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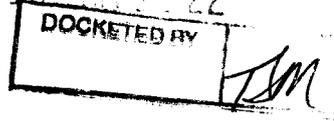
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ARIZONA CORPORATION COMMISSION

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March 13, 2013

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E-01345A-10-0394
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Dear Representative Barber:

In response to your column on solar power that appeared in the *Arizona Daily Star* on March 5th I would like to answer a few of the questions that you asked and address some of the points you made.

I will not attempt to respond to all of the issues in this letter, but I ask that we meet together to discuss this issue. I welcome the opportunity to meet you in Tucson, at your convenience.

In response to your opening question, "Is there such a thing as too much solar power?"

One of the primary responsibilities of the Commission is to ensure the amount of generation, acquired by electric companies, is appropriate for customers' needs. It is one thing for regulatory mandates to determine what electric companies should acquire to meet growing customer needs, to promote a diversified portfolio. It is another thing for regulatory mandates to require electric companies to acquire specific generating resources despite the lack of customer need. This leads to higher costs for ratepayers.

Despite the economic slowdown and the resultant slowdown in electric demand, the Commission has maintained its commitment to solar. Recent information supplied to the Commission shows over capacity situations for each of the electric utilities.

So, "is there such a thing as too much solar power?" The answer is yes, if that capacity is not needed and it leads to higher rates for the customer.

Timing the acquisition of new solar is also important because buying too much solar, too soon can deprive ratepayers of the benefits of the forecasted declining costs of solar over time. Just as it makes sense to have a diverse portfolio of generating resources, it makes sense to diversify the acquisition of solar over time to reduce the risk of paying too much in any given time period. This is why the Commission adopted the Renewable Energy Standard in 2006 with a stair-stepped requirement up to 2015.

You also stated that the Commission 'made sweeping changes ...including the elimination of financial incentives for rooftop solar for businesses and drastic reductions in incentives for residential solar.'

The changes that you reference are not sweeping, nor are they new. The Commission eliminated performance based incentives (PBIs) for large commercial and industrial customers. It did so acting on a recommendation that TEP has made since 2011 due to its significant over-capacity in commercial solar,

and that APS also asked for in 2012. TEP currently has more installed and reserved commercial solar capacity than it needs to meet its commercial targets thru 2017, and APS thru 2019. Unlike residential incentives which are a one-time up-front payment, PBIs are multi-year contracts that can be paid over twenty years. As of July 1, 2012, TEP estimated its current commitment to commercial incentives at \$135 million.

As for residential incentives, the reduction that you refer to in your column actually began three years ago. In 2010, TEP's residential incentives started out at \$3 per watt and ended the year at \$2 per watt. In 2011 the incentives began at \$2 per watt and ended at \$.75 per watt. In 2012 the incentives started at \$.75 per watt and ended the year at \$.20 per watt. The 'drastic' reduction that you mention for 2013 is to go from \$.20 per watt to \$.10 per watt. In light of the trend of the past three years, this was to be expected.

Despite the incentive reductions over that past three years, from \$3 per watt to \$.20 per watt, TEP achieved the following installations:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Incentives Paid	\$22.2m	\$15.0m	\$6.7m
Capacity Installed	6.06 MW	7.28 MW	6.94 MW

In spite of the reduced incentives, Arizona installed more solar, in megawatts, in the final quarter of 2012 than any other state outside of California.

You stated, "The ACC proposed rolling back a 2007 mandate that required Tucson Electric Power Co. and Arizona Public Service Co. to produce 15% of their power from renewable resources by 2025. TEP's renewable source percentage would be dropped to 11.5% and APS's to 13.5%."

An amendment was brought forward for discussion purposes, to address the forecasted increasing surcharge. It was never offered and therefore not adopted by the Commission. However it was modeled after an amendment that former Commissioner Kris Mayes offered in 2008 to exempt the load of the large industrial customers of Morenci Water and Electric Co. The Mayes amendment, which was adopted, reduced the renewable requirement for Morenci Water and Electric from 15% to 0.5%. Like commissioners before me, I will unapologetically weigh in on the side of the ratepayer when there is concern regarding rates becoming oppressive to ratepayers.

You also stated, "The Commission's proposal also would allow any renewable connected to the grid to count toward a utility's renewable energy requirement – even if the utility did not provide incentives to the owner."

Just to clarify, this is a proposal, not a policy. It is currently under study as part of a stakeholder process where all sides have the opportunity to make inputs and discuss the pros and cons.

The goal of the Commission's renewable rules is to achieve a more diverse energy portfolio and to promote the growth of renewable energy to be 15% of the energy produced.

Shouldn't we be counting it all?

What if we could have encouraged the growth of renewables without incentives, wouldn't that be beneficial to Arizona and the ratepayers?

Shouldn't net metering be considered an incentive? The utilities must buy the power put onto the grid by solar customers whether or not there is a need.

Shouldn't the various tax credits be considered incentives?

Thank you for taking the time to read this response, and I look forward to the opportunity to sit down with you in person to discuss this issue. Please let my office know when that meeting can take place.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary A. Pierce". The signature is fluid and cursive, with the first name "Gary" being the most prominent.

Commissioner Gary Pierce