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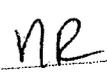
October 20, 2006

AZ CORP COMMISSION
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Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Arizona Corporation Commission
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OCT 20 2006

Re: *Cooperatives' Comments to the Net Metering Workshop
Issues in Attachment 1 (September 7, 2006 Minutes);
Docket No. E-00000A-99-0431*

DOCKETED BY 

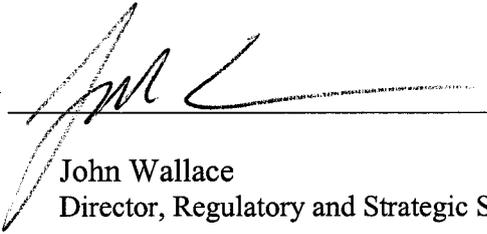
Dear Sir/Madam:

The Grand Canyon State Electric Cooperative Association ("GCSECA"), on behalf of its Arizona cooperative members,¹ submits the attached comments on the Net Metering Workshop Issues listed in Attachment 1 of the Net Metering Workshop Minutes dated September 7, 2006. In order to meet the October 20, 2006 comment period deadline, the Arizona Cooperatives are providing preliminary comments. The Arizona Cooperatives reserve the right, individually and collectively, to provide additional or different comments and positions on any of the legal issues or proposed rule changes as becomes necessary in the future. The Arizona Cooperatives, individually and collectively, also reserve the right to change the opinions expressed in these comments as new information becomes available.

¹ The Arizona cooperative members are: Duncan Valley Electric Cooperative, Inc.; Graham County Electric Cooperative, Inc.; Mohave Electric Cooperative, Inc.; Navopache Electric Cooperative, Inc.; Sulphur Springs Electric Cooperative, Inc.; and Trico Electric Cooperative, Inc. (collectively the "Arizona Cooperatives").

RESPECTFULLY SUBMITTED this 20th day of October, 2006.

GRAND CANYON STATE ELECTRIC
COOPERATIVE ASSOCIATION

By 

John Wallace
Director, Regulatory and Strategic Services

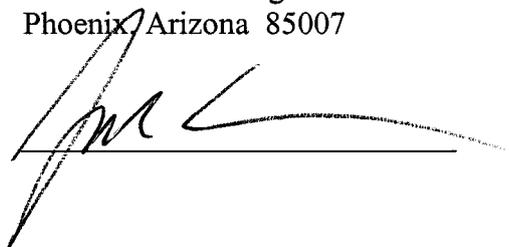
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Copies of the foregoing delivered
this 20th day of October, 2006, to:

Barbara Keene, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Erinn Andreasen, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007



Cooperatives' Comments on Net Metering Workshop Issues
Docket No. E-00000A-99-0431

1. **How would net metering support the three purposes of PURPA? The three purposes are:**

- a) **Conservation of energy supplied by electric utilities**

Cooperatives' Comments:

Assuming that net metering will provide an incentive for customers to invest in and install distributed generation systems ("DG"). Assuming this is the case, to the extent that a utility does not have to produce energy to meet load due to the energy being produced by DG resources, there would be a conservation of utility energy. However, since DG resources are typically not firm, the utility does not avoid or conserve any capacity related costs which must be in place to serve DG customers for back-up and supplemental power. If net metering does not provide an incentive for customers to install DG systems, no conservation of utility energy occurs.

- b) **Optimal efficiency of electric utility facilities and resources**

Cooperatives' Comments:

Because net metering is installed on non-firm, non-utility dispatched DG systems, net metering has little effect on the optimal efficiency of electric utility facilities and resources. To affect the optimal efficiency of electric utility facilities and resources, DG resources would need to be firm and be dispatchable by the utility during peak load time periods.

- c) **Equitable rates for electric consumers**

Cooperatives' Comments:

Net metering creates a subsidy for customers who receive net metering. The cooperative and its members have incurred the cost of a transmission and distribution system to serve all member/customers. A customer that is net metered avoids paying the full cost of those facilities and receives a full retail rate for power provided to the cooperative. The other members will eventually be forced to pay higher rates to subsidize these costs that are not being paid by net metered customers. In addition, as a result of the high cost of DG systems, affluent member/customers will be installing DG at the expense of less affluent member/customers.

2. **Participation in and Eligibility for Net Metering**

- a) **Should there be a cap on total participation?**

Cooperatives' Comments:

Net metering will decrease a cooperative's revenues and margins and with no corresponding decrease in costs. For cooperatives that have been required by the Commission to improve equity levels, decreased revenues and margins that are associated with net metering are in direct conflict with these equity requirements.

