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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONER

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COMMISSIONER

BOB STUMP
COMMISSIONER

11 **IN THE MATTER OF THE**)
12 **APPLICATION OF ARIZONA**) **DOCKET NO. E-01345A-11-0264**
13 **PUBLIC SERVICE COMPANY FOR**)
14 **APPROVAL OF ITS 2012**)
15 **RENEWABLE ENERGY STANDARD**) **ARISEIA'S EXCEPTIONS TO STAFF'S**
16 **IMPLEMENTATION PLAN AND**) **RECOMMENDED ORDER**
17 **REQUEST FOR RESET OF**)
18 **RENEWABLE ENERGY ADJUSTOR**)

17 Arizona Solar Energy Industries Association ("AriSEIA"), by and through its
18 undersigned counsel, hereby files its Exceptions to Staff's Recommended Order (the "RO")
19 issued in the above referenced matter.

20 **RESPECTFULLY SUBMITTED** this 7th day of November, 2011.

21 Arizona Corporation Commission

22 **DOCKETED**

23 NOV 4 2011

24 DOCKETED BY

25
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1 **Original plus 13 copies of the foregoing**
2 **filed this 4th day of November 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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10 Chief Administrative Law Judge
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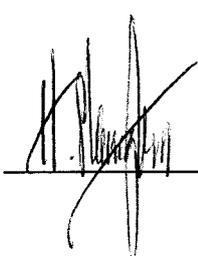
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28 _____

1 **I. Introduction**

2 The Arizona Solar Energy Industries Association (“AriSEIA”) is comprised of over 70
3 member companies from all aspects of the Arizona solar industry. AriSEIA members have
4 helped drive economic growth in Arizona during a global recession and are directly responsible
5 for employing thousands of Arizonans.¹ The Arizona solar industry is poised for continued
6 expansion and ready to help lead the State in its economic recovery.

7
8 With this track record of success, and given Arizona’s natural solar resource, it is no
9 surprise that the citizens of Arizona strongly support the solar industry with an overwhelming
10 majority (94%) calling for the development of more solar energy.² Of course the realization of
11 this goal depends on continued support by the Commission in executing the will of the people of
12 Arizona. Without continued efforts to effectively implement the Renewable Energy Standard
13 (“RES”), the vision of Arizona as undisputed leader of the solar industry and a future economic
14 leader in the Country would remain a mirage. In short, the decisions you make in this docket
15 will have far reaching implications for the future of not just the industry and AriSEIA’s members
16 but for the future of our entire State.

17
18 Because of this, it is vital that we implement smart and cost-effective policies that build
19 upon past successes while ensuring future viability and ensuring the best deal for ratepayers.
20 This year’s RES implementation plans are more important than ever because despite successes in
21 recent years, the solar industry faces a number of new challenges and changes in 2012. In
22 particular, the expiration of the U.S. Treasury § 1603 Grant program at the end of this year is
23 likely to make financing for solar projects more expensive and more difficult to obtain. Thus it
24 is extremely important that the RES implementation plans seek to at least maintain a steady and
25 predictable market for the coming years, both to ensure our ability to reach the 2025 RES target

26
27 ¹ See The Solar Foundation’s 2011 “National Solar Jobs Census” showing over 4,700 direct solar jobs in Arizona
28 making AZ 3rd in the U.S.

² See APS Morrison Institute Poll (pg. 2) <http://morrisoninstitute.asu.edu/publications-reports/aps-informed-perception-project-report-final>

1 in an efficient and cost effective manner, and in recognition of the significant investments made
2 by solar companies in Arizona which were predicated in part upon reasonable expectations of
3 regulatory certainty.

4
5 It is with this backdrop in mind that we ask you to consider the Arizona Public Service
6 (“**APS**”) 2012 RES Implementation plan request in the above referenced docket. Upon careful
7 consideration AriSEIA believes that the industry can sustain activity and survive if the
8 Commission were to adopt and make some modifications to Commission Staff’s Option A as
9 described in the Recommended Order (“**RO**”). However we wish to emphasize that even with
10 Staff’s Option A as modified, the industry will experience zero growth with the potential for
11 significant contraction and associated job losses. Furthermore, any proposals that reduce the
12 market below Option A would be nothing short of disastrous to the industry and would
13 jeopardize Arizona’s economic future and our ability to cost-effectively meet the 2025 RES
14 target. In short, it would be penny wise and pound foolish to favor short term cost savings at the
15 expense of long term market stability.

16
17 Nonetheless, AriSEIA continues to believe that dollars invested in solar are wisely spent
18 and are reflective of the will of the ratepayers as indicated in every poll on the subject. This
19 investment translates directly to immediate jobs, and helps build a new clean energy future
20 where consumers have choice and increased competition from providers. We are hopeful that
21 after careful consideration the Commission will agree and will adopt at an absolute minimum
22 Staff’s Option A with the modifications as discussed below.

