

ORIGINAL

OPEN MEETING AGENDA ITEM



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AT CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONER

BRENDA BURNS
COMMISSIONER

12 **IN THE MATTER OF THE**)
 13 **APPLICATION OF ARIZONA**)
 14 **PUBLIC SERVICE COMPANY FOR**)
 15 **APPROVAL OF ITS 2012**)
 16 **RENEWABLE ENERGY**)
 17 **STANDARD IMPLEMENTATION**)
 18 **PLAN AND REQUEST FOR RESET**)
 19 **OF RENEWABLE ENERGY**)
 20 **ADJUSTOR**)

DOCKET NO. E-01345A-11-0264

**SOLARCITY'S COMMENTS ON APS
 2012 REST IMPLEMENTATION PLAN**

21 SolarCity Corporation ("SolarCity"), by its counsel undersigned, hereby offers its
 22 preliminary comments on Arizona Public Service Company's ("APS") 2012 Renewable Energy
 23 Standard Implementation Plan filed on July 1, 2011.

Respectfully submitted this 16th day of August, 2011.

Arizona Corporation Commission
DOCKETED

AUG 16 2011

 Court S. Rich
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 Attorneys for Applicant SolarCity Corp.

DOCKETED BY	
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1 **Original and 13 copies filed on**
2 **this 16th day of August, 2011 with:**

3 Docket Control
4 Arizona Corporation Commission
5 1200 W. Washington Street
6 Phoenix, Arizona 85007

7 *I hereby certify that I have this day served the foregoing documents on all parties of record in*
8 *this proceeding by sending a copy via electronic mail to:*

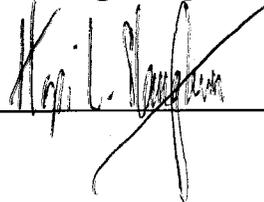
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Re: ***In the matter of the application of Arizona Public Service for approval of its 2012 Renewable Energy Standard Implementation Plan; Docket No. E-01345A-11-0264***

Dear Chairman Pierce and Commissioners,

SolarCity Corporation appreciates the opportunity to comment on the above-referenced docket regarding the 2012 RES Implementation Plan filed by APS. Thanks to the hard work and foresight of the Commission, the solar market in Arizona is continuing to grow and thrive, creating jobs and economic benefits along the way. As Arizona's largest utility, the manner in which APS implements the Renewable Energy Standard is key to the success of the program and the health of the industry. Thus, an open exchange of ideas and constructive dialogue between all stakeholders is absolutely vital to ensure that we are doing our very best for the future of solar and the people of Arizona.

In order to make certain that Arizona continues to be a national solar leader, we encourage the Commission to support aggressive distributed generation goals. This necessarily involves ensuring the integrity of current data and generation projections. After all, we can't figure out where we are going if we don't know where we are. SolarCity also reminds the Commission that the solar industry has significant potential to continue creating jobs and spurring economic development.

We believe that there is overwhelming public support for state solar programs and that Arizona residents are willing to pay more than \$5 per month to achieve renewable energy goals and outcomes. The Morrison Institute poll recently commissioned by APS showed that 94% of respondents want an increase in the use of solar as part of the state's energy portfolio. It also found that participants are willing to pay \$7.23 per month to assure a significantly cleaner environment for Arizona and \$6.31 per month to help develop new renewable energy technologies. 64% also reported a willingness to pay more for electricity from resources that consume little water, such as distributed generation photovoltaics.

SolarCity commends the efforts to date of both APS and the Commission as we all attempt to deal with the challenges and successes of unprecedented growth in our industry. The incredible acceleration of consumer demand and number of market participants has yielded both opportunities and difficulties. The most important task at hand is to work towards sustainable growth via stable, functional, and equitable program implementation. This will ensure that Arizona continues to have a robust and competitive solar market that fosters increasing demand, decreasing costs, and market-based innovation. In pursuit of these goals, SolarCity offers the following comments and suggestions regarding APS's 2012 plan.

Residential Program

Residential solar in APS territory currently provides the least expensive RECs available to the regulated utilities, due in large part to the overwhelmingly successful incentive program created by the ACC and administered by APS¹. As a result of continuous downward pressure on incentive levels, installers have been able to significantly decrease installation costs. SolarCity believes that, given adequate support, the industry can continue to aggressively reduce the cost of solar installations until grid parity is reached. However, we will be unable to reach that point unless we are provided with continued support.

