



P.O. Box 840  
Denver, Colorado 80201-0840

October 23, 2008

Doug Dean, Director  
Public Utilities Commission  
of the State of Colorado  
1560 Broadway, Suite 250  
Denver, Colorado 80202

RE: Reducing the SO-REC Payment Under Solar\*Rewards

Through our Solar\*Rewards program, Public Service provides a standard offer for On Site Solar systems installed on customer premises which includes a rebate required by Colorado Statute and Commission Rule of \$2.00 per watt and payment for the Renewable Energy Credit ("SO-REC"). Pursuant to C.R.S. §40-2-124(1)(g)(III) and Commission Rule 3659(d), Public Service has the discretion to change the offering price for SO-RECs under our standard offer. We are changing our offer price as of 11:50 p.m. (MT) October 24. We are lowering the SO-REC offering price from \$2.50 per watt to \$1.50 per watt in all future acknowledgment letters for SO-RECs from facilities of 10kW or less for the reasons stated below.

Under current law, residential PV owners could claim no more than \$2000 Investment Tax credit, regardless of system cost. Under the new federal Investment Tax Credit ("ITC") law, the \$2,000 limit is removed, allowing for a tax credit of up to 30% of net system costs. This significant credit increase, coupled with the required \$2.00 per watt rebate, allows Public Service to reduce the per watt amount being paid for upfront SO-RECs, while providing residential PV customers with an even shorter payback period on their investment.

Even before the recent passage of the Emergency Economic Recovery Act of 2008 in Congress that extended the Solar ITC and removed the \$2,000 credit cap on residential systems, Public Service Company had noted that the cost of installed solar systems had begun to trend downward. This is manifested in the combined Rebate and SO-REC payments covering closer to 65% of the installed system, up from 50% initially targeted. Public Service Company has analyzed the effects of all of these changes on the Solar\*Rewards program. With the program objective to maximize the number of systems installed, and to provide stable incentives in support of expanding customer-sited solar systems, we believe this review is necessary for us to best serve our customers and to reasonably and responsibly manage the costs of complying with

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the RES rules. As a result of our review, Public Service is reducing the amount paid for SO-REC for facilities of 10kW or less to \$1.50 per watt.

As of August 31, 2008, the Small Solar\*Rewards program has had 4.2 MW of capacity installed, with an average system size of 4.5 kW. The attached chart uses that average system size as a basis for the pricing comparisons shown in the chart. In summary, the chart shows that reducing the SO-REC price to \$1.50 per watt makes more efficient use of the RESA funds without negatively impacting the market or customers contemplating an investment in PV solar.

Each applicant under the Solar\*Rewards program receives an acknowledgement letter indicating the level of rebates and SO-REC payments they can expect to be paid based on the project details submitted with their application. This acknowledgement letter guarantees the payment level by Public Service for up to a year from the pre-approval date of the acknowledgement letter. Public Service will reflect the SO-REC payments of \$1.50 per watt in the acknowledgement letters for Small Solar\*Rewards program applications received after 11:50pm (MT), October 24, 2008. All Solar\*Rewards applications with an acknowledgement letter indicating the current SO-REC payment at \$2.50 per watt will be honored per the term of the acknowledgement letter.

If you have any questions please contact me at (303) 294-2242.

Sincerely,

Robin Kittel  
Director, Regulatory Administration  
Xcel Energy Service Inc  
303 294-2242

Attachments

Cc: Chairman Binz  
Comm. Tarpey  
Comm. Baker  
Mr. Gene Camp  
Mr. William Dalton  
Mr. Jim Greenwood

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Attachment A

**IMPACTS TO CUSTOMERS ON PV PRICING AND COMBINED SUBSIDY DIFFERENCES**

A This scenario is based on assumptions and conditions that existed at the beginning of the program in March, 2006.

watts	rebate	rec	system cost @ \$9/watt	Rebate	REC	Net System Cost	% covered by RESA	30% ITC tax amount w/ \$2000 CAP	final cost	% system customer pays	% from ITC
4500	\$2.00	\$ 2.50	\$ 40,500.00	\$ 9,000.00	\$ 11,250.00	\$ 20,250.00	50%	\$ 2,000.00	\$ 18,250.00	45%	10%

B This scenario shows the impact of PV system cost reduction from \$9 to \$8 per watt but retention of the \$2000 tax credit cap.

watts	rebate	rec	system cost @ \$8/watt	Rebate	REC	Net System Cost	% covered by RESA	30% ITC tax amount w/ \$2000 CAP	final cost	% system customer pays	% from ITC
4500	\$2.00	\$ 2.50	\$ 36,000.00	\$ 9,000.00	\$ 11,250.00	\$ 15,750.00	56%	\$ 2,000.00	\$ 13,750.00	38%	6%

C This scenario shows the current condition WITHOUT a change to the REC price but the removal of the \$2000 cap.

watts	rebate	rec	system cost @ \$8/watt	Rebate	REC	Net System Cost	% covered by RESA	30% ITC tax amount on NET system cost*	final cost	% system customer pays	% from ITC
4500	\$2.00	\$ 2.50	\$ 36,000.00	\$ 9,000.00	\$ 11,250.00	\$ 15,750.00	56%	\$ 4,725.00	\$ 11,025.00	31%	13%

D This scenario shows the condition WITH the proposed REC price reduction to \$1.50/watt and removal of the \$2000 cap.

watts	rebate	rec	system cost @ \$8/watt	Rebate	REC	Net System Cost	% covered by RESA	30% ITC tax amount on NET system cost*	final cost	% system customer pays	% from ITC
4500	\$2.00	\$ 1.50	\$ 36,000.00	\$ 9,000.00	\$ 6,750.00	\$ 20,250.00	44%	\$ 6,075.00	\$ 14,175.00	39%	17%

\*NET system cost calculated as system cost LESS Rebate and REC payments, actual tax treatment may be different.  
Data based on data and assumptions as of 10/2008.