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BEFORE THE ARIZONA CORPORATION COMMISSION

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2012 OCT 11 AM 9 37

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ITS 2013 RENEWABLE ENERGY STANDARD IMPLEMENTATION FOR RESET OF ITS RENEWABLE ENERGY ADJUSTOR.

DOCKET NOS. E-01345A-12-0290  
AND E-01345A-10-0394

**COMMENTS OF WESTERN RESOURCE ADVOCATES**

IN THE MATTER OF ARIZONA PUBLIC SERVICE COMPANY REQUEST FOR APPROVAL OF UPDATED GREEN POWER RATE SCHEDULE GPS-1, GPS-2, AND GPS-3.

Arizona Corporation Commission  
**DOCKETED**  
OCT 11 2012

DOCKETED BY [Signature]

Western Resource Advocates (WRA) hereby submits comments on the regulatory treatment of renewable energy credits (RECs) in the event the Commission discontinues Arizona Public Service Company's (APS's) incentives for distributed photovoltaic (PV) projects installed pursuant to the Renewable Energy Standard (RES). To date, RECs have been acquired from customers or owners of distributed PV systems in return for receiving a financial incentive from a utility for installing a distributed PV system. However, PV prices have fallen to the point that incentives are likely to be discontinued soon.

APS and others have presented several options for meeting the distributed generation requirement if no incentive has been paid. A summary of options is presented in Table 1. The options are:

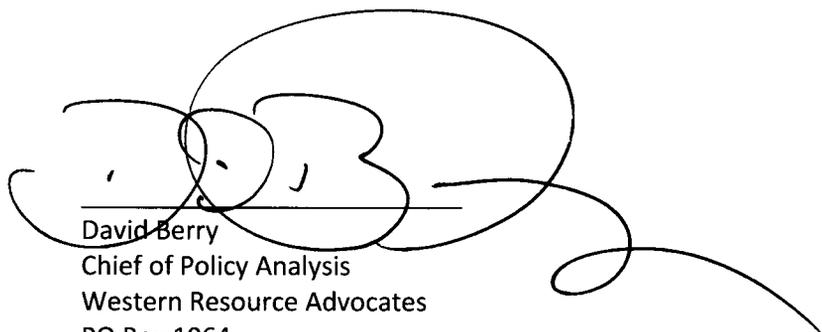
- Option 0. The current situation which appears to be coming to an end.
- Option 1. Waive the distributed generation requirement for one year if and only if the Commission finds that APS will likely meet the RES distributed generation kWh requirement for that year. This option removes the regulatory requirement to meet the distributed generation portion of the RES for a given year. Thus, APS would not need to acquire RECs for that year.
- Option 2. Eliminate the distributed generation requirement from the RES.
- Option 3. Track kWh from distributed generation (DG) to demonstrate meeting the DG requirement instead of acquiring and retiring RECs as required by the RES.
- Option 4. Purchase RECs associated with distributed PV generation located in a regulated utility's Arizona service area using an auction or similar process to meet RES distributed generation requirements; the Commission may set a price cap.
- Option 5. Require distributed PV owners to surrender their RECs to APS as a condition for interconnection or net metering (if they received no incentive).

The options are compared along several factors -- whether and how a utility acquires RECs associated with a distributed PV system, features, the cost impact on ratepayers, and WRA's position. Several of the options have fatal flaws: double counting of RECs, not directly compensating PV owners (or owners of the PV system RECs) if the utility implicitly or explicitly acquires RECs, and undermining the renewable energy standard. WRA opposes the flawed options as indicated in Table 1.

