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June 24, 2013

Re: Docket Numbers E-01345A-10-0394, E-01345A-12-0290, E-01933A-12-0296, E-04204A-12-~~0294~~ 0297

**COMMISSIONERS**

BOB STUMP, CHAIRMAN  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER-SMITH

Arizona Corporation Commission  
**DOCKETED**

JUN 25 2013



Commissioners:

Arizona Solar Energy Industry Association (“AriSEIA”) believes very strongly that retail rate net metering (“NEM”) is an essential policy with substantial benefits to all ratepayers that is necessary for the continued viability of the Arizona distributed solar energy sector. While we view Arizona Public Service (“APS”) and other utilities as partners in the growth of the distributed solar industry, we take great issue with APS’ tactics and claims regarding the value of distributed solar energy to non-participating ratepayers.

**Distributed solar energy is a net benefit to all ratepayers**

AriSEIA understands that there are both costs and benefits to distributed solar adoption. Each are important and each must be carefully reviewed. Crossborder Energy’s recently completed study found that when cost and benefits are compared and netted out, distributed solar provides a massive net benefit to non-solar ratepayers. In describing what it perceives to be the problem of net metered distributed solar, APS focuses only on the costs with a mere passing acknowledgment of the very real and substantial benefits. When the costs are viewed in isolation from the benefits they lead one to believe there is a problem that must be solved despite the fact that solar is actually a net benefit to all.

Commissioner Bob Burns attempts to articulate the perceived costs associated with distributed solar in his letter to the docket dated June 17, 2013. Commissioner Burns explains that costs arise in two ways as he sees it. First, Burns states that a “significant percentage of the usage portion of a customer’s electric bill is for fixed cost infrastructure. Solar customers reduce or eliminate the usage portion of their bill. As a consequence, it appears that solar customers may significantly reduce their contribution to the support of the infrastructure that they rely on for back-up when the sun is not shining.” This concern is indistinguishable from what happens

when a customer uses his own money to install an energy efficient appliance or HVAC system, decides to turn the AC up and live a little warmer to save money or turn the lights out when they are gone. Do we concern ourselves that those that take off to cooler climates for months on end in the summer and reduce or eliminate their electricity usage during those times are “significantly reducing their contribution” to the utility infrastructure? Of course we do not. It would be discriminatory to implement charges against a class of customers that utilize solar to reduce their energy needs while permitting customers to reduce their energy usage by any other means and escape such charges.

Burns’ first observation is the equivalent of saying “anyone who uses less electricity than the amount necessary for them to pay their proportionate share of ‘fixed costs’ is freeloading off their neighbors.” This observation could lead to charges for any customer that does not set their thermostat below a certain level in the summer, charges for any person leaving the state unless they leave all of their appliances on, or even could be the rationale for levying charges against residents who live in a more mild climate because they are not using enough power to cover their “fixed costs.”

Next Burns describes a second perceived cost associated with the usage of net metering as, “the possibility that net metering may result in the electric utilities purchasing energy back from customers’ rooftop installations at the retail rate when the energy is available to the utility at the lower wholesale rate.” Net metered energy is delivered power consumed by the customer with electrical need nearest to the point of generation. As a result, the power typically flows only from the generation point on a neighboring rooftop to a home mere feet away. In the alternative, wholesale power is generated hundreds of miles from the location needing the power and fed on to costly transmission infrastructure for delivery while 10% or more of that energy is lost in transmission over the lines. The net metered power is also immediately available at the proper voltage, another added value. The utility cannot purchase delivered power on the wholesale market. In addition, net metered power is also produced entirely during the day when generation costs are above average and 40% more is produced during the high rate months of May through October when utility capacity is most heavily utilized.

In addition, the power that the utility purchases at its retail rate is promptly sold to the nearest ratepayer at the same exact price. There is no loss experienced in the transaction because the acquisition and the disposition are for the same price. The facts simply do not support Commissioner Burns’ observation here.

In contrast to the costs described above, the benefits of having tens of thousands of people build their own little power plants is undeniable. Right now in APS’ service territory we have seen approximately 18,000 people spend their own money to build a small power plant at no cost to their neighbors. These 18,000 power plants provide energy to the grid at peak times and, because they are distributed around the service territory, their output can be reliably measured and counted upon. These 18,000 micro power plants, when combined with energy efficiency measures and additional distributed solar power plants on rooftops everywhere, will delay or displace the need for future generation and transmission infrastructure. As its customers purchase less power, whether it be through DG or EE, the utility will be able to slow its growth.

As its growth slows so too does a utility's rate of rate increases. This is good for utility customers. Simply put, private investment will offset the need for socialized utility investment resulting in a lower utility rate base and lower utility rates. This is an undeniable and substantial benefit.

