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BEFORE THE ARIZONA CORPORATION COMMISSION

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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
ADDITIONAL COMMENTS ON
STAFF REPORT**

The Solar Alliance hereby provides comments on the Report and Recommended Order proposed by the Utilities Division ("Staff") regarding the application of Arizona Public Service Company ("APS") for approval of its 2012 Renewable Energy Standard Implementation Plan.

The Solar Alliance appreciates the opportunity to comment and participate in the Open Meeting currently scheduled for the week of November 7th (the "Open Meeting"). These comments are intended to be high level remarks designed to facilitate the discussion and the Solar Alliance reserves the right to file additional comments to the docket for consideration after the Open Meeting.

To begin, the Solar Alliance finds that Staff's preferred option, Option A, will pose significant challenges to the industry as this option proposes very aggressive

1 incentive declines. The budget for the residential market alone would be reduced from an
2 expected \$40 million to \$25 million. However, the Solar Alliance reluctantly supports
3 Staff's Option A, with a few minor and cost-neutral amendments. While this option does
4 propose aggressive decreases in incentive levels and dramatic cuts in funding, it will
5 maintain a minimal volume of business activity that will enable Arizona's solar industry
6 to continue to innovate and reduce costs while preparing for the 2016 ramp up in the
7 REST. Assuming that this level of business activity is maintained until 2016, ratepayers
8 will continue to see cost declines and an ever more self-sufficient solar industry. Such
9 declines will be especially necessary after the 2016 expiration of the 30% federal
10 investment tax credit.
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13 While Staff Option A provides for stable market conditions in all market segments,
14 a few items remain that would benefit from Commission consideration. Listed below are
15 topics around which the Solar Alliance would like to have a dialogue during the Open
16 Meeting.
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18 • **Proposed changes to the original Schools and Government program**
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20 Staff proposes to significantly change the way the Schools and Government
21 program is currently designed by lowering the PBI level and making the awards
22 competitive. The Solar Alliance strongly disagrees with this approach as companies have
23 invested significant resources into the program as it was originally constructed. Also, the
24 original intent of the program would be lost by changing project selection criteria from
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1 disadvantaged schools to the lowest bid. This inadvertently awards projects to schools
2 that have less complicated physical installations and strong financial underpinnings.
3 Therefore, the Solar Alliance recommends supporting the Schools and Government
4 program as APS originally presented it in its 2012 Implementation Plan, including
5 funding levels of \$0.131 per kilowatt hour for 15 year contracts and \$0.119 per kilowatt
6 hour for 20 year contracts.
7

8 • **Residential surcharge amount**
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10 The Solar Alliance recognizes the need to keep the financial impact on ratepayers
11 as low as possible. To that end, the member companies of the Solar Alliance have
12 delivered dramatic cost reductions, forward thinking business models, and innovative
13 financing to meet this commitment. The Solar Alliance appreciates the focus on the
14 residential surcharge and feels that it is also important to point out that if the \$12 million
15 in unspent 2011 funds is carried over to the 2012 RES budget, the surcharge level would
16 decrease from \$5.54 to approximately \$5.00. Moreover, this amount will be reduced by
17 approximately \$1 after the APS rate case. There is a distinct possibility that the surcharge
18 could be in the lower \$4.00 range.
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21 • **Cost containment and MW capacity for APS owned systems under the**
22 **expanded Schools and Government program**
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24 Staff made it a point to not only lower the maximum level of PBI awarded but also
25 to make the Schools and Government program competitive and institute a 40% payout
26

1 cap. No such cost containment was placed on APS-owned assets. While cost containment
2 for the industry only revolves around the PBI level and length, ratepayer costs for utility-
3 owned assets revolves around system installation price and the cost recovery schedule
4 associated with that price. Therefore, the Solar Alliance recommends establishing a
5 \$3.25/Watt cost cap on PV installations for APS owned distributed generation assets. In
6 addition, the Alliance urges the Commission to consider maintaining the original capacity
7 split between APS owned and 3rd party owned projects under the School portion of
8 School and Government program. The Solar Alliance continues to support its original
9 recommendation of splitting any new capacity added to the schools program; 75%
10 capacity for 3rd party developed projects and 25% for APS owned projects. Staff is
11 recommending that APS be allowed to develop 15MW of the proposed 25MW new
12 capacity in this program, or 60% of the capacity. This is a significant shift that the
13 Commission's decision in the 2011 REST plan to limit APS ownership to 25% of the
14 capacity.

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19 • **Small Generator Standard Offer Program (3rd party PPA program)**

20 In the Solar Alliance's original proposal, "Option 4," it suggested 240MW of
21 capacity be set aside for the Small Generator Standard Offer Program ("Small Gen").
22 The Small Gen program is a competitively bid program that has attracted tremendous
23 interest from the solar industry; and the Solar Alliance strongly supports the continuation
24 of this innovative and cost-effective program.
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1 However, Staff was silent on this particular program in its Report, and did not
2 provide a recommendation for MW levels for the program in either of its proposed
3 Options. Solar Alliance member companies reached out to Staff for clarification and
4 Staff acknowledged the oversight. Staff did indicate that it intended that the program
5 would be approved as APS proposed. Member company calculations put the capacity
6 around 100 MW.
7

8 However, in APS's November 4, 2011 Comments to the Staff Report it claims
9 that:
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11 APS's proposal originally involved supplying half of the additional 300
12 MW APS needs to meet RES and settlement requirements with capacity
13 from third parties. The non-residential distributed proposals in Staff's
14 Options, however, will rearrange the allocation of this 150 MW by
15 increasing the amount of capacity derived from third-party DE and
16 reducing the amount of capacity derived from third-party PPAs. **If the
Commission approves [Staff's] Option A, APS estimates that it will
need approximately 50MW of utility-scale renewable energy from
PPAs between 2012 and 2015.** (pg. 2) (emphasis added).

17 The Solar Alliance has reached out to APS for clarification on the assumptions
18 APS used to derive MW numbers from Staff's funding proposal for the DE non-
19 residential incentives. While APS was helpful in providing a basic set of assumptions it
20 used to calculate the MWs number, APS acknowledged that the marketplace will
21 determine the actual MW numbers based on competitive bids into the PBI program.
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23 In conclusion we ask Staff to clarify the following:
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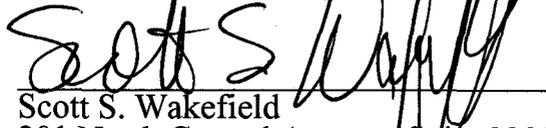
- 1) How many MWhs, and MWs, of DE non-residential MWs would result from Staff's funding proposal for non-residential DE incentive programs (explicitly identifying PBI level assumptions per year) from 2012 through 2014;
- 2) How many MWhs, and MWs, does Staff recommend be set aside for the Small Gen program in Options A and B?

In general it would be helpful to the industry if Staff would include MWh and MW calculations for all programs included in their Option A and B proposals.

The Solar Alliance supports Staff's Option A, but only if the Small Gen program is set at 100MWs or more, which matches Alliance's understanding of how many MWs could be reasonably procured from Staff's proposed budget for non-residential incentive programs.

Dated this 4th day of November, 2011.

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

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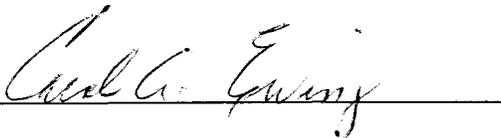
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