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Net metering has an effect on the "profits" in that cooperatives are paying retail for a net metered kWh instead of wholesale and have to sell those same kWh to others without any markup for the cost of distribution, transmission, overhead and capital. With cooperatives this "loss" is born by the membership. Cooperatives are not for profit entities, so the losses are absorbed by the membership which in turn impact rates.

For these reasons, some limits on total participation should be established. These total participation limits could be in the form of a total amount of KW or percent of revenues or margins (e.g. one (1) percent of operating margins).

The Cooperatives should be compensated from the RES surcharge funds for any losses in revenues or margins experienced due to net metering.

b) Should there be a cap on project size?

Cooperatives' Comments:

Net metering should be limited to small residential DG systems of 10 KW and less. Larger customers and DG systems have more economies of scale, may not need an incentive/subsidy and are capable of negotiating a contract with the utility for their output.

d) Which customer sectors should be allowed to participate?

Cooperatives' Comments:

Net metering should be limited primarily to small residential and commercial customers because their systems are the most expensive due to their small size. Larger customers and DG systems have more economies of scale, do not need an incentive/subsidy and are capable of negotiating a contract with the utility for their output.

e) What type(s) of generation resources should be allowed to participate?

Cooperatives' Comments:

Only environmentally friendly or clean DG should receive an incentive/subsidy because these resources are typically cost more than conventional generation and should receive net metering for their participation.

3. What types of meters should be used for net metering?

- a) Dual meters?**
- b) Bidirectional meters?**
- c) Other metering technology?**

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Cooperatives' Comments on 3a., 3b. and 3c.:

The utility should be able to choose the types of meters that are compatible with their system and meter operations as well as meet the member-customer's needs.

4. How should net excess generation be treated?

a) Payment at utility's avoided cost?

Cooperatives' Comments:

The only cost avoided by the cooperative with a DG project is the variable energy costs. Consequently, the payment for net excess generation should be at the utility's avoided cost which is equal to variable energy costs.

b) Credit against future bills?

i. Credits roll forward indefinitely?

ii. Credits roll forward for a fixed time period?

iii. True up at predetermined rates?

iv. Credits terminate without additional compensation?

Cooperatives' Comments on 4.b.i . through 4.b.iv.:

At the end of each year, the amount of energy produced by a net metered customer should be netted against the amount of energy consumed by this customer. Any amount owed to a customer should either be paid in full by a check or credited to a customer's bill. Credits present for longer than one year should be terminated without additional compensation.

5. Who should pay the costs of net metering?

a) The utility?

Cooperatives' Comments:

The Cooperatives are member-owned electric distribution systems. Consequently, all costs of net metering will be borne by their members. The Cooperatives believe that net metering customers should pay the costs of net metering.

b) The net metering customer?

Cooperatives' Comments:

The Cooperatives believe that net metering customers should pay all of the costs of net metering. The additional costs (meter, other equipment, etc.) of providing Net Metering should be borne by the customers who receive net metering and not the other members.

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c) **All ratepayers?**

Cooperatives' Comments:

See Cooperative comments to 5b above.

6. **Should rate structures be changed to accommodate net metering? If so, how?**

Cooperatives' Comments:

Rate structures do not need to be modified to accommodate net metering if the payment to customers for energy produced by a DG system is equal to avoided cost. If the Commission orders the utilities to pay something other than the avoided cost or orders that credits should be given to net metered customers, these issues will need to be addressed in a utility tariff.

7. **What are the costs and benefits of net metering?**

Cooperatives' Comments:

Concerning the costs of net metering please refer to Cooperatives comments to 1c. and 2b. above. The Cooperatives have not able to measure the benefits of net metering.

8. **What are other issues related to net metering?**

Cooperatives' Comments:

As envisioned in the Energy Policy Act ("EPACT"), any net metering standard should apply only to utilities with greater than 500,000 megawatt-hours ("MWh") in annual retail sales. The small cooperatives will be impacted to the greatest degree by the loss of revenue and margins associated with net metering as discussed in the Cooperatives' comments on 2a. above. Consequently, only utilities with greater than 500,000 megawatt-hours ("MWh") in annual retail sales should be subject the net metering standard adopted by the ACC.

Net metering will not result in the cooperative avoiding incremental generation capacity costs because most DG resources can not be relied on to provide firm power or capacity on peak hours. However, net metering compensates DG resources as if they are firm. The cooperative must still provide firm power to a net metered customer through a transmission, and distribution system. Net metering does not send the correct price signal to Distributed Generators and will overvalue generation most of the time.

Customers should be eligible for either net metering or incentives and rebates to buy down the cost of distributed generation systems, but not both.