WRA supports an auction approach (Option 4). In general, solar RECs have a market value because utilities or others inside or outside Arizona may wish to purchase them. The market price of RECs will be determined by supply and demand factors in a market larger than Arizona.<sup>1</sup>

The specifics of an auction or similar approach should be developed through a collaborative process among stakeholders so that the auction is workable, fair, and consistent with the RES. The RECs must be derived from distributed generation using eligible renewable energy technologies for which an incentive is no longer authorized by the Commission and the distributed generation from which the RECs are derived must be located in the service area of any utility subject to the RES.<sup>2</sup> Because purchasing RECs imposes a cost on the general body of ratepayers, the Commission may wish to consider a reasonable cap on the auction price based on information obtained through the collaborative process. Lastly, if developing an auction requires additional time or if the auction approach does not yield sufficient RECs at reasonable cost, we recommend that the Commission consider waiving the distributed generation requirement for APS for up to one year (Option 1), but only if the Commission finds that APS would likely meet the RES distributed generation kWh requirement for that year.

WRA appreciates the opportunity to provide these comments. Respectfully submitted this 9<sup>th</sup> day of October 2012 by:



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<sup>1</sup> For a summary of voluntary and compliance market prices from January 2008 through June 2012, see J. Heeter, P. Armstrong, and L. Bird, *Market Brief: Status of the Voluntary Renewable Energy Certificate Market (2011 Data)*, National Renewable Energy Laboratory, NREL/TP-6A20-56128, September 2012, pp. 20-21.

<sup>2</sup> According to A.A.C. R14-2-1801(E), Distributed Generation means electric generation sited at a customer premises, providing electric energy to the customer load on that site or providing wholesale capacity and energy to the local Utility Distribution Company for use by multiple customers in contiguous distribution substation service areas. The term "customer" is not defined but it can reasonably be inferred from the RES that customer means a customer of a utility subject to the RES as opposed to projects located in New Jersey or Bulgaria, for example.

**Table 1. REC Options for Distributed Photovoltaics**

<b>Option</b>	<b>Status of incentive</b>	<b>Utility acquisition of distributed PV RECs</b>	<b>Features</b>	<b>REC cost to ratepayers</b>	<b>WRA position</b>
<b>0. Current situation with utility incentive payment to customer or PV owner</b>	Incentive paid to customer or PV owner	RECs transferred to utility as condition of obtaining incentive	Incentive likely to be discontinued due to falling PV prices	Ratepayers pay incentive costs	
<b>1. Waive for 1 year distributed generation requirement if &amp; only if ACC finds that utility would likely meet RES DG kWh requirement</b>	No incentive	No regulatory reason for utility to acquire RECs; RECs stay with customer or PV owner who may sell them	Allows flexibility and does not lock Commission into a long-term approach; option is useful if other acceptable options cannot be implemented	None	<b>Possible temporary fix</b>
<b>2. Eliminate DG requirement</b>	No incentive	None	Distributed PV may fall short of standard	None	<b>Oppose</b>
<b>3. Utility tracks kWh from DG to meet DG requirement instead of explicitly retiring RECs</b>	No incentive	Utility is implicitly using RECs to meet RES requirements*	RECs could not be sold by PV owner or other REC owner because they would be double counted; RECs thus lose value	None	<b>Oppose</b>
<b>4. Utility conducts auction for RECs to meet RES DG requirement; RECs must be associated with distributed PV facilities located in any AZ regulated utility service area</b>	No incentive	Utility purchases RECs from willing sellers (including aggregators as well as project owners)	Price determined by supply and demand in larger market; ACC may set price cap; uncertain volume and price of RECs that utility could obtain; if insufficient RECs available at price cap, then option 1 may be pursued.	Ratepayers pay for cost of RECs; ACC could cap price	<b>Support</b>
<b>5. RECs surrendered to utility as condition of interconnection or net metering</b>	No incentive	RECs transferred to utility as condition of obtaining services*	Potential for taking of property (REC) without compensation; option may impede customers from deploying distributed PV; customers & PV owners regard option as unfair	No additional cost	<b>Oppose</b>

\* The utility would be counting RECs from customers who would not have sought an incentive even if an incentive were available. Some customers have their own clean energy goals and pursue them with or without utility incentives.