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March 28, 2014

Bob Stump, Chairman
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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Re: In the Matter of the Commission's Investigation of Value and Cost of Distributed Generation, Docket No. E 00000J-14-0023

Chairman Stump,

I would like to respond to the letter you sent to me on March 12, 2014. In that letter, you expressed concerns about statements that you believed SolarCity and "other solar providers" might have made to potential customers, based on complaints that apparently were relayed to you by Tucson Electric Power Company. I can assure you that we take your concerns very seriously and that we appreciate that you brought them to our attention.

To be clear, I can only speak to the statements made by SolarCity's sales team, but with respect to SolarCity, I have been unable to verify any specific complaints within TEP's service territory. None of the written complaints that were forwarded to us by the Commission and by TEP suggest, much less allege, that SolarCity has made any misstatements to any potential customers in Arizona. At the same time, we have not been made aware of any specific verbal complaints made regarding promises about future utility rate changes that gave rise to your letter. However, if you know of any specific customers that feel they have been provided misleading information by SolarCity, we would be happy to contact them and clarify any outstanding questions they may have.

SolarCity holds itself to a very high standard, and we take very seriously our commitment to deal with our customers fairly and honestly at all times. Our business is based on the idea that consumers should have a choice about how they meet their energy needs, and we believe that, on a level playing field, consumers with complete and accurate information will overwhelmingly choose to generate some of their own electricity using SolarCity's services. If any SolarCity employee has made misstatements to any customer, in Arizona or elsewhere, we will fix that mistake without hesitation.

Over the past six to eight months, the Commission, consumers, and key industry participants engaged in an important discussion about net-metering, with the Commission ultimately voting to impose a \$0.70/kW fee on customers in APS territory starting January 1, 2014. As you of course appreciate, Arizonans all over the state learned about the net metering debate and the Commission's ultimate decision through news stories, television ads, radio ads and a variety of other media. Unfortunately, not all of those sources are clear, complete, or consistent in their

descriptions of those events, and SolarCity – like the Commission itself – naturally receives many questions from potential customers all over the state, including those in TEP’s territory.

We make every effort to ensure that all the information we provide to our customers is accurate. So far, every jurisdiction in America that has changed its net-metering policies has provided for existing rooftop solar customers to be grandfathered under the pre-existing policies. At the same time, we and our customers understand that utilities across the country will keep pressuring public utility commissions to protect utility monopolies and their profits by imposing taxes and surcharges on customers who adopt disruptive technologies like rooftop solar. Therefore, in our sales conversations, we instruct our sales team to note that utility regulations and prices are subject to change, just as they always have been. Moreover, we make it clear that solar customers in Arizona face this risk because the utilities insist in imposing that risk upon them.

We do tell our customers that by going solar, they have the ability to lock in the solar energy payments that they make by leasing solar equipment for 20 years. We stress to our sales team to be careful to make it clear that utility rates are subject to change (see the language below included in our sales proposals). But we do offer our customers 20 year solar leasing rates that are clear, transparent and fixed as outlined in the contract that they sign.

SolarCity requested that TEP and the Commission provide copies of the complaints mentioned in your letter. TEP informed us that it was called in to answer questions about complaints that consumers made directly to your office; however, Commission legal counsel informed us that TEP brought the complaints to your attention and that they were orally transmitted. In response to our requests, we received only three email threads; accordingly, I can only assume that these are the only written records of the purported complaints that prompted your letter.

The first was from a customer of both TEP and SolarCity who was worried that because his panels had to be moved, he wouldn’t be grandfathered in to TEP’s net-metering rules. However, this concern is misplaced because no change to TEP’s rules has been proposed. This customer made no complaint about SolarCity misleading him about TEP’s potential net-metering grandfathering rules or any ACC decisions to that effect.

The second complaint was to TEP from a customer of TEP and Solar Electric Freedom (not SolarCity). The customer expressed concern about a delay in the processing of her application by TEP because, as the customer stated, “we understand the decision by the Arizona Corporate (sic) Commission to be (after the November 2013 Tucson public meeting) that residential solar systems with contracts and applications on file with their utility provider by December 31, 2013 will be grandfathered in at existing utility rates.” This misunderstanding about grandfathering and utility rates does not seem to be the result of inaccurate claims made by any particular solar company; rather, it stems from general public confusion about the extent of the Commission decision in the APS net-metering case.

