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BEFORE THE ARIZONA CORPORATION COMMISSION

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

DOCKET NO. E-01345A-10-0394

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

DOCKET NO. E-01345A-12-0290

**SUPPLEMENTAL COMMENTS OF
SOLAR ENERGY INDUSTRIES
ASSOCIATION**

The Solar Energy Industries Association (SEIA) hereby provides its Supplemental
Comments to the above referenced docket.

Respectfully submitted this 13th day of December, 2012.

Arizona Corporation Commission

DOCKETED

DEC 13 2012

DOCKETED BY

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Attorney for SEIA

1 **Original and 13 copies filed on**
2 **this 13th day of December, 2012 with:**

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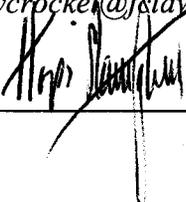
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December 13, 2012

DOCKET NO. E-01345A-10-0394/12-0290

I. Introduction

The Solar Energy Industries Association¹ (SEIA) hereby provides its Supplemental Comments in response to the thoughtful analysis contained in the Commission Staff's Recommended Opinion and Order (the "ROO"), and Arizona Public Service's ("APS") recently filed Comments to the ROO (the "APS Comment") in the APS's 2013 Renewable Energy Implementation Plan (the "REST Plan") Docket. This Supplemental Comment is a follow up to SEIA's Comment filed on October 15, 2012 (the "SEIA Comment"), and this filing provides the additional information as set out in the SEIA Comment and responds to important issues and proposals raised for the first time the APS Comment. SEIA will address and make recommendations in response to the key issues that it has identified in the REST Plan, the Staff ROO, and the APS Comment. In these comments SEIA will address the following topics:

- A. The APS Comments
- B. Staff's least cost approach and reallocation method
- C. Track and Record policy
- D. E-32L issue
- E. Community solar program with amendment language
- F. Installer education QSI program with amendment language
- G. Small Generators Program

II. Discussion

A. The APS Comments to Staff's Recommendations

- 1. The APS proposal (DE Option 1) to end direct cash incentives in 2013 is misguided and should be rejected**

The APS Comments recommend that the Commission approve APS' proposed Option 1, which amounts to an end of several key emerging markets, including solar heating and cooling and

¹ The comments contained in this filing represent the position of SEIA as an organization, but not necessarily the views of any particular member with respect to any issue.

commercial solar PV. If the APS proposal is adopted in its current form, all of the private investment, competition, and downward pricing pressures that this Commission has leveraged to increase deployment and drive down installed system prices will be abandoned in favor of a utility-controlled system that lacks meaningful competition and the benefits thereof.

The APS Comments are at odds with the view of those who spent numerous hours in stakeholder meetings with APS representatives. In the REST Plan itself, APS agnostically offered the Commission two options from which to choose. When the Staff proposed the “least-cost” approach for remaining unspent DE funds, APS reacted by proposing that the Commission select Option 1. This option, by the way, does the most harm to the portion of the DE market that has exhibited the strongest competitive elements of the REST programs. Essentially, without any outreach to stakeholders, APS is recommending that the Commission thwart several thriving and competitive markets.

APS justifies its recommendation to end all solar incentive programs with the statement “cash payments are no longer needed to incent DE.” This statement is inconsistent with later statements contained in the APS Comments where APS admits that commercial solar cannot transact without a limited incentive. For instance, APS asserts that Staff’s proposed third-party incentive cap for schools may be too low to allow the projects to transact. APS writes that, “Given the market for school DE projects, it is not clear that projects under APS’s 2012 third-party Schools and Government Program would be installed at \$0.06/kWh.” This underscores SEIA’s position that not all DE market segments are at an equal place within their market maturity, and some market segments are closer to grid parity than others. Further, the notion that no DE market segment needs incentives to meet REST goals at this time is inconsistent with numerous comments from the industry.

2. APS Ignores the Many Benefits of DE Solar.

APS states that the ROO’s “...cost assessment is incomplete” when defining DE solar costs. Yet, ironically, APS offers its own incomplete analysis in rebuttal that focuses only on costs. In arriving at the conclusion that avoiding retail rates through DE adds 12.1 cents to each kWh² of non-solar ratepayer costs, APS does not consider any of the many benefits of DE solar, other than fuel and variable O&M savings. In an effort to support this argument and to perhaps bolster its case against the free-market driven DE sector, APS selectively includes quotes from the national press that narrowly focus on direct costs on ratepayers while ignoring other available quotes regarding the benefits of DE on those same ratepayers.

