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IN THE MATTER OF ARIZONA PUBLIC SERVICE COMPANY REQUEST FOR APPROVAL OF UPDATED GREEN POWER RATE SCHEDULE 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

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS 2013 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN AND DISTRIBUTED ENERGY ADMINISTRATIVE PLAN AND REQUEST FOR RESET OF ITS RENEWABLE ENERGY ADJUSTOR.

Docket No. E-01933A-12-0296

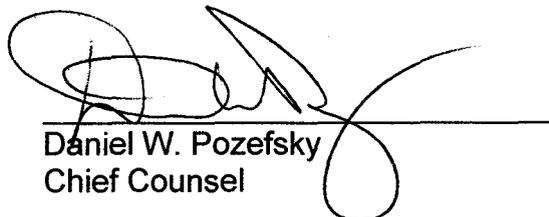
IN THE MATTER OF THE APPLICATION OF UNS ELECTRIC, INC. FOR APPROVAL OF ITS 2013 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN AND DISTRIBUTED ENERGY ADMINISTRATIVE PLAN AND REQUEST FOR RESET OF ITS RENEWABLE ENERGY ADJUSTOR.

Docket No. E-04204A-12-0297

1 **RUCO'S NOTICE OF FILING**

2 The RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCO") hereby provides
3 notice of filing the Rebuttal Testimony of Lon Huber, in the above-referenced matter.

4 RESPECTFULLY SUBMITTED this 8th day of May, 2013.

5 
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9
10

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12 of the foregoing filed this 8th day of May,
13 2013 with:

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DOCKET NO. E-01345A-10-0394
DOCKET NO. E-01345A-12-0290
DOCKET NO. E-01933A-12-0296
DOCKET NO. E-04204A-12-0297

REBUTTAL TESTIMONY
OF
LON HUBER

MAY 8, 2013

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1 **INTRODUCTION**

2 **Q. Please state your name, position, employer and address.**

3 A. Lon Huber. I am a consultant for Arizona's Residential Utility Consumer
4 Office ("RUCO"), 1110 W. Washington, Suite 220, Phoenix, AZ 85007.

5

6 **Q. Please state the purpose of your rebuttal testimony.**

7

8 A. The purpose of my testimony is to provide a short recap of the RUCO
9 sponsored workshop on May 3rd as well as present RUCO's
10 recommendations regarding renewable energy credit (REC) transfer and
11 compliance accounting mechanisms for Arizona's renewable energy
12 standard.

13

14 **Q. How is your rebuttal testimony organized?**

15

16 A. My rebuttal testimony is broken down into three parts: a brief summary of
17 stakeholder positions as communicated in the May 3rd workshop, RUCO's
18 analysis of the policy positions of main intervening parties, and RUCO's
19 policy recommendation.

20

21 **SUMMARY OF STAKEHOLDER POSITIONS**

22

23 **Q. Please briefly state the position of stakeholders as perceived by**
24 **RUCO during the May 3rd workshop.**

25

26 A. I will start by attempting to summarize the positions of the three principle
stakeholder groups. Please note that the transcript of the event was not

1 yet available to draw upon and RUCO reserves the right to modify or
2 expand upon the answers provided below. RUCO will also post the
3 transcript to the docket for the other parties to access.

4
5 Utilities – Arizona Public Service (APS) and Tucson Electric Power (TEP)
6 appear to be aligned around the same policy solution, which is to eliminate
7 the distributed energy (DE) carve-out. The rationale was that this was a
8 simple, cost effective way to address the issue of the inability to comply
9 with RES rules in the absence of a cash incentive. It was argued that the
10 market for distributed energy has reached a point where cash incentives
11 are no longer needed to drive demand. In the short run, the utilities are
12 advocating for a waiver of the DE requirements. The longer term policy
13 solution would be to open the Renewable Energy Standard and Tariff
14 (REST) rules and explicitly strike the DE carve-out.

15
16 Solar Industry – Representatives of several local solar installation
17 companies as well as a representative from the Solar Energy Industries
18 Association spoke at the workshop. The common message was that the
19 market is turbulent and that the possible policy outcomes of the net
20 metering related technical workshop could change the realities of the
21 market substantially. There was also concern that the market may not be
22 as strong as in years past. This could be particularly acute for the solar hot
23 water market.

1 Renewable energy market certifiers – Two organizations working with
2 renewable energy credits (REC) spoke at the conference. The common
3 message was to be very careful in how the policy to solve the REC issue
4 is crafted. Some policies such as Track and Record invalidate RECs and
5 the utility must be careful in regards to what it is claiming in the event that
6 they do not actually receive a system's RECs. Also, solutions that involve
7 opening up the REST rules to change compliance definitions would have
8 to be extremely well crafted and quite complicated in order to not violate
9 FTC guidelines.