We therefore recommend that the ACC affirm the vote it took in Decision No. 72022 and to fund APS' residential program at a level of *at least* \$40 million in 2012. The residential program has proven to be incredibly popular—so much so that it ran out of 2011 funding in June. Given the overwhelming popularity of the solar program, it would make very little sense to cut the budget and allow it to 'sell out' even earlier in the year. This would serve to create stops and starts in the industry that would be incredibly detrimental to its growth and efficiency.

It is important for the Commission to recall that Decision No. 72022 approving APS's 2011 REST Implementation Plan included the following Ordering Paragraph, "*IT IS FURTHER ORDERED that Arizona Public Service shall maintain funding for its residential solar program at \$40 million at least through 2012.*" Decision No. 72022 p. 28, l 11-12. This Ordering Paragraph was incorporated through a unanimously approved amendment on November 22, 2010.

The full amendment states:

"Given the downward trend in installed cost of residential solar and the escalating demand among Arizonans for residential solar, we believe it would be in the public interest to maintain a more levelized and certain budget for APS' residential solar program. Therefore, we will require APS to maintain funding for its residential solar program at \$40 million at least through 2012. If the Company believes these levels must be modified downward as a result of market factors, it may argue for those decreases in its 2012 Implementation Plan."

¹ Because incentives are \$1.30/watt and will be \$1.20 after that, the cost of a residential REC will soon be \$0.0382-\$0.0352.

This amendment was approved unanimously and did not face repeal during the reopening of the 2011 REST implementation plan by the newly seated Commission. APS has also not articulated any 'market factors' that it believes warrant a budget of less than \$40 million for residential incentives.

The industry has therefore reasonably assumed that funding for APS' residential solar program would be at least \$40 million in 2012. SolarCity and its investors believe that the Commission would continue to support the provisions outlined in this amendment and we have therefore made business decisions regarding the state of the Arizona market based upon this decision. As the Commissioners know, predictability in the financing sphere is the key to success.

Also, although APS believes that they would reach 119% of compliance in their 2012 residential distributed energy requirement if \$40 million is provided for incentives, we remind the Commission that projects often fall out of the queue. In order for APS to ensure that they reach minimum RES compliance, they must overshoot their goals and attempt to overprocure what they think they may need.

Finally, we remind the ACC of the negative job and economic development impact to the industry if the residential incentive budget is significantly decreased. In a time of continued economic uncertainty, it makes very little sense to slash the budget for a proven and successful development program.

Commercial Program

SolarCity would like to encourage the ACC to support a robust commercial solar program in APS territory. We are worried that some of the options proposed in APS' plan would decimate or drastically reduce commercial solar procurement. Given the investment that ratepayers have made in developing and incenting the state's commercial solar industry, it would be unfortunate for the program to shut down completely, thereby marginalizing the investments that have been made thus far. The industry continues to rapidly drive down the costs of solar installations but it can only do so in the future under a predictable and supportive incentive program.

Just as in the residential sphere, we worry about the missed opportunities at job growth and economic development if the program is significantly scaled back. We also believe that it would be unfair to commercial entities, all of whom pay into the RES, to take away their ability to receive incentives that support their solar installations.

If the Commission does choose to continue APS' commercial solar program, we would encourage it to also amend the bi-annual commercial funding cycle. Sales activity is severely inhibited under a program with only two cycles per year since there may be up to 5 months between selling a system and getting a reservation approval. This sporadic process makes it difficult and risky to invest time and money pursuing opportunities in this sector. We would suggest an allocation timeline on a bi-monthly basis in order to smooth out sales opportunities.

Schools Program

SolarCity would like to applaud APS for their proposal to expand the incredibly popular schools program. We believe this move is appropriate, given overwhelming customer interest in the program. Due to the popularity of 3rd party owned systems in this program, we feel that any expansion should be equally divided between third party owned systems and utility owned systems. Currently, there is not adequate incentive funding to meet the demand for 3rd party installations under this program. An expansion would allow installers to meet the demand more effectively.

However, we are concerned by APS' proposal to lower the PBI rate to 2013 levels. While the industry is rapidly lowering installation costs, we are not yet ready for a 30% PBI reduction. The currently scheduled 15% reduction is manageable, expected, and financeable. We therefore encourage the ACC to approve PBI rates consistent with the current schedule. Not only will this allow developers to raise adequate financing for school projects, it will also allow installers to build both larger and smaller projects. Otherwise, developers will have to focus only on larger projects (with lower installation costs due to economies of scale) in order to recoup their investment.

Security Deposits

SolarCity tentatively supports APS' proposal to institute security deposits for performance based incentive projects. However, we believe that some of the details of the proposal must be amended in order for the deposit system to work as intended.