There are many credible studies that support the value of distributed solar and the tangible benefits to non-participating ratepayers. APS does briefly mention the RW Beck Study that APS itself commissioned that found a DE value (benefit) ranging from 7.9 to 14.1 cents. Yet APS tries to discount its own study and argues primarily that the value stream of avoided

² Page 3, APS Comment

distribution is no longer relevant. In making this narrow argument, APS does not mention the far more significant savings from avoided line losses, avoided transmission, generation savings, fixed O&M savings and fuel and purchase power savings. Instead, APS selected the benefit that the Study itself indicated had the least potential savings (the smallest ratepayer benefit) and claims that it might have been exaggerated. Also concerning is that APS picks a rate design with one of the highest avoided costs, and neglects any analysis of a commercial rate structure that is significantly different from the high residential rate upon which its preliminary analysis was based. By doing so, the analysis is non-representative of the cumulative impacts and does little to inform policy making decisions.

Net metering is simply a billing arrangement that gives solar energy customers credit on their utility bills for the valuable power they export onto the APS grid. Numerous studies have evaluated the overall costs and benefits to ratepayers of net metering or distributed generation. These studies take into consideration the value of the solar energy exported to the grid based upon the marginal costs of the displaced energy, the avoided capital cost of installing new power generation, avoided transmission and distribution expenses, hedge value, line loss savings, and sometimes, environmental benefits. For example, Austin Energy's 2012 solar value study³, MSEIA's study relating to New Jersey and Pennsylvania⁴, and Crossborder Energy's 2012 study⁵ of net metering in California all show the significant benefits of distributed generation solar.

APS argues that Staff's calculations showing the benefit of DE solar are based on incorrect assumptions; yet, APS makes assumptions about the costs of solar net metering and DE without referencing any in-depth studies to substantiate their claim. APS then states that it will commission a report to assist in understanding the true costs and benefits of DE. This report has since been filed and after review, it *only* examines the costs associated with DE and does not examine any of the benefits. SEIA will offer additional comments in a separate filing on the APS commissioned DE cost report.

While SEIA supports the commissioning of a comprehensive cost and benefit analysis of net metering, it strongly recommends that the ACC authorize an independent third party to conduct this analysis and utilize a technical review committee consisting of utility and industry experts. SEIA believes that the resulting report should also include the positions of various Arizona stakeholders. An accurate and balanced study of the costs and benefits of DE in Arizona will provide a solid foundation for good public policy. Furthermore, a technical

³ "Designing Austin Energy's Solar tariff Using a Distributed PV Value Calculator",
http://www.cleanpower.com/wp-content/uploads/090_DesigningAustinEnergySolarTariff.pdf

⁴ "The Value of Distributed Solar Electric Generation to New Jersey and Pennsylvania", Clean Power Research,
<http://mseia.net/site/wp-content/uploads/2012/05/MSEIA-Final-Benefits-of-Solar-Report-2012-11-01.pdf>

⁵ "Re-evaluating the Cost-Effectiveness of Net Energy Metering in California", Crossborder Energy,
<http://votesolar.org/wp-content/uploads/2012/01/Re-evaluating-the-Cost-effectiveness-of-Net-Energy-Metering-in-California-1-9-2012.pdf>

conference, as proposed by APS, will only be successful if there is symmetry of information in relation to both the benefits and the costs of DE.

B. Staff's proposed least cost model

SEIA appreciates Staff's analysis and consideration of resource procurement and surcharge impacts. Nevertheless, SEIA respectfully disagrees with the least cost approach to resource procurement. Complex decisions such as the ones in the implementation plans and IRPs should not use a narrow framework to guide resource procurement. Still, unlike APS's narrow focus on slashing DE, Staff's "paradigm shift" does not lead to indiscriminate termination of incentive programs. Although more funds were directed to residential PV, Staff followed the historic approach to DE programs, which is to maintain market size while prudently decreasing incentives.

SEIA strongly urges the commission not to be tempted into a one size fits all procurement model. A resource may look attractive in the near-term but that does not mean it will be best in the long term. This principle can be especially true for the highly innovative and ever changing solar energy industry.

