DOCKET NO. 08A-532E

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO FOR APPROVAL OF ITS 2009 RENEWABLE ENERGY STANDARD COMPLIANCE PLAN.

EXCEPTIONS OF THE INTERWEST ENERGY ALLIANCE
TO HEARING COMMISSIONER BAKER'S
RECOMMENDED DECISION ISSUED MAY 22
June 11, 2009

By Decision No. R09-0549 in this proceeding, Hearing Commissioner Matt Baker approved Public Service Company's Application with modifications and established a 20 day period for the filing of exceptions to that decision. By this submittal, the Interwest Energy Alliance (Interwest) provides its exceptions to limited elements of that Decision.

The context for these comments and exceptions, as in our presentation, is building a long term viable market for distributed solar energy resources. The Recommended Decision goes a long way towards establishing the framework necessary and appropriate for such a market, including consistent funding of incentives as solar costs decline to develop the necessary infrastructure to support the market for all market segments. Our comments below provide what we believe to be clarifications and refinements to the Decision.

On-site Solar Market Segmentation

The Hearing Commissioner generally endorsed Interwest's proposed approach finding that Public Service's on-site solar program needs to have distinct budgets for small, medium, and large sectors, but declined to determine an appropriate allocation methodology.[1] We here focus on the issue of fair and equitable budgets for each category and offer the following comments.

[1] Recommended Decision, page 11.

Solar resources located on-site in all market segments have value to customer, the utility, and to Colorado. Some are less expensive, while others provide more jobs. However, these values vary between market segments and within market segments to each of those constituencies. The issue here is how best to achieve equity among all segments of the market utilizing the funds available efficiently.

It is unrebutted that the large market segment provides the lowest cost per SOREC. Prior to the reduction in the small program rebate in October 2008, SORECs from the small segment had the highest cost. The small and medium categories currently appear to provide SORECs at about the same net present value.

It is also unrebutted that the residential class of customers that comprise the vast majority of systems in the small category provide about 37% of the funding for on-site solar incentives, but received over 80% of the incentive funds paid out in 2008.

The market is clearly out of balance.

Customer Classes and Market Segments

To achieve equity among the market segments, customers seeking access to solar resources within each market segment should have reasonable and fair access to incentives within the constraints of the retail rate impact limitations. Increasing the difficulty in achieving such equity is the lack of a match between solar market segments and customer classes. In other words, customer load does not correlate precisely with on-site system size. However, as a practical matter a solar electric system must provide a non-trivial amount of energy in relation to customer consumption to make it worthwhile for that customer to invest the time and resources required to have the system installed on-site. System size is also constrained on the up side by net metering limitations and the associated economic penalties for oversizing a system. Thus, in the end one has to generalize that the small category will largely be filled with residential systems, the medium category with small commercial systems, and large systems will be located on large commercial and industrial customers. These constraints provide a reasonable rationale for associating residential classes with the small, under 10 kW, category of systems. However, given that Public Service's non-residential demand rates (e.g. SG) are triggered when a customer's load exceeds 25kW, one cannot assume for instance that the medium category would be comprised of only C rate customers. There are many customers in the SG class for example that would not have sufficient load to opt for a large category system.

Therefore the logical split is between residential and non-residential, providing discretion to the Company to engender equity among small and large commercial customers taking cost and other factors into account.

Allocating Available Funding Equitably Among Market Segments

There are a limited number of bases for allocation that could be used to spread the available funds to the on-site solar market segments. Looking at the customer class characteristics, these would include class sales, class demand, class revenue, and number of customers in the class. Class demand is only determined at the time of a rate case, is based upon load research. While useful and important for allocating demand-related fixed costs, it is not related at all to the collection of incentive funds. Similarly, the number of customers might be useful if we were allocating number of systems, but is inappropriate here. Energy sales is a possibility since revenue is collected on an energy basis for the residential class however the RESA is collected not on an energy basis, but on a percentage of revenue. This brings us to the fourth possibility – using the proportions of revenue collected in residential and non-residential classes as the best fit for allocating incentive funding to program segments.

It may also be helpful to think about this allocation process if the customer classes were more skewed. For example, let’s suppose that 10% of revenue was derived from the residential class and 90% from non-residential. It would hardly make sense for the customers that contribute 90% of the funding to receive but a small share of the benefits.

Thus we urge the Commission to find that allocating funding to on-site solar market segments <u>on the basis of revenue collected</u>, that is by dedicating the amounts supplied by the residential classes to the small category, and the non-residential classes to the medium and large categories, is fair and equitable to all market segments.

Securitization of Small Segment Incentive Funds

The above discussion is provided to support a specific allocation methodology for customer-sited solar incentives which we believe to be equitable. The Hearing Commissioner conceptually adopted the segregation of funds, and noted the opposition of the Colorado Solar Energy Industries Association (COSEIA) to sector specific budgets and its support for the securitization concept for small systems.[2] We support COSEIA's notion of securitization for small systems as one of the innovative approaches that are possible within a specified budget, as suggested in the Interwest Answer Testimony (Gilliam, page 22, lines 10-12). Other concepts include innovative financing arrangements being developed through the City of Boulder's Amendment 1A and those reflected in Senate Bill 09-51.

We submit that utilization of segment-specific budgets, as outlined above, is fully compatible with the securitization concept for the small segment. Indeed, securitization allows the small segment funding to go further.

Clarification of Interwest Funding Recommendation

We would also like to clarify our recommendation in regards to the dollars dedicated to the solar program. The Hearing Commissioner, at the top of page 13, suggests that Interwest argued for dedicating the "entire RESA budget" to the acquisition of solar resources. Our position in this proceeding is that "2% of retail electric revenue" be designated as the funding available for solar resources.[3] We believe that other sources of revenue, such as those from the Windsource program that began to show up on RESA reports in March of this year, and headroom provided by wind resources that have negative incremental cost, are and will be available for eligible resources other than on-site solar.

Second, Interwest does not oppose banking of excess funds. To the contrary, any excess funds available either through the two sources noted above, or through shortfalls in customer uptake in the on-site solar program, can and should be banked for future use.

In closing, Interwest thanks Commissioner Baker for the careful and deliberate thought put into the recommended decision and rules, and the Commission for the opportunity to provide comments on the recommended RES rules.

---

[2] Recommended Decision, page 10.
[3] See Answer Testimony of Rick Gilliam, page 24, lines 17-18.

Respectfully submitted on behalf of the Interwest Energy Alliance this 11th day of June, 2009.

Lisa Tormoen Hickey #15046
Alpern Myers Stuart LLC
14 North Sierra Madre, Suite A
Colorado Springs, CO 80903
Telephone: 719-471-7955
Telefax: 719-630-1794
E-mail: lisahickey@coloradolawyers.net

On Behalf of Interwest Energy Alliance