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BEFORE THE ARIZONA CORPORATION COMMISSION

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ARIZONA CORPORATION COMMISSION
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IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR APPROVAL OF NET
METERING COST SHIFT SOLUTION.

Docket No. E-01345A-13-0248

PROTEST OF THE ALLIANCE FOR SOLAR CHOICE

Pursuant to A.A.C. Rule 14-3-106, The Alliance for Solar Choice (“TASC”) hereby protests the Application of Arizona Public Service Company (“APS”) for Approval of Net Metering Cost Shift Solutions, which was filed with the Arizona Corporation Commission (“Commission”) on July 12, 2013 (“Application”). Concurrent with this protest, TASC is filing an application for leave to intervene in this proceeding.

Commission Rule R.14-3-106 allows “a person who may be adversely affected by an application” to file a written protest with the Commission.¹ Members of TASC will be adversely affected if the Commission accepts the flawed proposals put forth in the APS Application. With this protest, TASC urges the Commission to reject those proposals and instead order APS to develop a system-benefit credit to provide just, reasonable and fair compensation to customers for the financial benefits their investments provide to APS and fellow ratepayers.

¹ A.A.C. R14-3-106(I)

I. THE ALLIANCE FOR SOLAR CHOICE

TASC advocates for maintaining successful distributed solar energy policies, like retail net metering (“NEM”), throughout the United States. Founding members represent the majority of the nation’s rooftop solar market and include SolarCity, Sungevity, Sunrun and Verengo. These companies are important stakeholders in Arizona’s Renewable Energy Standard² (“RES”) and NEM³ programs and are responsible for thousands of residential, school, church, government and commercial solar installations in Arizona. TASC’s member companies have brought hundreds of jobs and many tens of millions of dollars of investment to Arizona’s cities and towns.

TASC was formed on the belief that anyone should have the option to switch to distributed solar power for at least a portion of their energy supply and realize the financial benefits therein. The rooftop solar market in Arizona has been driven by Arizonans’ desire to assert control over their electric bills, and TASC believes this trend should be encouraged. TASC is committed to defending retail NEM, which provides fair credit to residents, businesses, churches, schools, and public agencies when their solar systems export excess energy to the grid.

II. PROTEST OF THE FLAWED APS APPLICATION

Arizona is a booming solar success story, which should come as no surprise. Arizona is bathed in the nation’s best solar resource, which has led a growing number of Arizonans to embrace rooftop solar as they look for cost-effective solutions to manage their energy use. According to APS, 500 new applications to interconnect rooftop solar systems are being submitted each month as Arizonans install rooftop solar on their homes and businesses in

² A.C.C. R14-2-1801 to R14-2-1816.

³ A.C.C. R14-2-2301 to R14-2-2307.

increasing numbers.⁴ The aggregate investment in solar that results is an economic boon for the State that brings thousands of jobs to Arizonans in need of employment.

For APS, however, Arizona's solar success story represents a dark cloud over business as usual. Other utilities share this perspective. As APS notes in its application, utilities outside of Arizona have turned wary eye toward rooftop solar as costs decline and consumers embrace onsite generation in greater numbers.⁵ A recent Edison Electric Institute ("EEI") report notes that rooftop solar is "in the money" for 16% of the U.S. retail electricity market, and EEI projections suggest this number may increase to 33% by 2017.⁶ As the installed cost of solar PV declines from \$5/watt to \$3.5/watt, EEI projects the rooftop solar market will increase by 500%, increasing consumer demand for solar by 14 times.⁷ EEI describes this growth in small-scale solar systems as the "largest near-term threat" to the electric utility industry.⁸ To combat this threat, EEI recommends that utilities undermine the pillars of solar growth by increasing non-bypassable charges, introducing onerous tariff structures, and attacking state-mandated NEM programs.⁹

The Application is merely APS's attempt to follow EEI's playbook by taking aim at NEM, a pillar of Arizona's solar success story. To undermine the effectiveness of NEM, APS offers the Commission a choice of two poisons, either of which would undoubtedly kill the Arizona rooftop solar industry and be detrimental to the livelihoods of the thousands of individuals the solar industry employs. The first proposal would eliminate solar savings entirely

⁴ Application at p. 1, ll. 18-19.

