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Green Choice **Solar**

Arizona Corporation Commission
DOCKETED
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September 28, 2011

Chairman Gary Pierce
Commissioner Bob Stump
Commissioner Sandra D. Kennedy
Commissioner Paul Newman
Commissioner Brenda Burns
The Arizona Corporation Commission

Re: Proposed Alternatives to APS' Options
APS 2012 REST Implementation Plan (Docket No. E-01345A-11-0264)

Dear Chairman Pierce and Commissioners:

Since Green Choice Solar (GCS) has already filed lengthy comments (dated August 8, 2011) in this docket, I will keep this letter brief as it relates to the performance-based incentive (PBI) program. This letter will recap GCS' proposed alternatives and offer an additional one for Commissioners to consider. As I wrote before, I believe that the Commission should adopt a different path from APS' three proposed options, as none of the APS options adequately sustains the non-residential Distributed Energy (DE) Market. On the other hand, all of GCS' proposed alternatives stabilize the PBI program by providing at least 20 MW of annual capacity over APS' five-year planning period (FY 2012-2016).

<u>Proposed Change to APS Distributed Energy Administrative Plan (DEAP)</u>

In previous years, APS has rolled over any unspent PBI funds from nomination periods or reallocated PBI funds from cancelled projects into subsequent nomination rounds. However, APS' DEAP does not explicitly articulate that current practice. In addition, I expect that some PBI projects reserved in the latter part of 2010 and 2011 will be cancelled. It would benefit the non-residential DE market if APS codified its current practice.

I would urge the Commission to require APS, as part of its 2012 DEAP, to reallocate any unspent PBI funds or funds from cancelled PBI projects to the ***same*** project category in the subsequent nomination period. In other words, if a PBI project from the Large Projects category were cancelled, the funds would be transferred into the Large Projects category for the next nomination period. The procedure would be the same for cancelled Medium Projects.

GCS Proposed Alternatives

In its 2012 REST Plan, APS proposes to fill its 300 MW renewable energy gap with a combination of utility-owned generation and third-party financed projects (PPAs and DE incentives). In all three options, APS would own 150 MW; the other 150 MW, depending on the approach, would be split differently between PPAs and PBIs. As I pointed out in my previous letter, one of the options eliminates the PBI program entirely and the other two do not provide enough MW capacity to make the PBI market viable over the next five years.

GCS urges the Commission to consider the following alternatives instead, which would allocate at least 20 MW of annual capacity to the non-residential PBI program from 2012 to 2016. With APS' reverse auction process, the PBI per kWh cost has dropped steeply in just a few short years to $0.085 in 2011 from $0.25 in 2008. Meanwhile, installed capacity has jumped from less than 1 MW in 2008 to more than 50 MW today. I expect more PBI cost decreases over the next years few years, which will further lessen the financial impact on APS ratepayers.

Options A, B and C simply divide the 300 MW in various ways to achieve at least a 100 MW allocation for the PBI program over the next five-year span.

Option A

APS Owned Generation	150 MW	No change from APS options
Third Party PPAs	25 MW	125 MW less than APS Option 3
Non-Residential PBIs	125 MW	100 MW more than APS Option 3; continues incentives for Medium and Large Projects

Option B

APS Owned Generation	150 MW	No change from APS options
Third Party PPAs	50 MW	100 MW less than APS Option 3
Non-Residential PBIs	100 MW	50 MW more than APS Option 3; continues incentives for Medium and Large Projects

Option C

APS Owned Generation	100 MW	50 MW less than APS options
Third Party PPAs	100 MW	Reflects APS Option 3
Non-Residential PBIs	100 MW	50 MW more than APS Option 3; continues incentives for Medium and Large Projects

The newest alternative, Option D, takes a slightly different approach but achieves the same 100 MW objective for the PBI program. This option proposes to reduce the PPA allocation by 25 MW in years 2012 and 2013, and to shift APS' yet-to-be specified 25 MW of utility-owned projects in years 2014 and 2015. Reallocating the 300 MW gap in this manner will enable the market to respond to those non-residential customers seeking solar distributed resources.

Option D (New)

APS Owned Generation	125 MW	25 MW less from APS options
Third Party PPAs	75 MW	25 MW less from APS Option 3
Non-Residential PBIs	100 MW	50 MW more than APS Option 3; continues incentives for Medium and Large Projects • 25 MW from Third-Party PPAs in years 2012 and 2013 • 25 MW from APS proposed additional utility-owned projects in years 2014 and 2015. • The additional 50 MW for PBIs would be allocated evenly over years 2012 to 2016. The annual capacity amount would be 20 MW.

Impact on APS Ratepayers

In referencing Exhibit 2A in the APS 2012 RES Implementation Plan, you will see that the residential UFI program and utility scale expenditures account for the lion's share of the RES budget. The budget for existing PBIs is $7.9 million, about 7.2% of the overall RES base budget of $109.2 million, excluding additional funding for residential UFIs.

With an annual 20 MW allocation for PBIs, the 2012 budget would increase an additional $700,000 to $8.6 million, which has a *de minimis* effect on the RES adjustor. For 2013, the PBI budget would grow by $4.3 million to $17.6 million, which captures the annualized cost of the 20 MW expansion plus all of the projects commissioned prior to 2011 and some commissioned in 2012. The impact of the 20 MW expansion in 2013 would be an additional increase of $0.18 on the RES adjustor.

As a matter of clarification, GCS' alternatives address only the distribution of the 300 MW gap and are not tied to the proposed funding options for the residential UFI program. The Commission could adopt one of the GCS alternatives and still select any APS proposed funding level for residential UFIs. Our alternatives are focused on ensuring the healthy continuation of the PBI program at the lowest possible cost for APS ratepayers.

Thank you for your consideration in this matter.

Sincerely Yours,

Herbert Abel
CEO

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