10
11 **Q. Please state any other relevant findings RUCO discovered during the**
12 **May 3rd workshop.**

13 A.

- 14 • There is some variety in REC ownership models among states. For
15 instance, in California the solar customer maintains REC ownership
16 unless there is net excess generation at the end of the year. In which
17 case, the utility owns that portion of excess system output.
- 18 • DE RECs can satisfy the utility scale requirement. If excess DE RECs are
19 supplied, utilities are able to apply those RECs to their utility scale
20 requirement. Currently this could not occur the other way around.
- 21 • There have been REC sales between utilities in Arizona. There have also
22 been DE REC sales between solar companies and utilities. For example,

1 between Navopache Electric Cooperative and Abengoa Solar there have
2 been sales at 6 cents/REC.

3 • There is a disconnect between REC value and environmental attributes.
4 RECs have been used more as facilitator of system installs than an
5 accounting mechanism for the environmental attributes. At some point the
6 incentive level may have fallen below the actual environmental value solar
7 energy provides.

8 • According to the Federal Trade Commission, one cannot claim ownership
9 of, or power by, renewable energy unless you own the RECs. Under a
10 tracking framework the utilities could not claim that they have a three
11 percent DE penetration level if they only own the RECs to two percent of
12 those installs. In theory, system owners could sell their RECs to a party in
13 another state. Therefore, a utility filing a report that shows that a system's
14 output as solar would be double counting. It comes down to wording. The
15 utilities could say, "There are 1000 kWhs from solar PV systems hosted
16 on our grid that we do not own the renewable energy attributes to."

17 • In Tucson Electric service territory, one market player is the key driver
18 behind a large share of market demand.

19 • There can be no penalty for REST under compliance.

20 • The utilities may run out of residential PV incentive funds well before the
21 4th quarter of 2013.

1 **RUCO'S ANALYSIS OF THE POLICY POSITIONS OF MAIN INTERVENING**
2 **PARTIES**

3 **Q. Please provide RUCO's perspective on the policy recommendations**
4 **of the intervening parties.**

5 A.

6 1. Waiving the DE carve-out – RUCO is reluctant to strike the DE carve-out
7 for two primary reasons. First, RUCO is aligned with ACC Staff's view that
8 removal of the carve-out is a substantive change to Commission policy.

9 Second, the cost effectiveness of such a move is unclear.

10 2. Establishing an auction mechanism – Several parties have suggested
11 establishing an auction system whereby utilities purchase RECs from
12 system owners that do not take an incentive. RUCO sees this as violating
13 some of the key principles laid out in our prior testimony. Not only could it
14 be costly to administer and procure RECs, but it would be challenging to
15 apply statewide, especially for smaller utilities. One could impose a cap
16 on the costs; however, there would be uncertainty as to whether or not
17 there would be enough funds to encourage REC sales.

18 3. Track and Monitor – RUCO appreciates Staff's attempt to address this
19 complex issue. While the policy, as described by Bob Gray, would most
20 certainly constitute double counting, it could be modified to ensure REC
21 integrity. RUCO asks that if this policy is adopted, the language be open to
22 modification in a way that protects REC integrity. RUCO welcomes
23 constructive policy proposals such as the one Staff put forward. In fact, it

1 is very similar to RUCO's initial policy position, both in concept and
2 outcome; it is just the delivery that needs modification.

3
4 **RUCO'S POLICY RECOMMENDATION**

5 **Q. What is RUCO's policy recommendation to solve the REC transfer**
6 **issue?**

7 A. As stated in previous testimony, finding a solution in an ever changing
8 market presents a unique challenge. In addition to balancing the concerns
9 of each major stakeholder, one has to ascertain whether or not this is a
10 short term issue or a more systemic issue for years to come. Therefore,
11 RUCO suggests giving the process time. The major utilities are years
12 ahead in compliance, which allows the Commission some breathing room.
13 There is no reason why the Commission cannot take the necessary time
14 to get this right. As Commissioner Bitter Smith pointed out in her letter to
15 the docket dated May 2nd 2013, the matters the technical conference is
16 tackling and putting up for Commission consideration are "significant
17 public policy matters." RUCO strongly believes that the current system of
18 REC transfer and the viability of potential policies solutions (including
19 those presented above) could be greatly impacted by the end result of the
20 technical conference and subsequent Commission decision.

1 **Q. In previous testimony you mentioned uncertainty as to whether or**
2 **not this REC transfer dilemma is a long term issue, has RUCO's**
3 **position changed since the May 3rd workshop?**

4 A. No. It is still RUCO's belief that this issue could work itself out through
5 possible outcomes of the technical conference or changing market
6 dynamics. It is too early to tell.