Behind every procurement model rests a particular scope of criteria and a cost benefit analysis based on those criteria. For instance, APS's claim that avoided retail rates by a DE customer leads to a corresponding 12.1 cent/kWh subsidy assertion is based on a type of rate impact measure test (RIM). The Regulatory Assistance Project states the following regarding a RIM test.

*"A strict application of the RIM Test can result in the rejection of large amounts of energy savings and the opportunity for large reductions in many customers' bills in order to avoid what are often small impacts on non-participants' bills. From a public policy perspective, such a trade-off is illogical and inappropriate."*⁶

Staff's model for assessment is more akin to the Program Administrator Cost (PAC) test. Although the RIM assessment is more myopic than the PAC test, neither test alone provides a complete perspective. The Commission should pursue a mix that includes a solar tailored total resource value test that includes societal benefits. Adopting a least cost approach or analyzing cost and benefits through a narrow prism can lead to unwise allocations of capital that could result in Arizona being too invested in one type of technology. If we undertook Staff recommendations like this a few years ago, Arizona would have focused more on solar heating and cooling technologies, and possibly neglected PV to some extent. If Arizona followed APS's approach of fixating on relatively small fix cost shifts, then only large centralized plants like

⁶ <http://www.synapse-energy.com/Downloads/SynapseReport.2012-11.RAP.EE-Cost-Effectiveness-Screening.12-014.pdf>

Solana would have been procured. Instead SEIA recommends adopting a diversity of resources to hedge future risk in the portfolio and continue market growth in all sectors.

In regard to Staff's reallocation formula, SEIA appreciates the proactive move by Staff to enable automatic adjustments near year end. This policy provides certainty to the industry and avoids the need for regulatory intervention. However, SEIA is unsure about the feasibility and implications of Staff's allocation of funds into PBI based programs. SEIA recommends that any left-over funds instead be allocated to solar heating and cooling and solar PV up-front incentive budgets accordingly.

C. The APS "Track and Record" proposal for demonstrating REST compliance violates REST Rules and constitutes a regulatory "taking" and should be rejected

The phase-out of incentives creates a challenge for the utility because the REST Rules set out that the only way to prove compliance with the Rules is to acquire renewable energy credits ("RECs") from system owners. A.A.C R14-2-1804(A) requires that, "each Affected Utility shall be required to satisfy an Annual Renewable Energy Requirement by obtaining Renewable Energy Credits from Eligible Renewable Energy Resources." A.A.C R14-2-1804(A) (emphasis added). APS recognizes that some customers may not sell their RECs to the utility and once that occurs, it may be unable to demonstrate compliance in the method required in A.A.C R14-2-1804(A). As an alternative to direct RECs acquisition, APS has proposed, and Staff has recommended, the "Track and Record" methodology that would allow APS to meet "compliance" with the REST Rules without acquiring RECs.

Track and Record has two fundamental flaws. First, Track and Record clearly violates A.A.C R14-2-1804(A). While R14-2-1816 permits the Commission to issue a waiver from the Rules for good cause, the Track and Record methodology does not include a granting of a waiver. Without a waiver there is no legal basis to permit APS to implement a change that is at direct odds with the REST Rules. The Rules say APS must demonstrate compliance by acquiring RECs and without a formal waiver, the Commission is obligated to require APS follow the REST Rules.

Second, Track and Record would invalidate a customer's RECs and deprives customers of their private property without compensation. In a letter docketed on November 16, 2013, The Center for Resource Solutions ("CRS"), administrator of Green-e Energy, the nation's leading independent certification and verification consumer protection program for RECs sold in the voluntary market, wrote that, "Use of the renewable kWh to meet or determine a compliance obligation renders the DG customer's REC effectively taken and used by the utility. Unless the utility purchased or otherwise contractually received the REC, the utility would be double counting the REC that rightfully belongs to the DG owner, resulting in the DG owner being unable to sell their REC into the voluntary market or, potentially, other states' RPS markets." In other words, the nation's largest independent REC certification group has said that Track and Record results in the REC becoming worthless to the solar REC owner while the utility gets the benefit of the REC without even acquiring it.