⁵ Application at p. 2, ll. 1-2.

⁶ Edison Electric Institute, *Disruptive Challenges: Financial Implications and Strategic Responses to a Changing Retail Electric Business*, pp. 4-5 (January 2013).

⁷ *Id.*

⁸ *Id.* at p. 4.

⁹ *Id.* at p. 18.

by replacing Arizona's successful NEM and net billing programs with federal regulation and taxation. The second proposal would make going solar uneconomic by forcing NEM customers onto punitive tariffs that protect utility profit by making alternatives to utility service more expensive. A recent editorial in *The Republic* concluded that this second proposal would increase a new solar customer's cost by \$100 or more per month.¹⁰ Both of these proposals are worse than eliminating NEM completely.

Although APS proposes to grandfather current customers under existing rules,¹¹ when those customers sell or rent their homes, the new occupants will be forced to pay APS under new rules. This audacious proposal undermines the value of solar on a home and contradicts APS's assertion in its Application will not affect current customers. The Commission should see these proposals for what they are: a shameful attempt by APS to protect utility revenue at the expense of NEM customers. State regulatory commissions in Idaho and Louisiana recently rejected proposals by utilities to undermine NEM.¹² TASC encourages this Commission to do the same.

A. The First APS Proposal Would Eliminate Solar Savings by Replacing Arizona's Successful Solar Programs with Federal Regulation and Taxation.

This Commission developed Arizona's successful NEM program with extensive input from local stakeholders, and the Commission's NEM regulations are part of a body of law that has provided a stable foundation upon which thousands of rooftop solar systems have been

¹⁰ *The Republic*, "Don't dim solar's bright future," Editorial Board, (July 16, 2013) ("If the Arizona Corporation Commission accepts APS' cost-benefit analysis, new solar customers could be paying \$100 more per month than the 18,000 customers with rooftop solar currently pay.")

¹¹ Application at p. 13, l. 23 to p. 14, l. 4.

¹² See *Wall Street Journal*, "State Utility Regulators Back Solar-Power Users," p. B2 in the U.S. edition (July 9, 2013) ("Regulators in two states recently sided with the solar-power industry and homeowners who have solar-energy systems, marking defeats for electric utilities faced with a fast-growing constituency that is cutting into their revenue.")

installed in the state. APS now proposes to replace Arizona's successful NEM program with a wholesale power arrangement that will increase federal taxation and regulation of Arizonans. This proposal is fatally flawed and should be rejected outright.

The Application will exchange federal credits for federal taxes, reversing the existing flow of money into Arizona. APS acknowledges the federal residential solar tax credit is a significant incentive for solar development.¹³ To qualify for that credit, residential customers must use solar output in a dwelling unit.¹⁴ The APS proposal would instead require residential customers to deliver all output to the utility, placing access to the federal residential tax credit at risk. Inability to access this credit would be devastating to the Arizona rooftop solar market. Moreover, the requirement to deliver all output to the utility would significantly increase the federal tax liability of residential customers that attempt to install rooftop solar. In this way, the current stream of federal money into Arizona in the form of credits will become a river of Arizonans' money to Washington in the form of increased taxes. By itself, this is sufficient reason to reject this proposal.

Yet, APS goes further. TASC believes any customer should have the ability to switch to rooftop solar to serve at least a portion of that customer's on-site energy needs. The APS proposal would eliminate this customer choice and replace it with the burden of federal regulation. APS's proposed requirement to deliver all output to the utility treats residential customers as wholesale power market participants. Such treatment would subject energy sales from these ratepayers to federal regulation. TASC believes it is an unfair burden to treat residential customers like a trade or business engaged in wholesale energy sales. Participation in

¹³ Application p. 3, ll. 10-16.

¹⁴ 25 U.S.C. § 25D(d)(2) ("The term 'qualified solar electric property expenditure' means an expenditure for property which uses solar energy to generate electricity for use in a dwelling unit located in the United States and used as a residence by the taxpayer.")

wholesale market transactions is a radically different value proposition from a customer's perspective than using solar to serve on-site energy needs. In fact, it is hard to imagine any residential customer in Arizona installing solar under the APS proposal given the significant tax and regulatory consequences.

