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BEFORE THE ARIZONA CORPORATION CO.

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Bob Stump, Chairman  
Gary Pierce, Commissioner  
Brenda Burns, Commissioner  
Bob Burns, Commissioner  
Susan Bitter Smith, Commissioner

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ARIZONA CORPORATION COMMISSION  
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Arizona Corporation Commission

DOCKETED

OCT 20 2014

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IN THE MATTER OF THE APPLICATION  
OF TUCSON ELECTRIC POWER  
COMPANY FOR APPROVAL OF ITS 2015  
RENEWABLE ENERGY STANDARD  
IMPLEMENTATION PLAN.

Docket No. E-01933A-14-0248

ORIGINAL

**COMMENTS OF THE SOLAR ENERGY INDUSTRIES ASSOCIATION ON ARIZONA  
PUBLIC SERVICE COMPANY AND TUCSON ELECTRIC POWER'S 2015  
RENEWABLE ENERGY STANDARD IMPLEMENTATION PLANS**

**I. OVERVIEW**

The Solar Energy Industries Association (SEIA)<sup>1</sup> appreciates the opportunity to comment on the 2015 Renewable Energy Standard (RES) Implementation Plans filed by Arizona Public Service (APS) and Tucson Electric Power (TEP). Our comments focus primarily on the proposals put forth by APS and TEP for utility-owned DG solar. At this time, SEIA cannot support these proposals due to remaining uncertainties about the design of these programs and the overall need for them. We believe a much more deliberative process, in the form of an evidentiary hearing should be undertaken to examine each proposal before the Commission grants approval. This is especially true in light of the fact that each program represents a significant policy shift and sets a new precedent for the role of competition as it relates to utility regulation in Arizona. Below, we offer comments on both the need for an evidentiary hearing and the merits of the proposals based on the limited information provided to date. Additionally, we also provide some comments on other aspects of the 2015 REST Plans.

<sup>1</sup> 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.

1  
2 ***APS and TEP's utility-owned DG proposals lack sufficient information and due process for***  
3 ***full consideration.***

4 SEIA's primary concern with each of the utility-owned DG proposals is that there has been  
5 insufficient information disclosed to date to warrant their full consideration. We appreciate APS'  
6 efforts to provide more information to stakeholders through additional filings; however we still  
7 believe too many questions remain unanswered about its proposal, as well as TEP's. Some of  
8 these questions pertain to the concept of utility-owned DG in general and the need for these  
9 programs. Others are specific to the design of each utility's individual proposal. The following  
10 represent a sample of questions that SEIA would like addressed before a decision is made:

11 *General questions regarding utility-owned DG:*

- 12
- 13 • Is it appropriate for a monopoly utility company to enter a developing or established  
14 market? Under what circumstances?
  - 15 • What type of utility program design would be best for providing DG solar to specific  
16 market segments, such as low-income or low credit score customers, and do the current  
17 proposals live up to that standard?
  - 18 • Would the proposals actually grow the solar industry in Arizona or simply cannibalize  
19 the existing market currently served by competitive providers?
  - 20 • Do the proposals create more favorable conditions for solar providers and potential solar  
21 customers?
  - 22 • Do the proposals maximize the benefits solar can provide to all utility customers, and is  
23 utility ownership necessary to achieve these benefits?
  - 24 • How do the programs incent utilities to seek solar DG cost reductions going forward?

24 *Questions about APS' proposal:*

- 25
- 26 • How was the level of the \$30 bill credit determined?
  - 27 • What oversight will the Commission have over the independent monitoring of the RFP  
28 process?

- 1 • How will the benefits from optimizing the installed systems (e.g. orientation, advanced
- 2 inverters) be quantified and ultimately reported back to the Commission and other
- 3 stakeholders?
- 4 • Does APS intend to expand this program beyond its compliance obligation for the 2009
- 5 Settlement Agreement?
- 6 • What resources are being used by APS to meet compliance with the 2009 Settlement
- 7 Agreement?

8 *Questions about TEP's proposal:*

- 9 • Will the systems be interconnected on the customer or utility side of the meter?
- 10 • How was \$16.50/kW rate for participants determined?
- 11 • How was the 15% threshold for adjusting the fixed rate determined?
- 12 • What are the terms of the "purchase provision" if customers opt out of the contract?
- 13 • Would participants be exempt from base rate increases? Would they be exempt from new
- 14 riders or rate adjustors adopted after the contract?

15  
16 Given the large number of questions about these proposals and others that will inevitably arise,  
17 SEIA believes that additional due process through an evidentiary hearing or workshop is  
18 necessary at this time.

