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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ITS 2012 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN AND REQUEST FOR RESET OF RENEWABLE ENERGY ADJUSTOR.

DOCKET NO. E-01345A-11-0264

THE SOLAR ALLIANCE'S PROPOSED RECOMMENDATIONS ON APS 2012 RES PLAN

The Solar Alliance ("Solar Alliance"), by its counsel undersigned, hereby offers its proposed recommendations on Arizona Public Service Company's ("APS") 2012 Renewable Energy Standard Implementation Plan ("RES Plan" or "Plan") filed on July 1, 2011.

Dated this 23rd day of September, 2011.

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The Solar Alliance's Proposed Recommendations on APS 2012 RES Plan

Preface

The Solar Alliance[1] hereby provides its recommendations on the application of Arizona Public Service Company (APS) for approval of its 2012 Renewable Energy Standard Implementation Plan (RES Plan) as docketed on July 1, 2011. After careful consideration, the Solar Alliance is proposing an alternative proposal ("Alliance Option"), outlined below.

Like APS's options, the Alliance Option allocates 300 MW PV-equivalent (as required by APS' 2009 settlement agreement) between several solar programs. The Alliance's Option would be deployed over two years (2012 and 2013) and accomplishes several goals:

- Caps the residential customer surcharge at $5.92, a level that is between APS's Option 1 and 2 proposed surcharges.
- Maintains capacity in highly popular customer solar programs – both residential UFI and commercial PBI programs.
- Upholds the traditional ownership breakdown of the Schools section of the Schools and Government program (25% utility owned, and 75% 3rd party owned) for the benefit of school customers and rate payers.
- Continues growth in the successful, and cost-efficient utility owned AZ Sun Program, and the 3rd party Small Generator Standard Offer Program.

The following chart compares the Solar Alliance's proposed MW allocations and costs in comparison to APS's Option 3 proposal:

[1] The comments contained in this filing represent the position of the Solar Alliance as an organization, but not necessarily the views of any particular member with respect to any issue.

Solar Alliance Alternative Proposal - APS 2012 REST Plan		
Program	**APS Option 3 New Capacity (MW)**	**SA Option New Capacity (MW) 2012-2013**
AZ Sun Program – Utility Owned	**100**	**100**
TBD - Utility Owned	**25**	**0**
3^{rd} Party PPAs & Small Generator Standard Offer Program	**100**	**140**
Schools and Government Program APS Owned	**25**	**6.25**
Schools and Government Program Private Party Owned	**0**	**18.75**
Small Commercial UFI	**~12**	**5**
Commercial PBI (medium and large programs)	**~38**	**30**
TOTAL	**300**	**300**
Residential DE Incentive Program	**40-35**	**30**
Residential Surcharge Cap ($)	**$6.41**	**$5.92**[2]

Rationale for Alliance Option

The solar industry needs stable and predictable regulatory policies in order to be able to deliver reliable clean energy with continued cost reductions. However, the options presented by APS diverge from the traditional RES program allocations, and they include numerous deployment timelines depending on the program. In order to improve the predictability of the APS market, the Alliance Option calls for 300MWs of capacity to be deployed over a two year

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[2] Approximate surcharge cap based on formula derived from APS table 1.

timeframe (2012-2013). The Alliance Option allows for continued capacity in all of APS's current solar program offerings. Specifically, the Alliance Option supports each program as follows:

- **AZ Sun Program:** The Alliance Option recommends adding 100MW of capacity to this program between 2012 and 2013. Our recommendation matches the capacity requested for this program in all three of APS's options.

- **Other Proposed Utility Owned Projects:** All of APS's Options include a proposal to set aside 25 MWs for as of yet undetermined programs. The Solar Alliance believes that an option with 25 MW of unassigned capacity at an unknown cost introduces a degree of market uncertainty that is easily avoidable. Furthermore, the timeline for deployment is ambiguous. The Solar Alliance proposes to shift the 25 MWs of un-designated capacity to the 3rd party Small Generator Standard Offer program.

- **3rd Party PPAs - Small Generator Standard Offer Program:** The Solar Alliance recommends adding 140 MW of projects in the Small Generator Standard Offer program between 2012 and 2013. This amount of capacity fits between APS's proposal for the program in option 1 and option 2.

- **Schools and Government Program - APS Owned:** The Solar Alliance strongly recommends that the Commission maintain the current distribution of capacity in the Schools section of the Schools and Government Program, allocated as 25% APS owned and 75% third party owned. APS has failed to persuade stakeholders that utility-owned installations within the schools and government program offer reduced economic impacts to ratepayers compared to third-party-owned systems. APS's claims are based on assumptions that depend on uncertain future projections. For example, if the annual escalation rate of fixed costs is just 2% lower than APS assumes, third party systems actually become more advantageous to ratepayers under the APS proposed 2012 rates. Even using APS's stock assumptions there is a single digit cost difference between the two models.[3] Accordingly, the Solar Alliance proposes an allocation of 6.25 MW for the APS-owned portion of the Schools and Government Program and the remainder allocated to third-party-owned systems in the same segment. 6.25MW corresponds to 25% of the

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[3] A full analysis of impacts to participating customers and ratepayer under utility owned or 3rd party ownership within the Schools and Government program will be submitted by the Solar Alliance shortly.

