ORIGINAL OPEN MEETING AGENDA ITEM

0000141303

SolarCity

RECEIVED

2013 JAN -8 P 1:12

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

JAN 08 2013

DOCKETED BY

January 8, 2013

Bob Stump, Chairman
Commissioner Gary Pierce
Commissioner Brenda Burns
Commissioner Bob Burns
Commissioner Susan Bitter Smith
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Re: APS 2013 REST Implementation Plan Docket No.: E-01345A-10-0394/~~12-0290~~
~~E-01345A-12-0290~~
E01345A-12-0290

Chairman, Commissioners:

SolarCity appreciates the opportunity to comment on APS' 2013 RES Implementation Plan. Many thanks to the Commission for the critical work you have done in developing the state's renewable energy program. Past policies and programs implemented by the Commission have led to an explosive growth in the state's solar industry with all of the attendant job creation and economic benefits.

We encourage the Commission to continue to support proactive solar deployment policies and in that spirit, we offer the following recommendations for APS' 2013 RES Implementation Plan.

1. The Commission should approve Staff's budget option and continue both residential and commercial incentives through 2013.
2. The Commission should support Staff's recommended paradigm shift and allocate funding on a 'least cost methodology'.
3. The Commission should approve APS' recommended Schools and Government incentive caps and funding levels as well as six nomination periods for the program in 2013.
4. The Commission should approve four quarterly commercial funding cycles with caps that alternate between 2 MW and 750 kW.
5. The Commission should not require commercial customers who change installers to reapply for an incentive.
6. The Commission should address APS' new E-32L rate schedule and the schools that have been affected by changes in this rate.
7. The Commission should increase the overall timeline for meeting commercial program milestones.

8. The Commission should consider allowing third parties to either own a portion of the 25 MW approved for the community solar program or create a separate program that will allow third parties to participate.
9. The Commission should reject APS' "Track and Record" proposal that is supported by Staff.

The Commission should approve Staff's budget option

The budget outlined by Staff is both reasonable and fair. It provides a cost-effective means of continuing to support emerging technologies while also considering the impact on ratepayers and stepping down incentives on a manageable ramp. The commercial solar sector is not yet ready for a complete cessation of incentives due to the lower rates paid by that sector, a point that APS underscored in a comment filed on November 15, 2012 (p. 11, lines 4-5). The residential sector, while close to no longer needing ratepayer support (thanks to previous Commission policies), should continue to be funded on a limited basis until a REC transfer plan is figured out, potentially as a part of the technical conference that APS plans to hold in the first quarter of 2013. Residential distributed generation ("DG") will also likely remain the 'least cost kWh' for the near term, something that the Commission should take into account when considering how to most cost-effectively comply with the REST.

We also agree with Staff that the argument by APS that it has already met its residential and non-residential requirements for the next few years "is a distraction from the need of APS to meet the overall REST requirement by 2025." APS can and should use any additional kWh to apply toward meeting the Standard's overall goals and thereby reduce the need to build additional power plants and transmission lines.

The Commission should support Staff's recommended paradigm shift

We encourage the Commission to adopt the 'least cost methodology' outlined by Staff in their comments. We believe that it makes the greatest financial sense for the ratepayers if an emphasis is placed on obtaining the least-cost renewable kWh to meet the overall REST requirement.

There has already been a significant amount of discussion in this docket about whether or not distributed generation is a 'least cost' technology. We look forward to participating in the technical conference that APS plans to convene in order to discuss this in more depth. However, it is worth noting here that numerous studies have evaluated the overall costs and benefits of net metering. 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 due to the added capacity of the solar PV systems, transmission and distribution expense and line loss savings associated with the systems, and sometimes, environmental benefits. All of them have found that the increased development of DG solar and the use of net metering results in net benefits to the entire electricity rate base.

An additional consideration is that net metering allows home and business owners to make an individual choice about where they get their electricity and it then gives them the option to invest their private capital in a form of generating capacity that does not require fuel, something that benefits the entire ratebase. When APS suggests that customers should pay for net metering (or that it is a subsidy), they are effectively suggesting that power savings should be taxed and that they don't believe in encouraging private investment in the modernization and improvement of electrical infrastructure.

The least-cost aspect of residential solar for ratepayers is especially evident when compared with the cost of utility-scale solar. Currently, APS pays residential customers only $0.10/watt to install rooftop solar. In contrast, utility scale solar costs $2.40/watt to install on average[1], not including the utility's revenue requirement on the investment. In other words, ratepayers pay 24 times as much per watt for the utility to develop and own utility-scale solar as they pay for a resident to install solar on their roof ($2.4 million/MW vs. $100,000/MW).

At its most basic, it seems that the utility may be concerned about the amount of the grid that will be powered by private investment, which reduces the amount of their own investment that they can recoup. It is therefore in the monopoly utility's best interest to penalize anyone who uses their private capital to lessen their dependence on a system whose prices are controlled by the government.

