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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE
APPLICATION OF ARIZONA
PUBLIC SERVICE COMPANY FOR
APPROVAL OF UPDATED GREEN
POWER RATE SCHEDULES GPS-1,
GPS-2 AND GPS-3.

DOCKET NO. E-01345A-10-0394

IN THE MATTER OF THE
APPLICATION OF ARIZONA
PUBLIC SERVICE COMPANY FOR
APPROVAL OF ITS 2013
RENEWABLE ENERGY STANDARD
IMPLEMENTATION FOR RESET OF
RENEWABLE ENERGY ADJUSTOR

DOCKET NO. E-01345A-12-0290

RESPONSE TO APS COST REPORT

The Solar Energy Industries Association (SEIA) hereby provides its response to APS' Net Metering Bill Impacts and Distributed Energy Subsidies Report.

Respectfully submitted this 28 day of December, 2012.

Arizona Corporation Commission

DOCKETED

DEC 28 2012

DOCKETED BY

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1 **Original and 13 copies filed on**
2 **this 28 day of December, 2012 with:**

3 Docket Control
4 Arizona Corporation Commission
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7 *I hereby certify that I have this day served the foregoing documents on all parties of record in*
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DOCKET NO. E-01345A-10-0394/12-0290

I. Introduction

The Solar Energy Industries Association¹ (SEIA) hereby provides its response to the Net Metering Bill Impacts and Distributed Energy Subsidies Report submitted to the Commission by APS on December 6, 2012 (the “Report”). SEIA is very concerned about this Report, which is very narrow and admittedly one-sided, as it only looks at the costs, not the benefits, of Distributed Energy (“DE”). SEIA recommends that an independent analysis be commissioned that is conducted by a third party which utilizes a technical review committee consisting of utility and industry experts, which uses actual customer data – and examines both the costs and benefits associated with DE.

II. Discussion

A. The APS commissioned report is narrowly focused and openly one-sided

APS has filed the Report that it commissioned, presumably to help assist in understanding the true costs and benefits of DE. However, this report *only* examines the costs associated with DE and does not examine any of the benefits. The Report acknowledges this by stating: “It is important to note that this white paper is not a societal cost-benefit analysis, but rather a billing gap study to assess the difference between the reductions in the bills of DE customers and the utility costs avoided by the solar generation and capacity of DE customers.”²

There have been numerous studies that have evaluated the overall costs and benefits to ratepayers of net metering or DE. In fact, there have been enough studies that the Interstate Renewable Energy Council produced a report to establish a methodology using best practices for the valuation of NEM³. In its recommendations, IREC listed a number of benefits and costs that should be included in any valuation. Those benefits that should be included in a valuation

¹ 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.

² Page 1, Report

³ http://www.solarabcs.org/about/publications/reports/rateimpact/pdfs/rateimpact_full.pdf

include: Avoided Energy Purchases, Avoided T&D Line Losses, Avoided Capacity Purchases, Avoided T&D Investments and O&M, Environmental Benefits, Natural Gas Market Price Impacts, Avoided RPS Generation Purchases and Reliability Impacts. They also list the appropriate costs that should be included: NEM Bill Credits and Program Administration costs. The APS Report principally looked at one of these costs for the entirety of their analysis.

In contrast, there have been a number of more comprehensive studies released (including, Austin Energy's 2012 solar value study⁴, MSEIA's study relating to New Jersey and Pennsylvania⁵, and Crossborder Energy's 2012 study⁶ of net metering in California) which all show the significant benefits of distributed generation solar.

This one-sided Report shows how important it is to have an independent analysis conducted by a third party which utilizes a technical review committee consisting of utility and industry experts. SEIA believes that the resulting report should also include the positions of various Arizona stakeholders. An accurate and balanced study of the costs and benefits of DE in Arizona will provide a solid foundation for good public policy. Furthermore, a technical conference, as proposed by APS, will only be successful if there is symmetry of information in relation to both the benefits and the costs of DE.

B. The Study is flawed in part because rates are flawed

A key and incorrect assumption in the report is that within the rate design process, fixed costs are recovered in a flawless way. As stated in the report, "An underlying assumption in this analysis is that the rates APS charges non-DE customers are set at a level to recover the fixed and variable costs associated with serving all customers by rate class." Rate design is more of an art than a science. Rates are not perfect, in fact entire customer classes may even be cross subsidized by other rate classes. Moreover, rates are not designed to reflect real world capacity value or any impact whether positive or negative past the day the rate was designed.