25MW that APS requested in be added to the School and Government Program in all three options.

- **Schools and Government Program - 3rd Party Owned:** The Alliance Option sets aside 18.75MW for 3rd party school and government projects, in additional to previous capacity for the program already approved by the Commission in the 2010 APS REST Plan. Further, the Alliance adamantly opposes APS's proposal to reduce PBI rates by 21% for the 2012 program. The industry has developed its annual plans according to Commission-approved scheduled incentive reductions laid out in APS 2010 REST plan. Furthermore, with project size and meter restrictions, developers are not able to take advantage of the economies of scale as seen in other PBI programs. Unlike APS, which interconnects its systems on the utility side of the meter, third party developers must connect into the customer side of the meter. Particularly for older schools, this can present added costs for trenching, wiring, asphalt, and service upgrades. The Solar Alliance strongly recommends continuing with the originally-planned PBI reduction, which would set the PBI ceiling at $0.13/kWh for 3rd party school projects. We encourage the Commission to keep the PBI at $0.13/kWh for all of 2012, dropping to $0.11/kWh in 2013.

- **Small Commercial UFI:** The Alliance Option proposes 2.5 MW of new capacity for 2012 and 2013. On a yearly basis, this amount is slightly more than APS's Option 3.

- **Commercial PBI (medium and large programs)**: The Solar Alliance proposes 30 MW of medium and large commercial PBI capacity, or 15 MW per year. This maintains the existing commercial solar market. The Solar Alliance urges the Commission to consider that two of the three options put forward by APS in their 2012 renewable energy implementation plan will cause significant harm to the commercial solar industry and outright prevent medium and/or large businesses from participating in APS solar programs for the next five years. Option 1 terminates all commercial programs for small, medium, and large businesses in APS territory. Option 2 maintains small and medium commercial programs, but completely eliminates the large commercial program. The termination of solar programs that once successfully served multiple market segments will lead to job losses and business closures, whose economic consequences will extend far beyond just solar companies. In fact the entire supply chain that supports their function will be impacted, including effects on silicon and materials suppliers, equipment vendors, construction workers, steel companies, electricians, architecture firms, hardware supply companies, even municipalities that partly rely on permit fees from solar projects to keep staffed after the real-estate downturn.

Five years without a commercial solar program would be devastating. Arizona would lose all the human capital it invested in the skilled workers of the solar industry. Ratepayers may also be negativity impacted as the commercial programs resume in 2017, precisely the time the 30% federal investment tax credit expires. In addition, warranty issues may arise as solar companies close their doors.

If programs are cut back too dramatically or canceled all together, Arizona has more to lose than jobs; it loses its ability to cost effectively install commercial solar energy. It is vital that a stable level of market demand be maintained to retain talented workers, foster economic activity, and continue to make solar affordable to the Arizona consumer and ratepayer.

Residential DE Incentive Program: For the residential UFI the Solar Alliance recommends 30 MW of capacity, per year. Further, we recommend that the program be kept at $1.00/Watt for all of 2012, thus resulting in a $30 million expenditure. The Alliance Option will continue the same level of capacity in the residential market as we saw in 2011. The Alliance suggests that the Commission consider appropriate incentives levels for the 2013 program in the 2013 REST Plan.

Ratepayer Impacts of the Alliance Proposal

The Solar Alliance calculates that its proposal will require a residential RES adjustor cap of $5.92/month. Should the Commission reduce APS' administrative, marketing, or other auxiliary program costs, the above surcharge could be substantially less.

Rationale for Short-term Over Compliance – Splitting Capacity between 2012-2013:

The Solar Alliance recognizes that both APS's Options 2 and 3 and the Alliance Option, results in **near-term** over compliance with the REST rules. However, in the long run this is a prudent strategy for the following reasons:

1. A path of reasonable over-compliance between 2012 and 2015 would help moderate a potential steep looming spike in incremental compliance requirements in 2016-2017.

2. During the interim, demand is held steady which provides a stable market for companies to continue to innovate and drive down costs.
3. Arizona ratepayers leverage the full term of the Federal Investment Tax Credit.
4. A portion of over-compliance is due to the industry reducing costs more quickly than planned, thus allowing more capacity with the same budget. Scaling back yearly demand in an attempt to precisely meet each year's compliance targets will in effect punish the industry for installing more solar for less cost to the ratepayer.

2011 - 2012 Comparison (MW)[4]

Market Sector	2011	2012 APS Option 3	2012 SA Proposal
Residential	~30	40	30
Small Commercial	~2	2.3	2.5
Medium Commercial	~20	7.6	15
Large Commercial	Included above	Included above	Included above
Third Party PPAs (Total Program)	95 MW 2011-13	50	70

Conclusion

The Solar Alliance thanks the Commission in advance for considering its alternate proposal to the APS 2012 Compliance plan.

Respectfully submitted on the 23rd day of September, 2011.

[4] The chart assumes a $40 *million* dollar residential DE budget at $1.00/Watt. The comparison also assumes that APS will deploy the 50 MW of DE commercial evenly over five years with a $1.00/Watt small commercial UFI.