The Department of Veterans Affairs (the "VA") is a perfect example of the type of utility customer that would suffer at the hands of a Track and Record policy. In a letter dated November 26, 2012, the VA explained the legal issues that Track and Record creates. The VA writes that it "has made significant investments in VA solar projects in Arizona to meet the Federal renewable energy requirements and standards, as set forth in legislation and Presidential executive orders." The VA is required to own RECs to meet its Federal standards pursuant to Executive Order 13423. However, that compliance cannot be shown if the utility is permitted to count those RECs toward compliance at the same time. Applying Track and Record against the VA or any of the numerous utility customers in Arizona that have chosen or choose in the future to retain their RECs would unfairly deny such customers the right to use their RECs as they see fit. The VA writes that Track and Record "would interfere with VA's ability to sell or claim solar generation from VA facilities....the Plan would threaten the viability of the renewable energy certificates (REC) system and would set a dangerous precedent if approved.... the policy would deter future VA renewable energy investments in the State of Arizona." There are numerous existing customers just like the VA that have already chosen to retain their RECs. In response to a SEIA Data Request, APS indicated that 118 customers have chosen to hold onto their RECs already (80 commercial and 38 residential systems) and one can only expect that number to rise going forward.

Arizona needs a solution that is both legal and fair, and that is in complete compliance with the REST Rules and that does not deny individuals their property rights without due compensation. Arizona policy should not endorse, promote, or mandate a program whereby customers would be forced to surrender their private property rights to utilities without proper compensation.

The "Track and Record" approach could lead to a forfeiture of Arizona's ability to have a viable REC market and stifle investment in non-incentivized systems. Given the APS recommendation to hold a technical conference on solar net metering and REC treatment, SEIA strongly urges the Commission to maintain an incentive for the residential and commercial markets until discussions can take place during the technical conference on the solution to the REST compliance question. The technical conference could result in a different method of incentive (or lack thereof) that could impact the proper way to do compliance accounting.

SEIA proposes the following Amendments:

Page 5, Line 21, INSERT after last sentence:

"We disagree with Staff and find that because Track and Record would permit the utility to reach compliance without acquiring the REC as required under A.A.C R14-2-1804(A) and because the policy would devalue the system owner's REC without providing compensation Track and Record must be rejected. Also, it is premature to decide upon a method of post incentive compliance since the proposed technical conference on net metering and incentives might result in a result that would require a change to this policy. The technical conference should be used as a forum to propose a solution to this problem to be reviewed by the Commission along with the rest of the recommendations that come out of the conference."

D. The E-32 L Tariff Change and Negative Impacts on Commercial Customers and Large Schools

SEIA is very concerned that the recent dramatic change to the E-32 L rate has caused unintended negative implications for this rate class, which includes large commercial customers and both private and public schools. While this change has negatively impacted many current and potential solar customers, we are particularly concerned about the impact on schools. In short, the tariff change has taken away the ability of numerous schools to save money with solar and will preclude these schools (and other commercial customers) from utilizing third-party investment to save money on operational costs in the future. In response to SEIA Data Requests, APS has identified 26 schools (86 users in all) in Arizona that have already contracted for solar services that the E-32 L rate change has negatively impacted. This is 26 existing schools that stand to lose money because of this alteration in the E-32 L rate. SEIA has been informed by APS that a good portion of schools can undertake efforts to moderate but, perhaps not avoid altogether, the rate shock and that APS has begun communicating with schools on how they might meet that end. However, there will most likely still be schools that do not have any option when it comes to dealing with the nearly 50% reduction in the energy offset portion of the bill. These large schools with solar and those that seek to implement solar in the future must be offered an alternative rate option.

E. The Community Solar Program should be expanded to offer competitive market options

SEIA believes that the history of REST implementation in Arizona has shown that competitive, market-oriented solutions have been successful in lowering costs resulting in more solar for less money for Arizona's ratepayers. SEIA believes that the newly created community solar market could also benefit from the introduction of competition and market-based strategies. As a complimentary offering to APS's proposed 25 MW UOG Community Solar Program, SEIA recommends the ACC direct APS to engage in a collaborative exploration of additional non-UOG community solar offerings. The collaborative process should include representation from the solar industry, customers, APS, and third-party experts in community solar so that a consensus-built program offering can be proposed in the APS 2014 REST Implementation Plan. Such a process could be facilitated by the Interstate Renewable Energy Council (IREC), for example. IREC assisted in the development of Colorado's and Delaware's developer-led programs in collaborative processes including workshops and formal dockets before each state's respective Commissions, and has also developed a guidebook "Community Renewables, Model Program Rules"⁷. SEIA believes such a collaborative process can be effectively used in Arizona to design

⁷ http://irecusa.org/wp-content/uploads/2010/11/IREC-Community-Renewables-Report-11-16-10_FINAL.pdf

third-party community solar offerings that have the potential to reach underserved customer segments with a zero impact on future REST budgets.