To use rate plans to determine a subsidy is like a scholar using a modern revision of Homer's *The Odyssey* to study Greek life in the 8th century BC. By the time rates get to their present version, the original cost of service principles are so obscured that it is not an accurate view of costs. For example, if APS really wanted ideal fixed cost recovery, and all their cost were valid, a typical ET-2 customer would have a \$152 bill regardless if they only used one kWh. If you look at cost recovery through this paradigm, fixed income retirees, low energy users, or just small households would be cross subsidized. Is APS proposing we start recovering more money from these customers if they do not pay APS \$152 on average each month? If so, APS should not

⁴ "Designing Austin Energy's Solar tariff Using a Distributed PV Value Calculator", http://www.cleanpower.com/wp-content/uploads/090_DesigningAustinEnergySolarTariff.pdf

⁵ "The Value of Distributed Solar Electric Generation to New Jersey and Pennsylvania", Clean Power Research, <http://mseia.net/site/wp-content/uploads/2012/05/MSEIA-Final-Benefits-of-Solar-Report-2012-11-01.pdf>

⁶ "Re-evaluating the Cost-Effectiveness of Net Energy Metering in California", Crossborder Energy, <http://votesolar.org/wp-content/uploads/2012/01/Re-evaluating-the-Cost-effectiveness-of-Net-Energy-Metering-in-California-1-9-2012.pdf>

be commissioning reports on a residential technology that makes up around 1% of their retail sales. They should be focusing their efforts on low energy use grandparents or households that conserve energy. Of course SEIA is not suggesting that APS do this, nor would they do this for a variety of reasons - an important reason being is that low energy use households save everyone money in the long run by preventing APS from investing in expensive centralized power plants.

C. “Subsidy” conclusion assumes APS will have no load growth and never need new generation

APS and Navigant take flawed rate designs and then subtract out the variable power production costs and a miniscule capacity value. The value of all this is around 3-4 cents/kWh. In essence, APS is arguing that new incremental generation is only worth the average price of old legacy assets and current fuel rates, as stated in a residential rate plan, and any difference in this value versus the rate provided draws the conclusion that there is a subsidy occurring. If APS never required new generation from load growth or replacement it might be the proper calculus; however, one day APS will need new generation and according to their IRP plan that day is coming soon. Also within their IRP plan is the cost for new generation assets. APS states that a new natural gas plant is around 10 cents/kWh with nuclear around 16 cents/kWh. Yet according to their rate design, generation should only be worth 3-4 cents/kWh. The analysis does not fairly value new generation coming on-line.

D. The Report Is Not based on Customer Data, but instead is based on a Few Hypothetical Customers

The study is based on three hypothetical customers as examples, rather than using actual customer data. This is problematic, as the hypothetical customers are not representative of average APS solar customers, and presents an unrealistic, worst-case cost scenario.

The study’s 3 hypothetical solar customers were designed in a manner that maximizes the potential cost impact of net metering. Specifically, the hypothetical customers are assumed to install a solar system large enough to meet 125% (for residential) or 100% (for commercial) of that customer’s maximum hourly demand. Unfortunately, this is an unreasonable assumption. A solar system is typically sized to meet approximately 70-90% of the annual energy load. Comparing maximum hourly demand versus annual energy usage is an apples to oranges comparison.

Another concern is that the study models an E-32M medium-size customer instead of an E-32L large-size customer because “APS has more” of those customers. Ultimately, however, what matters most is which class of customers has installed more solar. A proper evaluation should instead use a statistically valid set of actual representative residential and commercial system sizes installed in APS territory with their corresponding rate tariffs.

III. Conclusion

SEIA appreciates the opportunity to provide comments in response to APS's Report. As stated, the report does not provide a balanced and meaningful cost benefit analysis because it was never designed for that purpose. However, in order to have the productive discussions APS seeks, it is imperative to have accurate data that is balanced and comprehensive. Therefore, SEIA strongly urges that an independent analysis be commissioned that is conducted by a third party which utilizes a technical review committee consisting of utility and industry experts, which uses actual customer data.