19  
20 **III. GENERAL COMMENTS ON THE CONCEPT OF UTILITY-OWNED DG**

21 *APS and TEP's proposals could be detrimental to competition.*

22 As a general principle, SEIA supports utility solar retail programs that provide a means to  
23 expand the market for solar and serve new customers. However, any such utility solar program  
24 should not foreclose competition or restrict market development or unfairly discriminate against  
25 non-utility entities in any market segment. In the case of the APS and TEP proposals, we believe  
26 that they encroach on a market segment that is already being adequately served by competitive  
27 solar providers. While we appreciate the utilities' willingness to think outside of the box to  
28 encourage more solar options for customers, we are concerned that these programs may not truly

1 lead to incremental solar growth beyond existing compliance obligations and would instead  
2 simply cannibalize the existing solar market by replacing competitive offerings with utility  
3 offerings.<sup>2</sup>

4  
5 Moreover, there are significant dangers to competition whenever a regulated monopoly moves  
6 into a free market with existing competition. The regulated monopoly's platform of  
7 Commission-authorized returns on investment and considerable advantages in market  
8 information (both related to customers *and* competitors) creates very significant and unfair  
9 advantages when it seeks to compete in a free market against competitors with none of these  
10 advantages. For these reasons, regulated monopolies generally should not be allowed to compete  
11 in unregulated markets in which they exert disproportionate market power. There needs to be a  
12 level playing field between the utilities and their potential competitors. Unfair competitive  
13 advantage could be diminished if a regulated utility's holding company elected to offer services  
14 through an unregulated subsidiary, but that is not the case with either of these proposals.

15 In light of these considerations, we cannot support the proposals in their current form since they  
16 lead to monopoly intrusion into the competitive market for solar. However, SEIA does see some  
17 value in utility-owned DG solar that is targeted *exclusively* to market segments that cannot be  
18 served by competitive providers. For example, certain low-income segments may not likely ever  
19 be eligible for the typical financing arrangements offered by many DG solar providers. If utility-  
20 owned DG programs were solely designed to extend the provision of solar to these underserved  
21 customers, they may be an appropriate use of monopoly power. Furthermore, this approach  
22 would appear to expand the overall size of the solar market by reaching customers that were  
23 otherwise unable to participate in solar adoption.

24 Unfortunately, the current proposals do not appear designed to achieve these specific objectives.  
25 The proposals do not explain in sufficient detail how the utilities will achieve bringing solar to

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26 <sup>2</sup> In point of fact, APS has proposed its program as a replacement for a previously proposed AZ Sun project at its  
27 Redhawk power plant. Thus, while we fully support APS' procurement of this capacity as a means to achieve its  
28 compliance obligations, we note that the AZ Sun DG proposal functions as a replacement, not an addition to the  
overall solar capacity to be procured.

1 low-income or low-credit score market segments; nor do the proposals define what constitutes a  
2 low-income or low-credit score customer. In fact, APS explicitly states that it would deploy “no  
3 more than one third”<sup>3</sup> of its 3,000 systems towards the low income and targeted location  
4 preferences combined. Furthermore, APS states that the program is “not designed for multi-  
5 tenant housing,”<sup>4</sup> which comprises a significant underserved market in Arizona. Most  
6 importantly, neither proposal describes any restrictions or oversight that would prevent their  
7 encroachment into competitive retail markets.

8 SEIA and its affiliates would be eager to work with the Commission and other stakeholders to  
9 discuss what criteria are appropriate for identifying underserved markets and how to structure  
10 programs to best serve them.

11  
12  
13 ***APS and TEP’s proposals may negatively impact solar providers and potential customers.***

14  
15 The RFP processes contemplated by the utilities are likely to exclude certain solar providers  
16 from competing in the programs. Thus, for a subset of providers who qualify to bid, APS and  
17 TEP’s proposals may be favorable since they would exclude other potential competitors from the  
18 marketplace. However, for the broader SEIA membership base, this change may not be favorable  
19 since it “picks winners” by establishing unnecessary barriers to competition for many potential  
20 solar providers.

21 Additionally, the benefits afforded to solar providers selected through the RFP process appears to  
22 be limited to compensation for installation and doesn’t extend to ownership of solar DG systems.  
23 Thus, potential competitors are excluded from a significant portion of the DG revenue stream  
24 that is associated with system ownership. This revenue stream will instead be captured by the  
25 utility and thus non-utility solar providers face a distinct competitive disadvantage. Taking these

26  
27 <sup>3</sup> Docket No. E-01345A-13-0140, October 7, 2014, *APS Project Description of Proposed AZ Sun Residential Rooftop Project*, p 4.

28 <sup>4</sup> Docket No. E-01345A-13-0140, August 29, 2014, *APS Reply to Commissioner Bitter Smith*, p 3.