SEIA proposes the following amendment:

Page 16, Line 20 INSERT after the conclusion of the last sentence:

“We believe that private investment and competition in solar development is to be encouraged and that such investment leads to lower costs and greater innovation that is in the public interest. As a result, we believe that since the Applicant is proposing a utility-owned community solar project we should at the same time explore a similar sized third-party owned community solar program to allow the free market to bring competition into this space resulting in likely ratepayer benefits.”

Page 25, Line 25, INSERT ORDERING PARAGRAPH:

IT IS FURTHER ORDERED that Applicant shall commence a stakeholder process to formulate a proposal for the creation of a 25-MW third-party owned community solar program for Commission consideration as part of Applicant’s 2014 REST Implementation Plan filing to be filed in July, 2013.

F. Installer education QSI program with amendment language

SEIA fully supports APS’s proposal for a Qualified Solar Installer (QSI) program. SEIA is a supporter and advocate for programs designed to ensure that solar installers are held to the industry standards and believe that the QSI is a program that provides substantial value to Arizona ratepayers. Protecting ratepayers and giving them information about entities that have proven themselves proficient in their craft is a worthy expense that should be maintained. SEIA believes that because solar installations interconnect to the grid, the public as a whole have an interest in seeing that high-quality and well-trained installers are working in this important field. SEIA also recognizes the great work being done in Southern Arizona regarding the voluntary “Solar Standards Board.”

SEIA proposes the following Amendments:

Page 16, Line 15 INSERT after last sentence:

“We disagree with Staff and believe that the Qualified Solar Installer Program (“QSI”) provides a benefit to the utility ratepayers. The QSI is designed to protect consumers and to assist them in selecting contractors that have been trained to perform up to industry standards. Solar installations interconnect to the grid which means the public, and this Commission, have a strong interest in making sure that installers doing such work are of high quality and perform at the industry standard or above.”

DELETE Page 24, Lines 4-6 and REPLACE with:

IT IS FURTHER ORDERED that APS's QSI Program be implemented and funded as proposed in the Application with an exploration of a voluntary statewide Solar Standards Board.

G. The ACC should resume the Small Generator Standard Offer Program

APS has indefinitely suspended its Small Generator program for wholesale solar projects between 2 and 15 MWs. The justification for the termination was that the higher uptake than expected in customer-sited DG required them to scale back the Small Generator program. Yet concurrently, APS is pursuing a 200-MW AZ Sun program whereby APS identifies sites it deems suitable for generation, with non-utility EPC (engineering, procurement and construction) firms handling project design and construction.

This has effectively created a wholesale solar market run exclusively by APS, in spite of the existence of many independent power producers willing and able to develop generation in Arizona. To be clear, SEIA is not opposed to utility ownership of solar generation, but is opposed to a market that is determined solely by APS. The market for wholesale DG in California points to a competitive market that has resulted in low prices for IPP-developed and owned solar generation. For example, California's most recent data on its periodic Renewable Auction Mechanism solicitations shows that the highest-priced bid accepted by its investor-owned utilities is \$89.23/MWh. Since development costs in California typically tend to be higher than those in Arizona, and since this data is based on prices bid in November 2011 in a highly dynamic market, SEIA is confident that a solicitation in Arizona would yield very cost-competitive bids.

Given the favorable economics and minimal-to-zero impact on the surcharge, SEIA strongly urges the ACC to adopt a 20-MW per year Small Generator Standard Offer Program with the same project size parameters (2-15 MW per project) as originally adopted in the Small Generator Program. The resumption of the Small Generator Standard Offer Program will surely continue to expand Arizona's innovative market segments and take advantage of the demand and competitiveness of this market sector.

SEIA recommends that APS begin the next round of the Small Generator Standard Offer with a workshop to determine lessons learned from previous SGSO RFPs and to receive stakeholder input on the design of the next RFP.

SEIA proposes the following Amendments:

INSERT at Page 26, Line 1, the following new paragraph,

“IT IS FURTHER ORDERED that APS shall issue an RFP under the Small Generator Standard Offer Program making an award in 2013.”

III. Conclusion

SEIA appreciates the opportunity to provide comments in response to the Commission Staff’s ROO and APS’s comments to the ROO. While there are many positive aspects of the ROO that SEIA supports, we urge the Commission to consider the changes suggested within this filing.