**This is an issue of rate design that MUST be reviewed in the context of a rate case**

To the extent net metering is a problem, and we do not agree that it is, we do agree that rate design in a rate case is the appropriate venue to redress any such issues. APS' ratepayer-funded-corporate-propaganda website, AZEnergyFuture.com, includes a graphic with the following statement attempting to articulate APS' perceived issue with NEM, "[t]he retail rate customers pay for electricity includes the cost of power as well as costs to maintain the grid. Under the current net metering structure, when rooftop solar customers generate electricity, they avoid paying the retail rate." It is not just those that use solar to purchase less power that "avoid" purchasing retail power. No, it is the married couple who has a child or two move away for college and purchases less power, it is the retired couple on a fixed income that sets the thermostat up a degree or two to save for other necessities, it is the homeowner that replaces his single pane windows with double pane to save money, and it is the business owner that installs controls to regulate power usage at all times to squeeze out a little more money and keep his employees employed.

Where APS says "Under the current net metering structure, when rooftop solar customers generate electricity, they avoid paying the retail rate" they could just as easily have said, "Under the current net metering rate structure, when ~~rooftop solar~~ our customers turn up the thermostat ~~generate electricity~~, they avoid paying the retail rate." This is not a solar problem, this is a rate design problem.

APS has attempted to zero in on net metered distributed solar calling it a "cross subsidy" whereby one class of customer is paying more to allow another customer to pay less. While we vehemently disagree that NEM creates a cross subsidy, the current rate structure is indisputably replete with examples of cross subsidies that actually exist. For example, hotter climates where electricity use is more intense subsidize cooler climates where less energy is needed to cool a home or business. This means that APS customers in the City of Yuma, with some of the hottest temperatures in the United States, are subsidizing the APS users in Flagstaff, who use far less energy to remain comfortable in their climate and therefore pay far less to support the grid that serves them. Urban residents subsidize the rates of rural residents who require incrementally more infrastructure per person to bring electricity out to less densely populated areas. Where a single distribution line may feed hundreds or thousands of urban residents, that same line may, if sited in rural areas of the State, only feed a handful of residents for the same cost. Despite the incremental difference in cost of service, the rural and urban APS customer pay the same rates, just as the Yuma and Flagstaff residents do.

Commercial customers, specifically small commercial customers, subsidize all other rate classes. These small businesses pay higher rates proportionally which allows the utility to charge other

rate classes lower rates. As the result of APS most recent rate case that dramatically increased the fixed costs on large commercial customers including schools, on the E-32L rate schedule, our schools are now heavily subsidizing other rate classes as well.

Finally, in light of APS' supported line extension policy, existing customers subsidize expensive line extensions to serve new customers.

As the Commission is no doubt aware, it was just one year ago that APS concluded its last rate case with a Commission vote in May of 2012. Despite the existence of the above described and undisputed cross subsidies or "cost shifts" as APS calls them, APS made no request that the Commission resolve these issues or begin a march to remove those hidden subsidies. However, in March of this year APS Senior VP of Customers and Regulations, Jeff Guldner was out telling the media that "[w]e want to make sure our costs are transparent so we know what we're subsidizing." See, Phoenix Business Journal March 28, 2013. Guldner was referring to NEM while completely ignoring the various hidden cost shifts upon which APS' entire rate structure is based.

APS continues to describe the existence of the alleged NEM cost shift as untenable while entirely ignoring these other open, obvious, and undisputed cost shifts. Between its rural, mild weather, and commercial customers, APS can safely be said to be costs shifting hundreds of millions of dollars between customers today without complaining. Despite operating a rate system that is dependent on numerous cost shifts to balance the books, Guldner, eagerly exaggerated APS' perceived issue with NEM "[r]ight now, APS has 16,000 or 18,000 customers with rooftop solar. We can talk about things like grandfathering them in to protect their investments, but it is going to be much harder to protect 60,000 or 100,000 customers and to institutionalize tens of millions of dollars of cost shifting." See, Greentech Media, June 17, 2013. APS currently protects hundreds of thousands of its customers from paying the true cost of their service by shifting those costs onto other customers. Guldner's worry about it being "much harder" to institutionalize tens of millions of dollars in cost shifting is belied by the current prevalence of institutionalized cost shifting within APS' existing rates.

AriSEIA encourages the Commission to have a robust discussion about cost shifting in rates. The appropriate place for this discussion is within the context of a rate case where all parties that are impacted by uncontroverted or even alleged cost shifts can have a seat at the table. As Commissioner Bob Burns notes in his letter to the docket dated June 17, 2013, "*in the spirit of fairness, cost subsidies that may penalize one group of customers at the expense of another will need to be looked at closely.*" (emphasis added). We agree with Commission Burns on this point; if APS and the Commission are suddenly concerned with hidden costs shifts then all such costs should be examined in the next APS rate case.