1 factors into account, SEIA does not believe APS' and TEP's proposals are favorable for many of  
2 its members.

3  
4 Furthermore, the utility proposals describe the benefits to potential solar customers primarily as  
5 they relate to access to solar. For example APS' explains that it seeks to "offer another means for  
6 customers to put solar on their rooftops, even if they can't afford to buy or lease."<sup>5</sup> TEP explains  
7 that its program "expands consumer choices by providing and alternative to the cash purchase  
8 and third-party lease models."<sup>6</sup> These descriptions ignore the fact that customers already have  
9 access to solar via the competitive market. As explained above, if the purpose of these proposals  
10 is to increase access to solar in underserved market segments, the programs should be  
11 restructured to serve that purpose.

12 ***APS and TEP's proposals are not necessary to achieve benefits solar can provide to all***  
13 ***customers.***

14  
15 As part of the justification for their proposals, APS and TEP have also identified certain benefits  
16 to all utility customers that they believe only monopoly provision of DG solar may be able to  
17 provide. Some of these include:

- 18 • Strategically deploying DG installations to specific areas of the grid,
- 19 • Orienting systems towards the southwest and west to maximize production during peak  
20 periods,
- 21 • Use of advanced inverters for voltage and frequency control, and
- 22 • Preferential treatment for low-income customers.

23 Upon examining the benefits listed above, we do not believe any of them are conditional on  
24 monopoly provision of DG solar. These outcomes could all be accomplished by third party  
25 installers through steps such as 1) better disclosure of utility distribution planning, 2) preferential  
26 rate treatment for optimized systems, and 3) modernized interconnection standards. Furthermore,

27 <sup>5</sup> Docket No. E-01345A-13-0140, July 28, 2014, *APS 2014 REST Plan, Supplemental*  
28 *Application (Utility-Owned DG)*, p 4.

<sup>6</sup> Docket No. E-01933A-14-0248, July 1, 2014, *TEP 2015 REST Plan*, p 9.

1 as discussed above, there are successful models of low-income solar programs that are not  
2 conditioned on utility-ownership. The Commission should consider how the competitive market  
3 could be enabled to yield the same benefits the utility is proposing to provide.

4  
5 Additionally, by including solar DG in the utility's rate base, we believe the utilities may have an  
6 added incentive to pursue solar resources going forward (which we support). However, unlike  
7 the competitive market this will also create a disincentive for the utilities to pursue cost  
8 reductions in solar DG over time. This could lead to unnecessary customer costs for DG solar.  
9 Future cost reductions are more likely to be realized through a competitive marketplace rather  
10 than utility provision.

## 11 **II. UTILITY-SPECIFIC ISSUES**

### 13 *Utility-scale solar is SEIA's preferred option for APS to meet its compliance obligations.*

14  
15 We recognize the need for APS to meet compliance obligations set by the 2009 rate case  
16 Settlement Agreement and agree with APS that the company faces a significant compliance  
17 shortfall. In fact, we believe that this need is even greater than what the company claims.  
18 Specifically, SEIA does not believe that any un-incentivized DG on APS' system has technically  
19 been "acquired" by the company and therefore should not count towards this compliance. If the  
20 Commission determines that APS does need additional installations to meet the Settlement  
21 Agreement, we would be supportive of APS proceeding with a utility-scale project in lieu of the  
22 DG program. Given the uncertainties described above and need for more scrutiny of the DG  
23 proposal, SEIA believes a utility-scale project such as the original Redhawk proposal should be  
24 the preferred alternative for meeting compliance. Utility-scale projects have successfully been  
25 developed in Arizona through APS' AZ Sun program as well as competitive PPAs. This track  
26 record of success should give the Commission confidence that compliance can be met without  
27 the additional uncertainty involved in creating a new DG program. This option would also give  
28 additional time for the Commission to consider the merits of the utility-owned DG proposals and  
would not impinge on the competitive DG market.

1  
2 ***TEP's proposal to recover costs of storage through its REST surcharge is misplaced***

3  
4 SEIA supports TEP's efforts to procure storage as a complementary technology to renewable  
5 energy such as solar. Indeed, storage can provide many benefits to utility operations, one of  
6 which is enhanced integration of variable energy resources (e.g. solar). However, storage by  
7 itself does not constitute a renewable resource. We believe that recovery of storage project costs  
8 would be a misplaced use of the funds collected by the REST. We believe that the REST should  
9 be limited to renewable energy resources and that storage project cost recovery ought to be  
10 considered through other mechanisms, including base rates.

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12  
13 Respectfully submitted this 20th day of October, 2014,

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