11 Chief Counsel, Legal Division  
12 Arizona Corporation Commission  
13 1200 West Washington Street  
Phoenix, Arizona 85007

13 Steven M. Olea, Director  
14 Utilities Division  
15 Arizona Corporation Commission  
16 1200 West Washington Street  
Phoenix, Arizona 85007

17  
18 COPY of the foregoing  
19 ELECTRONICALLY TRANSMITTED  
this 9<sup>th</sup> day of November, 2010 to:

20 Michael W. Patten  
21 Roshka DeWulf & Patten, PLC  
22 400 East Van Buren Street, Suite 800  
Phoenix, Arizona 85004  
Email: [mpatten@rdp-law.com](mailto:mpatten@rdp-law.com)  
Attorneys for Tucson Electric Power Company

23 ///

24 ///

25 ///

26 ///

1 Phillip J. Dion  
Melody Gilke  
2 Tucson Electric Power Company  
One South Church Ave., Suite 200  
3 Tucson, Arizona 85701  
Email: [Philip.dion@azbar.org](mailto:Philip.dion@azbar.org)  
4 [mgilke@tep.com](mailto:mgilke@tep.com)

5 Court Rich  
Rose Law Group, P.C.  
6 6613 N. Scottsdale Rd, Suite 200  
Scottsdale, AZ 85250  
7 Email: [crich@roselawgroup.com](mailto:crich@roselawgroup.com)  
*Attorneys for Solar City Corporation*

8 C. Webb Crockett  
9 Patrick J. Black  
Fennemore Craig, P.C.  
10 3003 N. Central Ave., Suite 2600  
Phoenix, AZ 85012-2913  
11 Email: [wcrockett@fclaw.com](mailto:wcrockett@fclaw.com) and [pblack@fclaw.com](mailto:pblack@fclaw.com)  
*Attorneys for Freeport-McMoRan Copper*  
12 *& Gold Inc. and Arizonans for Electric*  
13 *Choice and Competition*

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**THE SOLAR  
ALLIANCE  
MEMBER  
COMPANIES**



American Solar  
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November 8, 2010

Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona

**Re: 2011 REST Implementation Plans; Request for additional information in  
advance of November workshop; Docket Nos. E-01345A-10-0262; E-01345A-  
10-0166**

The Solar Alliance welcomes the opportunity to comment in response to Chairman Mayes's letter issued on October 21, 2010. The Solar Alliance (Alliance) respond to many of the Chairman's questions in this document. We also direct the Commission to our forthcoming comments on both Arizona Public Service (APS) and Tucson Electric Power's (TEP) 2011 REST plans (Docket Numbers E-01345A-10-0262 & E-01345A-10-0166, and E-01933A-10-0266 and E-01933A-10-026, respectively). Representatives of the Solar Alliance will attend the November 10<sup>th</sup> workshop and available answer any other questions.

**1. Response to Questions Under the Residential Distributed Energy (DE)  
Programs Section**

In her letter Chairman Mayes asked Parties if the step-down in incentive levels should be based on additional factors (to a megawatt trigger), using other potential criteria such as the price of modules, estimated system payback periods, etc. In her statement, the Chairman posited that a megawatt-based step down could in fact slow the pace of the market, and that including other factors in the steps could be more accurate to market conditions.

In our view, a primary goal of a step-down program is to encourage market forces to help bring solar system retail prices in tandem with the industry's own pace, while at the same time providing upfront certainty and clarity to installers. Our industry aims to use the incentive program to build a stable, mature field of competitive residential providers who offer quality and reliability to the customer. We do not support using multiple factors to determine the step-down, as that could cause confusion to installers and to the market.

The incentive offered should, however, take into account the status of state or federal tax credits, the price of modules, system price, etc. These are factors that should be built into periodic program evaluations, or into a cost-benefit study on whether to raise the REST.

An additional important factor in tempering the turbulence in demand is the certainty of viable projects applying for incentives. The APS proposal to introduce a rapid reservation system to dramatically lower bids is not necessary because of the declining step-down program. A parallel reservation system would add a layer of confusion for installers and program evaluators, and could confuse customers with less scrupulous providers. APS has not provided reliable market studies to support its proposal of \$1/watt. This dual track, aggressive incentive level could lead to a number of false or duplicate bids, which then drop out of the program, confusing the picture of demand for the program, just as we are improving its clarity via public reporting.

