ORIGINAL

0000139713

AriSEIA

ARIZONA SOLAR ENERGY INDUSTRIES ASSOCIATION

111 West Renee Dr.
Phoenix, AZ 85027
Tel: 623-587-6432
Cell 602-708-1497

September 26, 2012

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE, CHAIRMAN
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

In the matter of the Application of Arizona Public Service Company for the approval of its 2013 – 2017 Renewable Energy Standard and Tariff Implementation Plan

Docket No. E-01345A-12-0290

AriSEIA would like to thank the Commission for the opportunity to provide comments on the 2013 Arizona Public Service REST Implementation Plan. We would also like to thank APS for the opportunities that they have provided the industry to keep abreast of their solar programs and their plan for the coming year through their stakeholder process.

Arizona's Renewable Energy Standard and Tariff (REST) has been a tremendously successful program, in fact, the recent press release from the Governor's Office, National Report: Arizona #2 in Solar Energy Development, cites Arizona as being among the national leaders in solar energy development and jobs according to the recent quarterly report filed by the Solar Energy Industries Association (SEIA), in Washington DC.

This achievement has enabled Arizona to take advantage of a more diverse power supply, greater grid stability, and the numerous additional benefits of solar including job creation and economic development. Additionally, the levels of market activity in Arizona have allowed the industry to lower costs for installation of photovoltaic technologies and reduce the incentive that has been provided to that market segment.

Therefore, we believe that it is in the best interest of Arizona to, at a minimum, maintain the solar markets at their current revenue levels. This will enable Arizona to at least maintain a solar industry as we transition from utility incentives for the residential PV market and allow market conditions to set commercial incentives. It will also enable the solar industry to maintain the jobs that have been so important to our state during the recent times of economic hardship. If Arizona is to become the world leader in solar as indicated by Governor Brewer then we must invest both money and innovative solutions to grow not just sustain the industry.

AriSEIA would like to stress the importance of at least maintaining the market for commercial systems. While the residential market may soon be able to exist without incentives, the commercial market will need incentives and/or solar friendly tariffs for the next few years before this market can stand on its own and be self-sustainable.
We feel that APS should also include options in their Implementation Plan that will maintain a strong utility scale market. Options and budgets should be explored centered on the AZ Sun program, the APS community solar proposals, and a revival of the postponed Small Generator program.

In 2012 the non-residential market benefited from both the 2011 Schools and Government program and a reasonable PBI based commercial incentive program. In 2013 APS proposes to implement the 2012 Schools and Government program as previously agreed and have from zero to four 5 MW non-residential incentive cycles. In addition APS is proposing to continue the implementation 25 MW Community Solar program.

As we transition from using RES compliance as the driver for solar industry to the Arizona's objective to be a world leader in solar all stakeholders need to work together to first develop a common vision and then define a clear path to reach that objective.
In principle, AriSEIA seeks a policy environment that at a minimum will maintain the market size on a revenue basis with a minimum of a two year horizon. Secondly, AriSEIA strongly supports competitive incentive bidding processes to ensure minimum expense to rate payers. Lastly, AriSEIA supports actions that reduce the need for PBI incentives such as solar friendly rates and community based solar. With these principles as a guide AriSEIA looks forward to working with the Commission and APS to ensure Arizona will become the world leader in solar through proper valuation of distributed and utility scale solar coupled with intelligently designed incentives and efficient industry performance. We believe the APS proposal for 20 MW of non-residential distributed solar, taken together with the previously approved Schools and Government Program, reflects a reasonable level of non-residential DG market strength.

To clarify, a solar friendly rate is one that properly values the contribution of distributed solar energy. These rates typically do not have large demand charges and provide reasonable reductions in electricity bills to reflect the solar energy used by the customer. A perfect example of a non-solar friendly rate change is the E 32-L tariff introduced in July. This change reduced the kWh charges by 55% for the level one tariff by increasing the demand based charges by 125%. The result of these fundamental changes is E 32L customers, including Arizona schools and governments, will suffer significant reductions in savings from their solar investments.

This is a critical situation and needs to be resolved either by allowing customers to use the previous tariff levels or by using a kWh based tariff similar to the E 32XS tariff.

The non-residential Distributed Energy (less than 2 MW systems) market is very dynamic with many moving pieces. It is critical to understand the impact of changes in the economic environment when setting policy.

For 2013 significant items needing consideration include:

1) Impact of elimination of bonus depreciation on solar financing costs.
2) Impact of APS moving to more demand based tariffs which resulted in the reduction in the Value of Solar by as much as 55% for the E32-L tariff.
3) Loss of the Section 1603 Grant program which substantially reduced the cost of capital vs. expensive tax equity funding now needed for 30% of the value of a project.
   It is illustrative to note that maximum clearing PBI calculator scores for the medium size incentive system have increased in the last two cycles as the above items are affecting project economics.

These items should be considered when setting incentive levels. ARISIEA believes that a cap on non-residential PBI incentives of 7 cents per kWh will make PPA'S unlikely to be attractive for in 2013 for those who properly analyze the value of solar under current rate structures. The existing incentive levels should be maintained.

Additional Comments:

1) Need for non-residential market to have either incentives for at least two years and/or more solar friendly rates.
2) Should consider a needs basis for the expanded S&G program.
3) Should potentially give higher points for projects that are more developed (This is supported by APS)
4) Need a 6 month delay in implementing "Track and Record" for zero incentive environment.

