0000149138

OPEN MEETING AGENDA ITEM

SolarCity

ORIGINAL

October 25, 2013

Docket: E-01933A-13-0224

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

Arizona Corporation Commission
DOCKETED
OCT 25 2013
DOCKETED BY

RECEIVED
2013 OCT 25 P 4: 12
AZ CORP COMMISSION
DOCKET CONTROL

Chairman, Commissioners:

It has come to my attention that the Arizona Corporation Commission open meeting on October 16, 2013 included a lengthy discussion of the competitive challenges that solar installers in Arizona face, and that some of that discussion focused on SolarCity in particular. We regret that we were not able to have a representative at the meeting, and I appreciate the opportunity to comment on that discussion.

I understand that, at the meeting, concerns were raised that many solar installers in Tucson have been unable to grow their businesses over the last year. It is our understanding that it was suggested that since SolarCity has continued to participate in the market at a healthy level, that we are immune to the challenges faced by the rest of the industry. That is not the case. In fact, conditions for all solar providers in Arizona are extremely challenging. Indeed, this is one of the most critical issues in the ongoing debate over net energy metering in Arizona, and probably the source of the greatest misunderstanding among the debate's participants.

I recently met with the Residential Utility Consumer's Office (RUCO) to discuss the impact that potential changes to net-metering could have on the state's solar industry—and to make it clear that the industry is not overstating its claims about the impacts of such a decision. I explained that it is becoming increasingly difficult for solar companies in Arizona to make a profit given recent incentive reductions and other changes to solar policies. I discussed that if the ACC were to implement an additional $20 tax on solar customers, as RUCO had indicated it planned to propose, it would likely serve as the death knell for many participants in the solar industry in Arizona. I made it clear that the only way to survive the proposed incentive reductions would be to significantly increase capacity to make up for lost margin.

I do not believe RUCO wants to see the state's successful distributed solar industry eliminated, but I do believe that we may not have fully understood one another. At the October 16th meeting, RUCO seemed to suggest that SolarCity is "selling at a loss" in Tucson in a way that makes it an unsustainable market for other installers. This is not accurate. SolarCity's pricing has not

3055 Clearview Way San Mateo, CA 94402 T (650) 638-1028 (888) SOL-CITY F (650) 638-1029 solarcity.com
AZ ROC 243771 CA CSLB 888104 CO EC 3041, CT HIC 0632778, DC HIC 7101486 DC HIS 7101488 HI CT 29770, MA HIC 168572 MD MHIC 128948 NJ 13VH08160600
OR CCB 180498 PA 073345 TX TDLR 27066, WA GCL SOLARC 01907 © 2013 SolarCity All rights reserved

SolarCity

changed in the Tucson market since last September, when we actually increased our prices. We are not scaling to try to eliminate our competition, we are scaling because that is the only way to survive in the current incentive environment. When you make less money per system, you have to acquire more customers to offset and ultimately reduce your costs.

RUCO is absolutely correct, though, that the market is in a very delicate place. A wide range of policy changes have been introduced in the recent past; nearly all of these changes make it harder for solar installers to do business in Arizona. In the past year alone, installers have had to contend with proposed changes to net-metering, a decrease in the avoided cost rate paid to customers for annual net excess generation, alterations to rate schedules such as E32 L that increase commercial customer fixed charges, changes to property tax valuations, a proposal by one of the utilities to eliminate the distributed generation carveout in the Renewable Energy Standard (RES), a proposal by one of the Commissioners to decrease the RES from 15% to 13.5%, proposals by the utilities to claim Renewable Energy Credits (RECs) without compensation to customers, and the complete elimination of both residential and commercial incentives for installing solar. Given the breadth and depth of these proposed and effected changes, it should come as absolutely no surprise to anyone that a growing number of solar companies in the state are struggling to survive. This has nothing to do with any single company, and everything to do with the policy changes and the threats of more policy changes.