However, this way of thinking undermines the notion of ratepayer rights. Every retail electricity customer should have the right to use as much or as little grid electricity as they find is in their own best interests—without being penalized for it. This holds especially true if that customer has chosen to expend their own private capital to invest in a system that provides electricity and myriad benefits to the overall grid.

The Commission should approve APS' Schools and Government program recommendations

We believe that APS has made reasonable recommendations vis a vis the Schools and Government program. We encourage the Commission to approve incentive caps of $0.106/kWh for a 15-year PBI and $0.096 for a 20 year PBI as well as a lifetime PBI commitment of $31.5 million. Finally, we are supportive of six bi-monthly nomination cycles with equal amounts of capacity in each cycle. Additionally, we would encourage the Commission to allow APS to include any unused capacity in the next round of nominations.

The Commission should approve four quarterly commercial funding cycles

SolarCity is supportive of Staff's recommendation to implement four quarterly commercial funding cycles. However, instead of implementing a funding cap of 2 MW for the first two

[1] Greentech Media Market Survey for the 3rd Quarter of 2012

cycles and 750 kW for the second two cycles, we recommend alternating the caps. This would mean a 2 MW cap in Q1, a 750 kW cap in Q2, a 2 MW cap in Q3 and a 750 kW cap in Q4.

The Commission should not require commercial customers who change installers to reapply for an incentive

There is very little impact on residential customers who switch installers and must therefore reapply for a rebate. However, commercial customers who change installers may lose their incentive opportunity entirely if they have to then reapply. It is not uncommon for commercial installers to pull out of certain jobs due to lack of financing or other unforeseen issues. In these cases, commercial customers usually look for a different contractor to complete the installation. However, if they must wait to reapply for funding and potentially not receive any, the project could be derailed entirely. It makes more sense to allow that customer to choose to work with a different contractor if their original contractor does not work out.

The Commission should address the impacts of APS' new E-32L rate schedule

We encourage the Commission to look into the (likely unintended) changes that APS' new E-32L rate schedule makes to the rates of large commercial customers that have installed solar. We are particularly concerned about the impact on schools who originally installed solar in order to save money on their energy bills. The new rate may also limit the ability of schools to participate in the solar program in the future. We think it would make sense for these customers to be offered an alternative rate in order to be able to fully take advantage of the savings associated with installing solar. To that end, we suggest amending the existing schools and government program rate rider that has been changed in previous RES Implementation Plan proceedings to remedy this situation. The result should be the reinstitution of a rate that allows schools to continue to capture the financial benefits provided by their solar installations.

APS should increase the overall timeline for meeting commercial program milestones

The timeline for the commercial project milestones required by APS should be extended in order to allow companies to comply with each of the individual steps. For example, the timeline for permitting a project is only 4 months from the date of the rebate reservation, a milestone that is nearly impossible to reach. By comparison, this same timeline is 18 months in California. Also, interconnection applications must be submitted within 4 months of the rebate reservation and these applications must include the 'authority having jurisdiction' (AHJ) permit and approved drawings. Depending on how quickly the AHJ can provide these things, something that solar installers have no control over, can influence whether or not APS' milestone can be met. It would make more sense to meet this milestone by providing APS an AHJ submittal document with the interconnection application and unstamped drawings.

The milestone timeline required by APS is exacerbated by the fact that there are only 2-4 auction periods each year for large projects. This means that every project that wins an award in those 2-

4 nomination periods has the same deadlines, thereby making it difficult both for companies and AHJs to employ resources that are already stretched thin to meet the same milestone requirements for every commercial project being installed in APS' territory.

Rather than require companies to continually request extensions in order to meet APS' commercial milestones, we encourage the Commission to extend the timeline of those milestones.

The Commission should consider allowing third parties to participate in the community solar program

SolarCity is supportive of solar gardens programs as a way to allow customers who rent or who do not have roofs adequate for solar installations to save money on their electricity bills. We are also supportive of APS' plan to build and own solar gardens in order to serve their customers. However, we also encourage the Commission to consider allowing third parties to develop and own either a portion of the 25 MW that has so far been allocated to the program or to create a separate program solely dedicated to third party owned systems. This is similar to the compromise reached under the Schools and Government program that has been so successful and cost-effective, partly due to the competition among third party owners.

The Commission should reject APS' "Track and Record" proposal

SolarCity is worried about the "track and record" proposal outlined by APS and supported by Staff and we strongly encourage the Commission to reject this proposal. This mechanism would erode the value of the RECs associated with renewable energy generation and fail to fairly compensate system owners for such RECs.

We also encourage the Commission to reject the proposal to make "track and record" retroactive. As the Commissioners are well aware, businesses and investors depend heavily on predictability and if retroactive changes to the program are implemented then it will significantly erode faith in the market.

We encourage the Commission to continue the status quo REC purchase mechanism (i.e. limited incentives) until a more detailed solution can be worked out that would fairly address system owner compensation for RECs at a future time when incentive are no longer needed. It may make sense for this solution to be discussed at the technical conference that APS plans to convene early in 2013.