23 24 **II. Discussion**

25 **A. Staff’s Option A Is the Minimum Necessary for Industry Survival**

26 As discussed above, Staff’s Option A with some minor modifications is the absolute
27 minimum needed for industry survival. However, we feel it is important to emphasize that this
28 would still be a serious blow to the industry resulting in reduced investment, lost and forgone

1 jobs, and some failures/exits from the Arizona market. This is not in any way hyperbole and we
2 continue to believe that a larger investment in solar is the better policy for Arizona. This is
3 particularly true when one considers the significant investments that companies made based on
4 reasonable expectations of regulatory certainty. For example, during last year's 2011 RES
5 Implementation Plan hearing, APS proposed and anticipated additional lifetime commitments in
6 the Commercial Production Based Incentive ("PBI") program of \$100 million in each year from
7 2011-2015. In addition, the Commission approved in its order \$40 million in funding for the
8 2012 Residential program. Thus, Staff's Option A represents a reduction of nearly 60% for
9 Commercial funding and 55% in Residential funding compared with what companies invested
10 and planned for based on the 2011 proceedings.

11
12 AriSEIA recognizes that these numbers were projections and are not necessarily a reality
13 in the current political climate. However, we are concerned not only about the effects these
14 significant reductions will have on the industry but more importantly about the message this
15 sends to those who seek to invest in the State going forward. Again AriSEIA believes the best
16 policy is to invest in long term market stability instead of favoring short term spending
17 reductions that will have far greater costs over time.

18
19 It cannot be over stated that that Staff's Option A would be a painful and serious blow for
20 the industry. Further, the modifications we suggest below are necessary to make the programs
21 feasible for the industry and to make the proposed reductions workable. Nonetheless AriSEIA
22 believes that by making our suggested modifications a compromise can be reached. We wish to
23 reiterate, however, that any other changes that reduce incentive levels or budgets below those in
24 Staff's Option A are absolutely untenable and will decimate the industry (for example the
25 Residential incentive level must start at \$0.85/kW).

26
27 1. Proposed Expansion of Schools and Government Program Should be
28 Competitive

1 The first of AriSEIA's proposed modifications is regarding APS's proposed 25 MW
2 expansion to the Schools and Government ("S&G") program. While AriSEIA believes this
3 expansion is warranted, we believe (and Staff agrees) that the most cost effective way to
4 implement this expansion is by allowing the market to compete for incentives via the reverse
5 auction method that has been so successful for the Commercial Production Based Incentive
6 program.³ However despite Staff's recognition of the success of this market based approach,
7 they propose that APS be allowed to own 15 MW of the expansion, which would not be subject
8 to the competitive reverse auction. This is a perverse conclusion given Staff's recognition that
9 the competitive process is likely to yield more cost effective implementation, and given the fact
10 that in the original S&G program, APS was granted ownership of only 25% of the available
11 projects (not 60% as Staff has proposed for the expansion).

12
13 Furthermore, it is important to recall that the Commission decision to grant APS 25%
14 ownership in the original S&G program (which was highly controversial at the time) was
15 predicated upon the assumptions that 3rd party ownership of these assets was more expensive
16 than APS ownership. On the contrary, however, AriSEIA and the Solar Alliance provided expert
17 testimony and evidence in a recent Commission proceeding that demonstrated that APS
18 ownership of Distributed Generation ("DG") assets is NOT less expensive than 3rd party
19 ownership, and in fact APS has now conceded this point.⁴ So, not only has the original
20 justification for APS ownership in the S&G program been discredited, but Staff also states
21 unequivocally that a competitive reverse auction (to which APS owned assets would not be
22 subject) is likely to yield lower implementation costs for ratepayers. Thus, it would simply be
23 bad policy and a bad deal for ratepayers to allow APS ownership of the 25 MW expansion in the
24 S&G program. Instead the Commission should allow the free market to do what it does best:
25 reduce prices through vigorous competition. This can be accomplished by allotting the 25 MW

26
27
28 ³ See RO pg. 9 "Staff believes that increased competition in the Schools and Government Program can help to encourage a more competitive non-residential marketplace in Arizona."

⁴ APS and Solar Alliance have agreed to file a joint statement to the Docket indicating that APS ownership of DG is not necessarily less expensive than 3rd party ownership.

1 expansion to 3rd party ownership awarded via the reverse auction mechanism. AriSEIA believes
2 this is not only a vital modification to Option A to ensure the survival of the industry, but it is
3 also simply the right policy decision for ratepayers.
4

5 It is important for the Commission to remember, however, that regardless of the
6 expansion, APS will still be able to own projects via the original S&G program. For the sake of
7 program continuity AriSEIA believes that this should continue and that Staff's RO should be
8 modified to incorporate APS's request for changes to the original S&G program only (i.e.
9 reducing the incentive to \$0.123/kWh for 15-year contracts, and \$0.112/kWh for 20-year
10 contracts, and revising criteria for the Project Ranking Matrix to more effectively target only low
11 income schools). By making these changes to the original S&G program and by awarding the
12 25MW expansion to 3rd party competitive auction, the Commission will ensure the ongoing
13 viability of this successful program while continuously reducing the costs to ratepayers. To
14 accomplish these changes AriSEIA suggests the following changes to Staff's RO:
15

16 **ARISEIA PROPOSED AMENDMENT #1**

17
18 To remove the utility ownership of the 25 MW S&G expansion and to modify the existing S&G
19 program as described above, AriSEIA respectfully requests that the following Amendment be
20 adopted:
21

22 Page 33, Line 27

23 **DELETE "\$0.12" and INSERT "\$0.123"**

24 **DELETE "\$0.10" and INSERT "\$0.112"**

25
26 Page 34, Line 1-2

27 **DELETE** everything after the word "criteria" and **INSERT:** "according to the company's
28 proposed changes to the Project Ranking Matrix."