In the past, the solar industry has been accused of "crying wolf", i.e. overstating the potential impacts of many of the changes considered by the ACC. I want to underscore the fact that all of the industry's concerns have been valid and all of our predictions have borne out. For example, when commercial incentives were eliminated last January during the APS and TEP 2013 REST Implementation Plan discussions, the industry claimed that there would, in fact, cease to be a commercial market in the state. That is exactly what has happened. It is difficult to overstate how significant this impact has been. In its most recent assessment of the national solar market, GTM Research wrote that in first half of 2013 in Arizona, reductions to and elimination of utility incentives have drastically lowered installations in the commercial market, generating the lowest quarterly total in three years with 5.3 MW installed in the second quarter of 2013, a 60 percent decrease from the same period a year ago. We believe that many of those installations were sold in prior periods when the incentive was still in place, and that the full impact of the elimination of the commercial incentive has not even been fully realized.
The issue is not that deployment incentives can't be eliminated. They can and should be eliminated over time. However, the dramatic changes that are occurring all at once are too much for the industry to bear, and are the real reason that many industry participants have been unable to survive and grow.

It was also suggested in the October 16th meeting, that SolarCity is, or could become, an "unregulated solar monopoly" in Tucson. That claim is simply not supportable, given that a monopoly is generally defined as an entity that has exclusive control of a commodity or service in a particular market. That definition certainly applies to utilities like APS, TEP and SRP, but it

AZ ROC 243771 CA CSLB 888104 CO EC 8041 CT HIC 0632773 DC HIC 7110 HIC 29 70 MA HIC 168572 MD MHIC 126948 NH 10M05180600,
OR CCB 180498 PA 077343 TX TDLR 27005 WA GCL SOLARCI019O7 ©2013 SolarCity All rights reserved

SolarCity

can't reasonably be applied to SolarCity, given that every solar company operates under the same rules in Arizona and all of the systems they and we have installed, combined, generate less than one percent of the state's electricity.

What is clear from the discussion at the October 16th meeting is that the solar industry in southern Arizona is struggling. The same could also be said for the industry in the rest of the state. APS understands these market dynamics as well as anyone. They know that the solar industry will be hard pressed to survive if they are able to impose a hefty tax or undermine net metering, and that's precisely why they are proposing to do so. Utilities in Arizona see solar providers as a significant near-term threat—the first in what will be a wave of innovation and entrepreneurship that will reduce prices and eat away at utility revenues. That's why the utilities are waging a no-holds-barred effort to eliminate us. APS has already successfully lobbied to remove all of the solar incentives in their territory, and now they are trying to tax solar customers who create their own solar electricity and provide it to the grid during peak hours. Monopolies always prefer to evade competition, and unfortunately, that's what the utilities – the real monopolists – are attempting to do here.

Not only would extreme changes to retail net-metering, a policy currently in place in 43 states that gives customers fair credit for minimal excess generation, significantly affect the state's solar industry but it such a change would run directly counter to the facts we have at our disposal. Solar installations funded by private capital in APS territory alone provide $34 million in benefits to all ratepayers through avoided line losses, fuel price hedges, avoided generation costs, avoided transmission and distribution upgrades and ancillary benefits, not to mention jobs, economic development and environmental benefits. Customers who chose to invest in solar should be rewarded—not taxed—for their investment and the many benefits that they provide to other Arizonans.

I do not believe that either RUCO or the ACC share APS' desire to eliminate the distributed solar generation industry in Arizona, and I believe they are looking for a fair way to resolve this issue. Therefore, I would ask the Commissioners to seriously consider the effects on the industry of implementing a putative tax on future solar customers. Given the information at our disposal and the discussion that occurred last week, it seems clear that the industry may not survive such a fundamental and significant change as one to net-metering.

Thank you for your time and consideration.

Sincerely,

Lyndon Rive
Chief Executive Officer

3055 Clearview Way San Mateo, CA 94402 T (650) 638-1028 (888) SOL-CITY F (650) 638-1029 solarcity.com
AZ ROC 243771, CA CSLB 888104, CO EC 8041, CT HIC 0632778, DC HIC 7101466, DC HIS 7101485, HI CT 29770, MA HIC 168572, MD MHIC 128948, NJ 13VH05160600
OR CCB 180196, PA 077 [illegible], TX TDLR 27006, WA GCL SOLARC919O7 © 2013 SolarCity All rights reserved