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Incentive cuts causing decrease in demand for solar installations

Premium content from Phoenix Business Journal - by Patrick O'Grady

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Valley utilities have cut the incentives they're offering customers to install solar systems this year, prompting a dropoff in demand for such installations.

Arizona Public Service Co. and **Salt River Project** officials say demand still is there, but not at the same frenetic pace seen during the height of the solar boom two years ago.

"We're working as effectively as we can to align the demand with what our incentives can pay out," said **Eran Mahrer**, renewable energy director for APS.

APS has lowered its incentive rate twice this year — from \$1.75 per watt to \$1.60, then to \$1.45. The decrease was part of the company's plan approved by the Arizona Corporation Commission.

Sean Seitz, president of **American Solar Electric Inc.** in Scottsdale, said APS' incentives are stepping down more quickly than the utility had suggested. The current incentive was supposed to bleed into 2012.

"APS' incentive level is triggering down at a very fast rate for two reasons: Overall funding for 2011 is extremely limited because about 50 percent of their 2011 funds went to fulfill 2010 contract backlog, and everyone is rushing to get system reservations in before the \$1-per-watt level is reached," Seitz said. "Once we hit \$1 per watt (from) APS, we expect demand to slow significantly."

APS plans to spend \$39.4 million on residential system incentives in 2011. Demand has been steady so far this year, but lower than it was at its peak in late 2009 and early 2010.

This year's incentive rollout is smoother than in 2010, when unprecedented demand for the nearly \$3-per-watt incentive forced APS to suspend its program in April and ask the ACC for an emergency measure to lower the rate.

Both APS and SRP ran out of funds for residential solar systems last year, which threw the installation market into a tailspin and left installers questioning whether their businesses could survive.

APS offers the incentives to help meet the state's renewable energy standard, which requires regulated utilities to get 15 percent of their power from renewable sources by 2025. The standard requires 30 percent of that total to come from residential and business rooftop systems.

SRP has received more interest in its solar program since its new budget year started May 1 and it boosted incentives to \$1.35 per watt. The utility had been paying \$1 per watt from an emergency fund established last year. Despite the uptick, demand for its incentives still is lagging 2010's peak, said **Lori Singleton**, manager of environmental initiatives at SRP.

She said the company received about 40 to 50 applications a month at the \$1-per-watt rate, compared with about 90 a month when the utility was paying \$2.15 before its funds dwindled. Since the \$1.35 incentive was implemented May 1, SRP has received 60 applications, Singleton said.

"It's hard to tell if it's pent-up demand or if it's the higher incentive levels," she said.

Seitz said ASE had about a dozen customers waiting for those higher rates to kick in before moving forward with solar installation plans.

While \$1.35 is significantly less than the \$2.15 offered early last year, the lower incentive rate should allow SRP to spread about \$17 million for residential solar systems through its fiscal year, which ends in April 2012.

Despite all the ups and downs, Valley solar installers say the Phoenix and Arizona markets remain a good play for business, said **Cary Hayes**, regional sales manager for **REC Solar**.

San Luis Obispo, Calif.-based REC is one of the largest solar installers operating in the state, setting up about 1.3 megawatts of panels in Arizona last year. There's been a drop in the market from its highest points 18 to 24 months ago, but the market remains strong, Hayes said.

"I'm still fairly bullish on Arizona," he said.

Seitz said incentive programs have been a "huge success," but they still come with the potential to stall both programs because demand is greater than the money allotted by the utilities.

"I believe the current situation with APS and SRP program funding could seriously compromise the future of Arizona's residential solar market if it not addressed by our policymakers in the coming weeks," he said.