APS has proposed a deposit of 5% of the total lifetime PBI commitment request, due 7 days after the initial reservation is granted. The deposit will be refunded after the project is interconnected, has passed inspection and all necessary paperwork has been submitted.

We believe that these requirements are too stringent for project developers. The purpose of a deposit is to discourage 'phantom' projects that allow a developer to tie up incentive funding. Given this, it should be sufficient for a project to commence construction in order for the deposit to be returned. Returning the deposit to the developer after the project has been interconnected unnecessarily ties up capital for a significant period of time and burdens developers who are already struggling to raise enough funding to finance projects.

We are also worried about the rules for forfeiting the deposit. If the soliciting entity (i.e. school board RFP) unilaterally cancels the contract, at no fault of the developer, the deposit should not have to be surrendered. There are a number of reasons for cancellations, including a building's structural make-up, and a developer should not be penalized for something that is out of their control.

Also, the financial burden imposed by a 5% deposit is significant and it may be difficult for many developers to tie up that amount of capital for a long period of time. We suggest instead

that the 5% number be revised downward to 2%. At the same time, we believe that any interest accrued on security deposits should be credited back to the company.

Finally, we would like to point out again that the purpose of these security deposits is to reduce phantom projects and speculation, not to freeze the state's commercial solar development because of overly stringent deposit conditions.

Production Meter Installation

SolarCity commends APS for their proposal to install production meters on all solar systems, regardless of type, in order to ensure that systems continue to produce at capacity for the duration of their lifetime. This action is appropriate as solar installations receive an investment from ratepayers in the form of an incentive and therefore homeowners should be held accountable to ensure that their systems are providing ratepayers with a return for that investment.

We are concerned, however, about APS' proposal to retroactively install production meters on all of the systems in APS territory. While we believe this is a good idea in theory, we are worried about the burden this requirement would place on homeowners, business owners and system owners. Who will shoulder the cost of purchasing these production meters and for installing them? And will home/business owners who have already installed their systems agree to this change in their contract—and what if they refuse? We encourage the ACC to ensure that this proposal does not unnecessarily burden or inconvenience installers or system owners.

Solar Coaches

SolarCity would like to voice our support for the solar coaches program run by Arizona Smart Power. We believe that these coaches offer homeowners a valuable service by providing up to date information, recommendations and advice on rebates and incentives. Solar coaches provide clarity and honest accounting in what can often be construed by homeowners and business owners as a confusing and overwhelming solar market.

System cost reporting on AZgoessolar.com

On the APS application for solar incentives, companies are required to state the purchase price of the system they are selling. This poses a problem because under a lease transaction, there is no sale to a homeowner and therefore no purchase price for a system. Any \$/Watt number "equivalent to cash prices" for the same system is theoretical as it reports the "price" for a transaction that never occurred.

In a lease or PPA transaction, the "sale" takes place when the solar developer transfers the system to an institutional investor. This "sale" may be a literal sale, or is sometimes a contribution of assets into a partnership. Ultimately, the investor pays for what it is worth to them as *an investment property*. This value includes several items – like a performance guarantee and anticipated income streams—that do not have any equivalents in a customer cash

purchase. Reporting this investment price (as SolarCity does currently on rebate applications) results in an apples-to-oranges comparison between systems sold to residential/commercial customers and those sold to institutional investors. It also obscures any analysis of the underlying installation costs.

When compared with the prices of actual purchased systems that are reported on the Arizona Goes Solar website, it may look like leased systems are disproportionately more expensive. However, as explained above, this is not the case. Given the popularity and prevalence of leased systems throughout the state, we encourage the ACC to require utilities to include a separate column that details the cost of leased systems specifically. The best price for lease providers to report is the *price of the lease* as evidenced by the rate charged to the customer (instead of the *price of the system underlying the lease* which doesn't exist). This price is in the form of a down payment and a \$/kW monthly charge over a given term.

We encourage all administrators to adapt their reports to reflect realities within the market. With lease and PPA transactions now representing a significant proportion of the overall market, the data-gathering purposes served by price reporting are most accurately served by reporting on the actual transaction that occurred, as it occurred – whether cash, lease, or SSA.

Conclusion

SolarCity is cognizant of the difficult task facing the Commission and the challenges that APS faces in trying to refine their 2012 RES implementation. We appreciate the opportunity to provide comments and hope that you find them constructive and that they facilitate healthy and productive debate. Our intent and goal as always is to advocate for a strong and stable solar market that will continue to provide benefits to Arizona residents for many years to come.