7

8 **Q. What could be the end result of the technical conference?**

9 A. Net metering could be significantly revised, which may dramatically reduce
10 the amount of installations taking place without the traditional incentive for
11 the REC transaction. A modified or entirely new transaction between the
12 utility and DE adopters could be formed. If the transaction has an option
13 that incorporates the value of the environmental attributes into the
14 exchange, this would solve the REC issue. Finally, we could be left with
15 the status quo. While there is uncertainty in terms of market dynamics,
16 most likely this would be the situation requiring a longer term policy
17 update.

18

19 **Q. What if the policy outcome of the technical conference is not**
20 **adopted for some time?**

21 A. As a backstop, RUCO recommends splitting the RECs 50/50 between the
22 system owner and the utility. This could start one year from the end of this

1 proceeding or sooner if deemed appropriate. For example, when the utility
2 runs out of incentive funds.

3
4 **Q. Please explain this REC sharing policy in more detail.**

5 **A.** RUCO sees both the system owner/investor and the utility as partners.
6 One provides capital and a space to host the system, the other integrates
7 the system safely into the larger grid. This is not a judgment on who
8 provides more value, it is simply an acknowledgment that both parties
9 work together to bring DE technology online. The REC splitting policy
10 would only apply to interconnected systems. Moreover, commercial
11 customers would be allowed to retain 100 percent of their RECs if they
12 can prove they are required to meet an internal or external standard that
13 demands retired RECs as proof of compliance.

14
15 **Q. What are some benefits of a REC sharing policy?**

16 **A.** In terms of direct REC acquisition costs, it is less expensive than the
17 option of striking the DE carve-out. If DE resources proliferate, the policy
18 could yield free RECs to utilities that could then offset the need for utility
19 scale purchases. RUCO also feels that this policy satisfies many of our
20 guiding principles:

- 21 • Presents little to no additional cost to ratepayers
- 22 • Applies statewide with ease

- 1 • (Helps to) solve utility compliance concerns within a reasonable
- 2 timeframe
- 3 • (Helps to) maintain property rights of solar investors (REC integrity)
- 4 • Aligns with forthcoming net metering decision

5

6 **Q. Please expand on REC acquisition costs.**

7 A. Strictly speaking to direct REC acquisition costs - the current technical

8 conference process is researching other costs of DE - eliminating the DE

9 carve-out would require utilities to fill in the remaining portion with utility

10 scale resources (or in a twist of irony, procure DE RECs retroactively from

11 system owners). I approximate the savings to be around 3-4 cents/kWh for

12 each utility scale REC a DE REC replaces. I arrive at that figure by

13 assuming that the above market cost of utility scale procurement is in that

14 range. Under a REC splitting system, the need for utility scale resources

15 to fill the void left from eliminating the carve-out is reduced.

16

17 **Q. Is this REC split concept a long term policy solution?**

18 A. RUCO is not designing this to be a long term policy solution; nevertheless,

19 it may be able to fill that role. RUCO sees this as a stop gap to help

20 alleviate under-compliance concerns while at the same time protecting

21 some property rights. This is meant to buy time until the issue works itself

22 out or the crafting of a more holistic policy update is completed.

23

1 **Q. Could this be construed as a taking of property rights?**

2 A. Not in RUCO's view. Nonetheless, it is meant to be viewed as temporary
3 compromise based on each party's role in bringing on DE resources. No
4 one is getting 100 percent of what they are seeking.

5

6 **Q. What about the concern of accurately capturing what the market is**
7 **doing?**

8 A. RUCO's feeling is that this policy is as close as one can get while
9 balancing the concerns of all stakeholders and not going through a lengthy
10 revision of the REST rules.

11

12 **Q. What about a temporary waiver?**

13 A. RUCO does not view it necessary to issue a temporary waiver because
14 the Commission already has the authority to decide on the adoption of a
15 remediation plan, or not, depending on the circumstance. Only Arizona's
16 smaller utilities could fall behind with compliance in the next few years.
17 This assumes that the 50 percent REC split, in conjunction with any
18 incentive plan the utility offers, does not lead to needed compliance
19 numbers. Again, if it is determined that the reason they are behind has to
20 do with system owners not taking the incentive, the Commission has the
21 authority to not assess any penalty to the utility allowing for more time for
22 a solution to be crafted and implemented.

23

1 **Q. What about the original policy RUCO was exploring?**

2 A. Due to the complexity and need to modify the REST rules, RUCO sees
3 our original policy as a permanent policy update for a long term problem.
4 As stated, such a policy might not be needed. RUCO's REC sharing policy
5 is meant to fill in as a bridge until there is a clear course of action.

6

7 **Q. Does this conclude your direct testimony?**

8 A. Yes.

9