The last email complaint was from Keith Rowley, President of Solar Electric Systems & Products. It discussed the difficulty of complying with TEP’s hasty implementation of TEP’s disclaimer form requirement.

Neither TEP nor the Commission provided any further written documentation to support the concerns you raised in your letter about SolarCity's sales practices or your concern that SolarCity might be making misstatements to customers. While TEP evidently made verbal representations to the Commission about allegations they claim to have heard from customers, we have not received any details of those purported complaints, so it is impossible for me to address them specifically. However, to the extent that these allegations have been made without any documentation by an entrenched monopolist interested in protecting its profits, I am inclined to question the accuracy and veracity of such claims. To the extent you personally have knowledge of specific communications you found troubling, I encourage you to let me know the particular details so we can get to the bottom of any abnormality.

Let me assure you that our sales representatives are fully versed in the most up to date policies that affect our customers and that they fully communicate that understanding to potential customers. In order to ensure that this is the case and in response to your letter, we reiterated our policy not to make any claims about utility rates on our all-hands conference call on March 14th, 2014 at 8 am. Additionally, we have sent an email to our team reminding them of the importance of discussing only SolarCity lease pricing and have re-instructed them to not make any representations or promises about their local utility rates, charges or fees. The only guarantees made by representatives of SolarCity are those laid out in the specific terms of our lease agreement. We have increased call monitoring to ensure that there is no deviation from our messaging. We are also committed to ensuring that our new representatives receive training that highlights these messages and the importance of communicating to customers that we do not control utility rates or rate structures. An even stronger emphasis on this issue will be included in the SolarCity University course that is available to all employees and required for all Direct Energy Consultants and Sales Managers.

Also, just as a reminder to the Commission, the terms of the relationship between the customer and their specific utility company are outlined in the Net Energy Metering Agreement that the customer signs prior to the installation of their system. The terms of this agreement make it clear that the customer is the active participant in the ongoing relationship between the utility company and the customer. By signing this agreement, the customer agrees to all of the terms and conditions within. No promises about grandfathering or utility rate structures are made in that agreement.

With all that being said, I am more than happy to respond to the questions you pose in your letter.

- 1) What kind of representations/statements regarding utility rates, charges, and conditions of service do your sales representatives or other personnel make to potential customers who are thinking about subscribing to your service.**

Answer: Our sales representatives use data collected from TEP utility bills, the TEP website and the Energy Information Administration website to analyze customer's historical rates, historical rate increases, average \$/kWh and any fixed monthly service charges. We then communicate that information to potential customers. When we receive inquiries about the net-metering charges implemented in APS' territory, we make it clear that those charges

do not apply to TEP customers. We do say that APS customers who signed up for solar by December 31, 2013 were grandfathered in under the former net-metering rules but we make no claims or promises about what the ACC will choose to do in the future regarding rates for TEP solar customers. In fact, every single proposal we provide to potential customers contains the following statement:

Please note this proposal is an estimate and does not guarantee actual system production or savings. The system design may change based on a detailed engineering site audit. Actual system production and savings will vary based on the final system size, design, configuration, utility rates, applicable rebates and your family's energy usage. The electricity rates or lease payments set forth in this proposal are set by SolarCity. Utility rates, charges and fee structures imposed by your local utility are not affected by this proposal or any contract you may sign with SolarCity and are subject to change in the future at the discretion of the authority or entity that regulates or governs your local utility.

- 2) What kinds of training do your sales representatives or other personnel receive in order to ensure that they are providing potential customers with accurate and balanced information regarding utility rates, charges, and conditions of service?**

Answer: All of our sales representatives go through an in-depth training process that begins with a full one month training on sales practices, SolarCity's sales platform, processes, the rate plans offered by the utility territory they will be covering, the meaning of net-metering for customers and how a grid interactive system works. This training continues throughout our sales representative's employment with weekly in-person meetings on any changes or modifications to the system or relevant information in their sales territory. The information provided to potential customers is standardized through our proprietary bidding software, SolarBid, which ensures that each customer proposal is presented with the most current rates and information available.

