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KEYES, FOX & WIEDMAN LLP

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436 14th Street, Suite 1305
Oakland, CA 94612
(510) 314-8200
www.kfwlaw.com

AZ CORP COMMISSION
DOCKET CONTROL

October 9, 2013

Arizona Corporation Commission
Docket Control
1200 W. Washington St.
Phoenix, AZ 85007

ORIGINAL

**Re: Comments of the Interstate Renewable Energy Council, Inc. on the
Recommendations of the Proposed Order from the Staff of the Utilities Division of
the Arizona Corporation Commission, Docket No. E-01345A-13-0248**

Dear Docket Control:

Please find enclosed an original and thirteen copies of Comments of the Interstate Renewable Energy Council, Inc. on the Recommendations of the Proposed Order from the Staff of the Utilities Division of the Arizona Corporation Commission, for filing in Docket No. E-01345A-13-0248. Please contact me with any questions or issues with the filing.

Sincerely,

Erica Schroeder
KEYES, FOX & WIEDMAN LLP
436 14th Street, Suite 1305
Oakland, CA 94612
Telephone: (510) 314-8206
Email: eschroeder@kfwlaw.com

Attorney for: INTERSTATE RENEWABLE
ENERGY COUNCIL, INC.

Arizona Corporation Commission
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Erica Schroeder CA Bar No. 273560*
KEYES, FOX & WIEDMAN LLP
436 14th Street, Suite 1305
Oakland, CA 94612
Telephone: (510) 314-8206
Email: eschroeder@kfwlaw.com
*appearing *pro hac vice*

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AZ CORP COMMISSION
DOCKET CONTROL

Giancarlo G. Estrada AZ Bar No. 028266
ESTRADA-LEGAL, PC
One East Camelback Road, Suite 550
Phoenix, Arizona 85012
Telephone: (602) 635-7414, Fax: (602) 635-7421
Email: gestrada@estradalegalpc.com

Attorneys for: INTERSTATE RENEWABLE ENERGY COUNCIL, INC.

BEFORE THE ARIZONA CORPORATION COMMISSION

Bob Stump, Chairman
Gary Pierce, Commissioner
Brenda Burns, Commissioner
Bob Burns, Commissioner
Susan Bitter Smith, Commissioner

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

**COMMENTS OF THE INTERSTATE RENEWABLE ENERGY COUNCIL, INC.
ON THE RECOMMENDATIONS OF THE PROPOSED ORDER FROM THE STAFF
OF THE UTILITIES DIVISION OF THE ARIZONA CORPORATION COMMISSION**

The Interstate Renewable Energy Council, Inc. (IREC) hereby submits comments on the recommendations of the Proposed Order and associated Memorandum from the Staff of the Utilities Division (Staff) of the Arizona Corporation Commission (Commission), dated September 30, 2013, regarding Arizona Public Service Company's (APS) Application for Approval of Net Metering Cost Shift Solution (Application).

IREC submitted a Protest to the Application, which was docketed on August 29, 2013. In our Protest, IREC stated that evaluation of APS's net metering program (NM) should occur in APS's next general rate case. Consistent with that position, we support Staff's recommendation in its Memorandum and Proposed Order that the Commission reject APS's proposals to modify NM, make no changes to NM at this time, and evaluate the valuation of distributed generation (DG) and any changes to NM in APS's next general rate case. In addition, consistent with our Protest, IREC agrees with Staff that the Commission should hold workshops to develop an agreed-upon methodology for the valuation of DG in advance of APS's next rate case. As we stated in our Protest, IREC believes that a standardized methodology is critical to the assessment of the benefits and costs of DG to inform any changes to NM policy.

Although IREC does not believe any interim action is necessary, if the Commission wishes to adopt a temporary solution in the meantime, IREC urges the Commission to choose Staff's recommended Alternative #1—a Lost Fixed Cost Recovery (LFCR) flat charge for all new DG customers—which is revenue-neutral and well supported in Commission precedent. IREC does not believe Staff's Alternative #2—an LFCR DG Premium imposed upon all new DG customers—is an appropriate interim solution because it requires significantly more discussion and analysis; however, stakeholders could further evaluate Alternative #2 during the workshop process. Finally, if the Commission chooses to make any modifications to NM, IREC agrees with APS and Staff that existing NM customers should be grandfathered. IREC strongly supports Staff's suggestion that any grandfathering of existing NM customers should pertain to the premises on which the net-metered system is sited.

I. The Commission Should Reject APS's Proposals to Modify Net Metering, Make No Changes to Net Metering at This Time, and Evaluate Valuation Issues and Potential Modifications to Net Metering in APS's Next General Rate Case

APS's Application offers two solutions to what it perceives as the subsidization of NM customers by other customers not participating in NM—the Net Metering Option or the Bill Credit Option.¹ In support of its proposals, APS relies on a benefit-cost study from SAIC Energy, Environment and Infrastructure, LLC (SAIC), entitled *2013 Updated Solar PV Report* (SAIC Study). As explained in IREC's Protest, as well as the comments and protests of other parties, there is intense disagreement regarding the inputs, assumptions and conclusions in the SAIC Study. In addition, the Solar Energy Industries Association (SEIA) has submitted into this docket a conflicting study from Crossborder Energy, *The Benefits and Costs of Solar Distributed Generation for Arizona Public Service* (Crossborder Study), which comes to vastly different conclusions from the SAIC Study. Specifically, while the SAIC Study estimates the present monetary value provided by distributed solar to be approximately \$0.0356 per kilowatt-hour (kWh), the Crossborder Study estimates that the benefits of distributed solar DG add up to a 20-year levelized value of \$0.215 to \$0.237 per kWh. Staff also points to a recent study by the Rocky Mountain Institute (RMI), which shows the "significant disagreement" in studies nationwide regarding the valuation of the benefits and costs of distributed generation.²

These conflicting studies, and parties' varying positions in their protests and comments, have left this docket in a state of confusion regarding what the benefits and costs of distributed solar are, how to value them, and whether they result in NM customers being subsidized by or

¹ APS Application at 11-13.