APS proposes a 25 MW Community Solar program. While in principle AriSEIA conditionally supports this proposal AriSEIA is considered about the lack of details that APS has presented on this program. In addition, AriSEIA requests that APS and the Commission agree to establish a similar sized Community Solar program that third parties can develop. Under this proposed program, unregulated third-party developers would be eligible to enroll Customers in an APS-guided Third-Party Community Solar rate. This rate would allow third-party system owners, or Customer-owned systems, to enroll in a Community Solar rate similar to Xcel Energy's Solar*Rewards Community program. Within one month of approval of the 2013 Implementation Plan, a stakeholder process would be initiated to discuss the tariff design and protocols for both the APS Community Solar program and for third party developers to participate, similar to how APS has successfully run the AG-1 stakeholder process.

As long as all costs are reasonable, such as APS's administrative charges, AriSEIA proposes conducting this program without any impact on the REST budget. APS and relevant stakeholders would then come back to the Commission for final approval of both programs within eight months of the 2013 Implementation Plan passage.

For the 2012 schools and government program AriSEIA requests that there be a cap on the EPC costs for the projects. During 2012 it was noticed APS was able to provide solar solutions for schools that were more expensive than solutions which were offered by third party providers. Given the loss of bonus depreciation and the difficulty in making school projects cost effective AriSEIA requests that the current 2012 incentive levels of $0.123 /kWh for 15 years and $0.112 / kWh for 20 be maintained. In addition, there should be a prioritization for allocating funds for the 2012 Schools and Government program. As the program currently exists all schools and all governments are treated equal which will likely result in a disproportionate allocation of incentives to the least needy organizations. Lastly as mentioned else where a mechanism needs to be developed to ensure schools and governments do not receive significantly less savings as a result of the new APS tariff structure. This issue of new tariff structure hurting existing solar projects needs to be addressed systematically perhaps through a solar friendly rate.

AriSEIA would also like to weigh in regarding the policy put into place last year where solar customers will still pay into the REST surcharge after having installed solar energy systems on their home or properties. Currently, APS customers pay a Renewable Energy Surcharge which allows APS to invest in renewable energy resources. The Renewable Energy Surcharge (RES) is a portion of the "environmental benefits surcharge" on customer bills. The RES is based on the customer's energy usage and is capped at a monthly maximum charge.

The decision by the Arizona Corporation Commission (ACC) to require APS customers who receive an incentive for a renewable energy system installed on or after July 1, 2012, to pay the full RES surcharge regardless of their energy usage has an unintended consequence for customers.

Customers who install solar must now pay the full cap which seriously interferes with the return on investment of the solar project. For example, recently an estimate was provided to a medical office building for a 12.24kW PV system. Before installing the PV system, the facility would pay $415.49 into the REST surcharge on an annual basis.

Under the new policy, after installing the PV system, the customer would now be required to pay the full REST surcharge and the annual surcharge would rise to 1,241.28, a significant increase that drastically changed the economics of the solar investment. With an annual estimate of $1,270.51 for the value of the energy produced from the system, the additional $825.79 in REST surcharges would reduce the savings to $444.72. As you can see, this seriously impacts the cost effectiveness of solar for the end user.

Linking the surcharge to the average REST surcharge per customer category helps mitigate the impact to a small business; however they may still see a significant increase in their REST Surcharge. AriSEIA would prefer to see a customer pay the average for that customer or the amount last paid before system commissioning. We feel that this meets the spirit of the policy of having those who have taken advantage of the program continue to help fund the program and does not burden a business with a greater surcharge than they would normally pay.

Arizona's solar industry will be transitioning to a post incentive environment. This will undoubtedly first take place in the residential PV market. We feel that the APS "track and record" method of counting generation would invalidate the integrity of the renewable energy credit (REC). Customers who install solar are making an investment, part of which is an investment in the RECs that are generated by the system. These RECs are the property of the system owner and the integrity of the RECs should be maintained in the methodology that is developed to ensure compliance with the REST.

Other proposals that link REC exchange to interconnection, rate riders or net metering would also have a negative impact on the integrity of the RECs or the solar industry in general. AriSEIA has worked closely with SEIA and other stakeholders on this matter and will assist in the development of a proposed policy that maintains REC integrity, is of no cost to ratepayers, and accomplishes the same objective as the APS's policy.

AriSEIA feels that the APS proposal to develop a stakeholder process for future changes to the DEAP is a worthwhile endeavor. AriSEIA and our members have regularly participated in the APS stakeholder process and look forward to the additional details in the APS supplemental filing. AriSEIA would like to see a collaborative process that takes the solar industry's concerns to heart in the process of making changes to programs and new program development. Often, we receive feedback from industry members that they do not feel that their concerns were properly considered. In order to insure a collaborative effort, AriSEIA suggests that leadership of the stakeholder group is shared with the solar industry and industry members play a significant role in the decision making process. A stakeholder process with shared leadership would facilitate an open communication of ideas and assist APS in the development of a stakeholder process that is transparent and will ultimately lead to programs that are a benefit to ratepayers, APS and the solar/renewable energy industry alike.

Finally, APS recommends that the incentive for residential solar DHW be reduced to $.45 per first year kWh saved. AriSEIA feels that the incentive should remain at the current level of $.50 per first year kWh saved. AriSEIA has also felt that solar heating should have its own budget category.

We once again would like to thank the Commission for the opportunity to provide feedback on the 2013 APS Implementation Plan. We look forward to providing additional comments on the programs identified by APS as the process of approving the IP's for 2013 continues.

Sincerely,

Michael L. Neary

Michael L. Neary
Executive Director