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Page 34, Lines 3-5

DELETE all

Page 34 Line 6

DELETE "10" and **INSERT** "25"

Make all conforming changes

2. Because Commercial PBI Program is Competitive Staff's proposed \$.08/kWh Cap Is Unnecessary and Potentially Too Restrictive.

As Staff notes, the Commercial PBI program has been extremely successful in reducing costs via the competitive reverse auction process. As such there has been little if any actual need for the imposed caps on PBI incentives. In other words, the competition for incentives in the auction is so robust that all awarded projects are automatically significantly below the cap. However, AriSEIA recognizes the utility of the PBI cap if for nothing more than budgeting and forecasting (i.e. determining the maximum cost/minimum target size of the PBI program). As such, we acknowledge Staff's reason for continuing to include the incentive cap. Further given the significant reductions in the actual incentive amounts awarded, we understand their desire to reduce the level of this cap. However we are concerned that Staff's proposal in the RO (\$.08/kWh for a 20 year contract) may potentially prove to be too restrictive as that level is below any award actually made in 2011. Further, there is a possibility that the expiration of the § 1603 Treasury grant program will increase financing costs such that an \$.08/kWh cap is too restrictive.

While AriSEIA believes this is an unlikely occurrence and that PBI bids will continue to be extremely competitive and below the proposed cap, there is a possibility that it would result in an undersubscribed program if financing costs dramatically increase in 2012. For this reason,

1 and because the competitive auction automatically sets the appropriate incentive level, AriSEIA
2 feels it is not only unnecessary to set an overly aggressive PBI cap but also potentially
3 problematic. However because these caps are useful for budgeting and forecasting purposes,
4 rather than propose their elimination, AriSEIA proposes to slightly modify simply to ensure that
5 the program is not paralyzed in the event of increased financing costs. As such AriSEIA
6 proposes the following modifications to Staff's RO:

7
8 **ARISEIA PROPOSED AMENDMENT #2**

9
10 Page 33, Lines 10-11

11 **DELETE "\$0.084" and INSERT "\$0.112"**

12 **DELETE "\$0.082" and INSERT "\$0.104"**

13 **DELETE "\$0.08" and INSERT "\$0.10"**

14 Make all conforming changes

15
16 3. *Geothermal Funding is Disproportionate and Reduces More Cost-Effective*
17 *Solar Water Heating.*

18
19 AriSEIA membership consists of a number of Solar Water Heating ("SWH") companies
20 who have been consistently providing some of the most cost-effective solar in the State for a
21 number of years. As such, it is vital that we continue to support this segment of the industry.
22 AriSEIA is concerned that in the current Staff Proposal the budget for SWH is disproportionately
23 taken up by geothermal applications. These systems take up a very large portion of the non-PV
24 budget for a relatively small number of projects. AriSEIA believes this money would be more
25 effectively spent on a larger number of cost-effective SWH systems. As such we propose to
26 remove geothermal from the 2012 budget and fund these systems with any money that can
27 potentially be swept from proposed marketing and R&D budgets. AriSEIA believes this is in the
28

1 best interests of the ratepayers and furthermore is necessary to prevent significant contractions
2 and layoffs in the SWH industry.

3
4 **ARIESEIA PROPOSED AMENDMENT #3**

5
6 Page 33, Line 3

7
8 **INSERT NEW ORDERING PARAGRAPH:** “IT IS FURTHER ORDERED that geothermal
9 technology shall be removed from the 2012 Non-PV budget and any funding of those systems
10 will be contingent upon the existence of funds that may be swept by the Commission from APS’s
11 administrative, marketing, and/or R&D budgets.”

12 Make all conforming changes

13
14 **III. Conclusion**

15 With the above changes AriSEIA believes the solar industry can survive 2012. However
16 this represents a significant contraction and compromise for the industry. We believe that
17 additional funding would be a better policy and a more cost effective long-term decision and are
18 hopeful that the Commission will agree. Finally, due to the nature of the proceedings in this
19 Docket (i.e. open meeting discussion with the vote to occur at a later date), AriSEIA reserves the
20 option to make any changes to the above positions and amendments that are warranted due to the
21 content of the open meeting discussions. AriSEIA would like to thank the Commission for its
22 continued efforts on behalf of the solar industry and the citizens of Arizona.