B. The Second APS Proposal Would Make Going Solar Uneconomic in Arizona by Forcing Residential Customers onto Punitive Tariffs that Protect Utility Profit at the Expense of Customer Options.

Rates drive the economics of NEM.¹⁵ The Commission recognized this fact when it adopted its NEM rules and prohibited utilities from imposing discriminatory charges on NEM customers.¹⁶ The Commission's rules require that "[a]ny proposed charge that would increase a Net Metering Customer's costs beyond those of other customers with similar load characteristics or customers in the same rate class that the Net Metering Customer would qualify for if not participating in Net Metering ... *shall be fully supported with cost of service studies and benefit/cost analysis.*"¹⁷ The Commission's rules place the burden of proof on the electric utility to support any proposed charge.¹⁸

Disregarding the Commission's rules, APS proposes to penalize NEM customers by forcing them onto a punitive rate structure that is specifically intended to increase their costs. A July 16th editorial in The Republic concludes that if the Commission accepts APS's proposal "new solar customers could be paying \$100 more per month than the 18,000 customers with rooftop solar currently pay."¹⁹ Although APS carries the burden of supporting this additional charge, *APS has not brought forward any cost of service study or cost/benefit analysis to*

¹⁵ Application, Exhibit 3, Testimony of Miessner, p. 7, ll. 1-2.

¹⁶ A.C.C. R14-2-2305.

¹⁷ *Id.* (italics added)

¹⁸ *Id.*

¹⁹ The Republic, "Don't dim solar's bright future," Editorial Board, (July 16, 2013).

demonstrate that the additional charge it proposes is justified. In fact, APS acknowledges that its most recent study on this issue, titled *2013 Updated Solar PV Value Report* (filed May 17, 2013 in Docket No. E-01345A-12-0290), is not the primary basis of APS's proposal.²⁰ Instead, APS's claimed annual cross subsidy of \$1,000 per-NEM customer²¹ relies entirely on the testimony of a single APS employee, who explains that that this figure is an "estimate" that is being provided to the Commission "in general terms" to "approximately" identify the amount of money that APS feels it is not adequately recovering residential NEM customers.²² Surely, the Commission had something more in mind when it promulgated its NEM rules and called on utilities to support any proposed charges with cost of service studies and benefit/cost analysis.

Yet, based on nothing more, APS explains the goldilocks approach it took to mulling its options and settling on the ECT-2 rate as a "solution" that "although not perfect" would, in APS's sole judgment, "significantly reduce the cost shifting problem" that APS has estimated.²³ TASC believes a cost of service study is essential in setting rates for customer classes with distinct service characteristics.²⁴ Although APS acknowledges that solar customers provide a range of services that distinguish them from other customers,²⁵ APS proposes to force these customers onto a punitive tariff that was not designed to reflect and adequately compensate

²⁰ Application , Exhibit 2, Testimony of Bernosky, p. 10, ll. 6-9.

²¹ Application p. 9, ll. 24-25; Application p. 10, ll. 1-8; Testimony of Guldner p. 5, ll. 27-28.

²² Application, Exhibit 3, Testimony of Miessner, p. 15, ll. 20-28 ("We can only estimate this amount at this time because a precise amount would require rebilling all 18,000 solar customers and calculating their specific savings.")

²³ Application, Exhibit 3, Testimony of Miessner, p. 33, ll. 3-7.

²⁴ Application, Exhibit 3, Testimony of Miessner, p. 19, l. 18 to p. 20, l. 21 (acknowledging that it is not appropriate to design rates or otherwise justify charges based on long run projected cost studies).

²⁵ Application, Exhibit 3, Testimony of Miessner, p. 12, l. 22 to p. 14, l. 16; Testimony of Guldner, p. 9, ll. 11-24 and p. 10, ll. 9-16.

customers for their contributions.²⁶ This proposal is nothing more than an APS concocted attempt to protect its bottom line by making the solar alternative to utility service more expensive. APS should be held to the Commission's rules in supporting its proposed charge and should not be allowed to avoid its burden of proof by simply tucking into its Application a broad request for a waiver of whatever stands in its way of protecting utility revenue.²⁷

C. Instead of Penalizing Solar Customers, APS Should Compensate Solar Customers for the Substantial Net Benefits They Provide to APS.