- 3) What efforts does your company take to monitor your sales representatives and other personnel to ensure that they provide potential customers with accurate and balanced information regarding utility rates, charges, and conditions of service?**

Answer: As stated above, all sales representatives are provided with extensive sales training. SolarCity also monitors the phone calls made to potential customers by our inside sales team. For our outside sales team, our sales managers participate in frequent and random ride-alongs with sales representatives to ensure that they are communicating accurately with potential customers. Any customer feedback we receive that relays any concerns with the information that was provided is immediately escalated to a sales manager and Vice President for resolution. Moreover, SolarCity is a licensed contractor in the State of Arizona and already subject to the oversight of the Registrar of Contractors. Further, SolarCity does business in 14 states across the country, many of which have licensing and

regulatory regimes that include oversight over our sales practices. As a result, SolarCity not only trains its sales representatives to make sure that they accurately describe the products and services we offer, we take active steps to make sure that all of our sales and marketing practices comply with the most restrictive rules we are subject to anywhere in the United States.

In your letter, you also state that you are interested in discussing the result of the June 2010 ACC decision in Docket No. 09-0346 that found that SolarCity is not a public service corporation. Nothing about SolarCity's leasing business model has changed since you and a unanimous Commission found that providing lease financing of solar equipment does not make a company subject to Commission regulation under Arizona law. As you noted when explaining your vote, the Commission's decision not to regulate solar companies was widely supported on both sides of the political aisle.

It is true, as it was at the time of the Commission's decision in June 2010, that SolarCity owns and maintains the solar installations for customers who lease them. However, the energy the system produces belongs to the customer, not SolarCity. Under a lease transaction, energy is not sold to an end user. Rather, that end user pays a fixed monthly fee to lease the equipment that is owned by SolarCity and benefits from using all of the electricity produced by that system. This transaction, as the Commission has already decided, is a financing arrangement that facilitates the acquisition of solar panels at an affordable price.

Moreover, SolarCity is already subject to substantial regulation in Arizona that provides the public with protection and an outlet for complaints like those that you raise in your letter. SolarCity is a licensed contractor subject to the jurisdiction of the Registrar of Contractors (the "ROC"). State law requires that all solar installers qualify as licensed solar contractors and further requires all such licensed solar contractors to furnish customers with written warranties and performance data for the solar device installed. See A.R.S. 44-1762. In order to qualify as a licensed solar contractor, solar installers must take and pass comprehensive examinations, provide detailed, notarized records of work experience, undergo criminal background checks, and satisfy a host of additional stringent requirements. Importantly, solar contractors (like all licensed contractors) are forbidden from making false, misleading, or deceptive statements whereby members of the public may be misled or injured. See A.R.S. 32-1154. Making such statements can subject the contractor to suspension or revocation of its license as well as civil penalties.

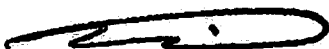
The ROC plays an important role in maintaining standards of workmanship and honest communications for solar contractors. In fact, the ROC website itself includes the following statement that demonstrates just how seriously the ROC takes this responsibility: *"The Arizona Registrar of Contractors plays a vitally important role in ensuring that contractors who conduct business in this growing [solar] industry are properly licensed and meet all regulatory, experience, and training requirements necessary to protect the public from poor workmanship and unscrupulous activities."*

I assure you there is no vacuum to fill that requires further regulation of this already well regulated industry. The ROC has a well-established complaint and hearing process and also

provides consumers with a simple to search database where customers can easily research a contractor's complaint history before deciding on a contractor for their job. The ROC is a formidable and well versed regulator that does its job well. I submit that layering additional regulatory bodies on top of the ROC will cause confusion in the mind of consumers and would result in inconsistent policies.

I hope that this fully addresses the concerns that you raised in your letter of March 12, 2014. Thank you for bringing your concerns to our attention and to the extent you have additional details to share I would like the opportunity to discuss with you as soon as possible. As always, we strive to be responsive to any concerns raised by our customers, elected officials and others.

Sincerely yours,



Lyndon Rive
CEO
SolarCity Corporation