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BEFORE THE ARIZONA CORPORATION COMMIS

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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.

**COMMENTS OF WESTERN RESOURCE  
ADVOCATES**

Western Resource Advocates (WRA) appreciates the opportunity to provide these comments concerning Arizona Public Service Company's (APS's) net metering application.

At its root, the problem APS seeks to address with its proposal arises not from distributed solar generation but from a business model that does not easily respond to innovation and technological change. APS's proposal will stifle innovation and early adoption of new distributed technologies. Rather than trying to force emerging innovations into a regulatory and business model ill-suited to accommodating change, the Commission needs to focus on a transition process where the current utility business model can evolve in a way that better encourages innovation. Accordingly, APS's application should be put on hold or dismissed while a foundation for future decisions is developed, as explained below.

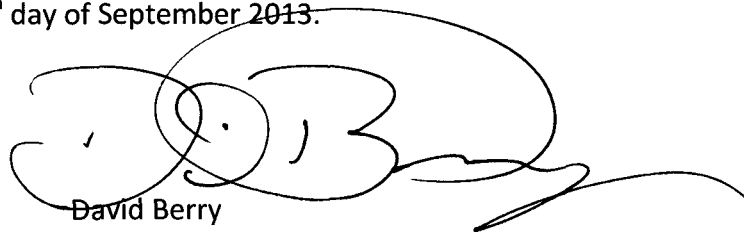
APS characterizes its proposal as a reduction of an unfair cost shift onto non-participants by distributed solar energy customers with net metering. Leaving aside the debate over whether there actually is a cost shift when one considers the costs and *all* the benefits that net metering provides, cost shifts are not necessarily unfair. Cost shifts to promote the public interest may be just, reasonable, and effective. Further, the Commission should take care not to suppress beneficial changes in technology because their adoption would result in "unfair" cost shifting. The problem isn't innovation and cost shifting, it's the financial business model used by utilities and regulators.

WRA proposes that the Commission direct a working group of stakeholders (Staff, utilities, the solar industry, consumer organizations, environmental organizations, and other interested parties) to develop an assessment of: a) the scope and impact of innovation and changing technology with regard to distributed solar energy, energy storage, micro-grids, and a flexible distribution grid, and b) utility and regulatory business models that are more responsive to rapidly changing technology and new market opportunities. Outside experts should be invited to provide information and insight to the working group and the Commission. The Commission should strongly encourage the parties to develop a consensus. The working group should report to the Commission after one year, although its work may not be completed by then.

At a minimum, the following factors should be considered by the working group:<sup>1</sup>

1. **Trends and opportunities** in distributed energy technologies (including micro-grids and energy storage), energy efficiency, demand response, new forms of organization such as third party owned solar gardens, new marketing strategies, etc.
2. **Managing disruptive innovation.** Distributed energy is a disruptive technology. Disruption should be managed, not extinguished.
3. **Avoiding lock-in of old, polluting technologies and technologies with uncertain fuel prices.** Lock-in can result from penalizing early adopters of distributed solar energy, for example.
4. **Business models that:**
  - a. do not impede innovation or early adoption of distributed solar energy,
  - b. identify the services utilities could and should provide, including ancillary services,
  - c. encourage utilities to evolve, be innovative, and reduce their costs,
  - d. do not depend on maintaining a near-monopoly over technology choice and service delivery, and
  - e. move toward compensating utilities for their services based, at least in part, on performance and innovation, considering the limitations imposed by the Phelps Dodge decision.
5. **Demonstration projects.** Because much remains to be learned, progress will be transitional. A one-shot solution is not realistic. Therefore, the working group should consider demonstration or pilot efforts in specified geographic areas or for specified services that will provide experience with aspects of potential new business models.

Respectfully submitted this 25<sup>th</sup> day of September 2013.



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<sup>1</sup> Some of these factors may have to be implemented in a rate case; nonetheless, they could be worked out in principle prior to the rate case.