On July 2, 2013, TASC submitted a letter in the APS RES docket, E-01345A-12-0290, proposing the creation of a system-benefit credit to compensate rooftop solar customers for the significant benefits they provide to the APS system. TASC's proposal relies on a Crossborder Energy assessment of how demand-side solar will impact APS ratepayers.²⁸ The Crossborder Energy analysis was commissioned by the Solar Energy Industries Association and is referenced in the APS Application.²⁹

The Crossborder analysis concludes that the benefits of rooftop solar in APS's system exceed the costs, such that new rooftop solar will not and does not impose a financial burden on non-participating ratepayers. In fact, the study finds that the benefits exceed the costs by more than 50% with a benefit/cost ratio of 1.54. The benefits exceed the costs for both the residential and commercial customer classes in aggregate, and when considered individually. Based on

²⁶ Application, Exhibit 3, Testimony of Miessner, p. 25, ll. 11-27, p. 33, ll. 3-7, and Attachment CAM_5; Testimony of Guldner, p. 8, ll. 9-10.

²⁷ Application p. 16, ll. 1-2.

²⁸ Crossborder Energy, "The Benefits and Costs of Solar Distributed Generation for Arizona Public Service," submitted as an attachment to TASC letter in docket, E-01345A-12-0290 on July 2, 2013.

²⁹ Application, Exhibit 3, Testimony of Miessner, p. 17, l. 13 to p. 19 l. 18.

APS's projection of 431,000 MWh of incremental solar DG in 2015, the net benefits could amount to \$34 million per year for all APS ratepayers.

TASC reiterates its proposal for the Commission to order APS to implement a system-benefit credit to provide just, reasonable and fair compensation to customers for the financial benefits their investments provide to APS and fellow ratepayers. The Commission has a variety of procedural tools at its disposal that would be suited to the task of determining the appropriate compensation level and crediting mechanism to compensate rooftop solar customers. TASC looks forward to working with the Commission and APS to determine the best procedural forum in which to create the system-benefit credit.

III. CONCLUSION

APS fails to provide sufficient justification or support for the radical changes it proposes to Arizona's solar programs. APS should not be allowed to leverage its monopoly status to protect its bottom line from competitive alternatives. The Commission should reject the proposals put forward by APS and instead order APS to provide just, reasonable and fair compensation to customers whose investments in solar provide tangible financial benefits to APS and fellow ratepayers.

Respectfully submitted via overnight mail this 26th day of July, 2013.



Anne Smart
Executive Director
The Alliance for Solar Choice
45 Fremont Street, 32nd Floor
San Francisco, CA 94105
Phone: (415) 580-6900
E-mail: anne@allianceforsolarchoice.com

Certificate of Service


I hereby certify I have this day sent via overnight mail an original and thirteen copies of the foregoing on this 26th day of July, 2013 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

I hereby certify that I have this day served the foregoing documents on all parties of record in this proceeding by delivering a copy thereof in person, or by mailing a copy thereof, properly addressed with first class postage prepaid to:

Arizona Corporation Commission	Janice Alward	1200 W. Washington St. Phoenix, Arizona 85007
Arizona Corporation Commission	Steve Olea	1200 W. Washington St. Phoenix, Arizona 85007
Arizona Corporation Commission	Lyn Farmer	1200 W. Washington St. Phoenix, Arizona 85007-2927
Pinnacle West Capital Corporation	Thomas Loquvam	400 N. 5Th St, MS 8695 Phoenix, Arizona 85004

Dated this 26th day of July, 2013, in San Francisco, CA.



Anne Smart
Executive Director
The Alliance for Solar Choice
45 Fremont Street, 32nd Floor
San Francisco, CA 94105
Phone: (415) 580-6900
E-mail: anne@allianceforsolarchoice.com