Chairman Mayes asked whether the parties support a plan to allow for flexibility between the residential and commercial distributed energy budgets, at least in the amount of \$20 million. The Solar Alliance does not support this suggestion. Instead, we recommend a yearly residential budget that will allow for stable deployment in each utility program. The residential industry has grown significantly while the cost of deployment on residential rooftops has declined.. APS' 2009 Annual Compliance Report, stated "it was not uncommon for systems to be installed at costs near \$9 per installed watt." In the draft 2011 APS RES Plan states "a high volume of applications offered installed costs below \$5.00 per watt." In the last three years, APS has seen a reduction of cost per installed watt of 45%. The decline in costs is a direct outcome of the economies of scale achieved in Arizona. It would be unfortunate for the residential industry to fade away after all of the work the Commission and industry has done to create such a large, cost-efficient market. If a specific budget is created for each utility, the market will continue to thrive and consumers benefit,. Finally, Chairman Mayes solicits perspectives on whether parties support a plan to allow commercial and residential distributed energy projects to fill 10, 25 or 50 percent of the gap created by the potential failure of a utility-scale project. The Alliance does not support this plan, and instead requests that newly available capacity in the utility-scale portion of the RES, due to project failure, be re-deployed through a supplemental RFP process. The Alliance's comments on the APS and TEP 2011 REST plans will address this issue as well.

## **2. Response to Questions Under the Viability and Security Deposits Section**

The Solar Alliance supports the use of security deposits for projects bid into Requests for Proposals (RFPs) in order to ensure that only serious developers with viable projects are competing. Both upfront security deposits and milestone-

based security deposits could be valuable to the program, as long as they reflect reasonable amounts in reference to the size of the investment (usually categorized by size ranges of installation). We recommend the Commission consider approaches used in other markets. For example, California's application fees for its incentive program can be found on the [www.GoSolarCalifornia.ca.gov](http://www.GoSolarCalifornia.ca.gov) website handbook for the California Solar Initiative.

For wholesale generation projects, the Commission should require a reasonable development security and reasonably strict timelines for generation deadlines (18-24 months). While we do not recommend a specific deposit level here, we do note, as you do, that Ontario, Canada requires \$75/kW according to progress by milestones, as a way to avoid previous problems with high project failure rates and ensure ratepayer benefit from actual generation."

### **3. Response to Questions Under the Feed-in Tariff Proposals (Wholesale Distributed Generation) Section**

The Solar Alliance supports TEP and APS' proposals to include Feed-in Tariff (FiT) programs as one of the several policies used to stimulate renewable energy development in Arizona.

However, FITs are a wholesale procurement mechanism for the utilities and, as such, RECs from either FIT program should not count towards the Distributed Energy portion of the RES requirements, nor should the expenditures for either FIT come from the Distributed Energy budgets. RECs from both these programs should be counted in the utility scale portion of RES compliance requirements.

Chairman Mayes asked Parties to state whether it would be in the public interest, to include as a provision in the FIT program, a requirement that solar developers taking advantage of the FIT make a good faith effort to utilize solar equipment manufactured in Arizona. The Solar Alliance does not support such a requirement. It is not in the best interest of Arizonans to require developers to use equipment made in Arizona, because doing so could increase the costs of the program. In order to continue to drive costs towards grid parity, manufacturers must reach economies of scope and scale. Local content requirements have the potential to lead to more expensive solar energy by limiting the products that will be used to serve the market. Fewer products lead to less competition and less pressure on prices. Moreover, the vast majority of jobs in the solar value chain are found not in manufacturing but in sales, finance, installation, post-sales service, and other indirect services. Requiring locally-made equipment could

unintentionally decrease jobs for Arizonans who serve the majority of the value chain.

**4. Response to Questions Under the Research and Development/Studies Section**

Chairman Mayes asked whether the Parties believe it would be appropriate to utilize some RES funding to conduct a study of the issues surrounding regulation of third party providers offering a Solar Service Agreement (SSA) to residential or for-profit customers to install a solar systems, in advance of any future Commission action on this matter. The Solar Alliance implores the Commission not to delay rectification of this issue any further with a study. Given the similarity to the matter adjudicated by the Commission in the Solar City case (docket no. E-20690A-09-0346), the Alliance believes that the Commission could expeditiously provide further guidance on this remaining related legal question, without additional study or adjudication. The Alliance urges the Commission to issue a policy statement indicating that the tax status of an SSA customer would not be a relevant factor to the question of whether the provider of an SSA is or is not acting as a public service corporation.

The Solar Alliance is neutral on the Chairman's recommendation to convene a working group (a version of the Cost Evaluation Working Group) to undertake a cost-benefit study on whether to pursue a higher RES. We would very much support an increase of the RES in order to help Arizona deploy more clean energy and, in return, reap the associated jobs, cost-savings, reliability, and environmental benefits. However, at this time, our first priority is to improve the stability and transparency of the existing programs, assist the utilities to successfully launch and implement the creative new programs as proposed, and win an immediate clarification of the status of Solar Service Providers for all customers.

This concludes the Alliance's response, and the member companies look forward to continued dialogue on these important questions at the November 10<sup>th</sup>, 2010 ACC Open Meeting.

Carrie Cullen Hitt