**Do not let utilities use the Commission to deny the monopoly utilities' customers the choice to provide some of their own power**

Given the prevalence of cost shifts in rates throughout APS' service territory, it is a fair and relevant question to ask why APS is focused on addressing the alleged NEM cost shift while it

continues to ignore others? The evidence is clear that APS is concerning itself with the NEM policy because it does not want its customers to have alternatives that will lead to lower demand for utility services going forward. After all, lower demand means slower growth and lower revenue for the utility.

APS will argue that it is bringing this issue up now to advocate on the behalf of its ratepayers for fair and transparent rates. This response is simply not credible given the mountain of evidence proving that APS and the utility industry view their customers' ability to choose to provide a portion of their own power through distributed solar as a threat to their revenue. For example, in APS' 2012 Annual Report entitled *Momentum*, APS identifies DG solar as a business threat saying, "[c]ustomer participation in distributed energy programs would result in lower demand, since customers would be meeting some or all of their own energy needs...*Reduced demand due to these energy efficiency and distributed energy requirements, unless substantially offset through ratemaking mechanisms, could have a material adverse impact on APS's financial condition, results of operations and cash flows.* Additionally, higher than anticipated penetration of distributed energy may also cause portions of APS's existing resource fleet, such as coal, to become uneconomic or operationally burdensome." See, APS 2012 Annual Report at p. 32 (emphasis added).

APS is taking a cue from the playbook of the Edison Electric Institute ("EEI"), a utility industry group of which Pinnacle West and APS are members. EEI recently published a paper entitled "*Disruptive Challenges*" wherein EEI identified distributed solar energy (or "distributed energy resources" –DER- in the parlance of the paper) as creating exceptional long term financial risk for investor owned utilities because of its growth and the corresponding reduced utility demand. EEI wrote, "[t]he financial risks created by disruptive challenges include declining utility revenues, increasing costs, and lower profitability potential, particularly over the long-term. As DER and DSM programs continue to capture 'market share,' for example, utility revenues will be reduced." See, *Disruptive Challenges* at p. 1.

The only conclusion that AriSEIA can draw from this is that APS is concerned with protecting its market share and not with actual demonstrable cost shifts such as the new-existing customer, rural-urban or mild-hot climate cost shifts because those are not a threat to its future ability to grow. What does APS care if urban customers subsidize rural customers, it will still make its money and it does not impact its growth? On the other hand, when people buy less power and when individuals start building power plants on their own (distributed solar) that reduces the need for APS to build future rate of return generating power plants and transmission lines and all of a sudden APS cares and wants to "know what we're subsidizing" as Guldner said.

#### **Negatively impacting net metering will cost Arizona numerous jobs**

The distributed solar energy market in Arizona has seen a rapid decrease in costs coupled with intense competition and a near elimination of all utility incentives. Solar providers in Arizona are making very little return and it is becoming increasingly harder to do business in Arizona in the distributed solar industry. For example, a review of the numbers in TEP's service territory shows that the number of installers in that market has fallen from 51 in 2012 to just 11 today.

Arizona Corporation Commission

June 24, 2013

Page 6 of 6

Negatively impacting NEM will drive companies out of business. Jobs will be lost and investment in Arizona will disappear. This is not an idle threat, this is reality. Arizona's small solar businesses, many of them are AriSEIA's members, opened their doors in reliance on the existence of a clear and steady net metering policy. Unlike incentives, net metering was not a policy up for annual review and has been a key policy in 43 States. Our members and installers all over the State are counting on regulatory certainty in this essential policy. As the utilities would no doubt agree, businesses require a stable regulatory climate in order to grow and thrive. Eliminating retail rate net metering at the behest of utilities would signal a dramatic departure from a business friendly and steady regulatory environment and would deprive businesses owners and solar owners of their investment backed expectations. This proposal must be rejected.

### **Conclusion**

Distributed solar energy harnesses private investment to bestow great benefits upon all ratepayers. If the Commission wishes to revisit rate design issues then we encourage a wholesale look at rate design and the mix of fixed and variable costs and how those are recovered through rates. We strongly discourage the Commission from engaging in a game of utility initiated cherry-picking where utilities ask the Commission to do their bidding under the guise of rooting out hidden subsidies while altogether ignoring the real cost shifts. The solar industry has invested hundreds of millions of dollars in the State in reliance on clear and steady policies like NEM. We encourage the Commission to continue to provide a steady and predictable regulatory framework and to examine questions like this in the normal course of business in a rate making proceeding.

Respectfully,



Milton M. "Mike" Masson  
Interim Executive Director of AriSEIA