² Memorandum at 6; Proposed Order at 8, ¶ 29 (both referring to RMI, *A Review of Solar PV Benefit & Cost Studies* (2013), available at www.rmi.org/elab_empower).

providing value to other APS customers. Staff concisely summarizes the valuation issues in its Memorandum and Proposed Order. Specifically, Staff categorizes the benefits of DG into “Objective Value” and “Subjective Value.”³ Staff defines “Objective Value” as “measurable benefits,” such as avoided fuel costs. IREC further suggests that benefits such as capacity value, avoided line losses and avoided Renewable Energy Standard (RES) compliance costs would fall within the “Objective Value” category as Staff describes it. Staff defines “Subjective Value” as benefits that are not easily measurable and require the assignment of monetary value, such as increased grid security and air quality improvements. Staff concludes that assigning monetary value to these subjective components is a public policy decision.⁴ Staff further concludes that the objective components “can best be determined in the context of a general rate case when all of APS’s costs can be considered.”⁵ IREC agrees with Staff’s conclusion. Furthermore, IREC agrees with Staff that, once all of the benefits and costs of DG have been determined, the allocation of these benefits and costs can best be accomplished in a general rate case. Staff notes that this is also an issue of public policy, commonly and most appropriately discussed in general rate cases.⁶

IREC also agrees with Staff that both of APS’s proposals—the Net Metering Option and the Bill Credit Option—are not revenue-neutral, as we stated in our Protest.⁷ Staff correctly notes that APS has offered no guidance on how excess revenue from either option will be distributed. Staff also raises a number of critical problems with both options, many of which have also been

³ Memorandum at 5-7; Proposed Order at 7-9, ¶¶ 24-33.

⁴ Memorandum at 6; Proposed Order at 8, ¶ 30.

⁵ Memorandum at 6; Proposed Order at 8-9, ¶ 31.

⁶ Memorandum at 7-8, 10; Proposed Order at 8-9, ¶¶ 31-33.

⁷ Memorandum at 7-8; Proposed Order at 9-11, ¶¶ 34-39; IREC Protest at 3-4.

raised by parties in earlier comments and protests.⁸ IREC supports Staff's recommendation that the Commission reject both of these proposals.⁹

Ultimately, Staff recommends that the Commission make no changes to NM at this time and evaluate these issues in APS's next general rate case.¹⁰ IREC strongly supports Staff's recommendation, consistent with our Protest. Staff and other parties, including SEIA and The Alliance for Solar Choice (TASC), have effectively shown that a general rate case is a more appropriate forum in which to discuss such changes to NM.¹¹ Moreover, the conflicting studies and comments regarding the value of distributed solar generation demonstrate the need for developing a more consistent methodology for valuation to inform the Commission's policy decisions. Currently the docket does not provide the Commission with the clear picture of the value of solar generation that it needs to consider the proposed NM modifications. This further supports the Commission's taking no action on NM and postponing discussion of these issues to APS's next rate case.

II. The Commission Should Hold Workshops to Develop a Methodology for the Valuation of Distributed Generation.

IREC appreciates Staff's acknowledgment that "the development of a common set of assumptions and inputs will be fundamental to any future analysis of NM costs and benefits as in

⁸ See, e.g., SEIA Protest and Motion to Dismiss (Aug. 20, 2013) (among other things, stating that APS's proposal is not revenue-neutral and is already appropriately addressed by the LFCR mechanism); TASC Public Comment Letter and Tax Memorandum (docketed Aug. 16, 2013) (illustrating federal tax issues with APS's proposals); TASC Protest (docketed July 29, 2013) (discussing flaws in APS proposal).

⁹ Memorandum at 7-8; Proposed Order at 9-11, ¶¶ 34-39.

¹⁰ Memorandum at 10; Proposed Order at 13-14, ¶¶ 51-54.

¹¹ See Memorandum at 4-10; Proposed Order at 7-14, ¶¶ 24-54; TASC Joinder in SEIA Motion to Dismiss (docketed Aug. 30, 2013); SEIA Protest and Motion to Dismiss; see also IREC Protest at 3-4 (supporting SEIA Protest and Motion to Dismiss).

APS's next rate case."¹² This is in line with the position IREC took in our Protest, where IREC suggested that the Commission and stakeholders develop a common set of assumptions and inputs in an open and collaborative process.¹³ IREC believes such a process could begin during the workshops that Staff suggests and accordingly we support Staff's recommendation.¹⁴ We agree that Commission-led workshops would be an appropriate time to develop a methodology for the valuation of DG. With such a methodology in hand, the Commission would be well equipped to evaluate the benefits and costs of DG in APS's next general rate case, and, if necessary, update NM policy and rates. Moreover the Commission could invite Arizona's other utilities to participate in this workshop process, and then apply the resulting standardized methodology to these utilities and their policies as well, rather than developing individual, utility-specific methodologies. In this way, the Commission could implement a consistent approach in the State to deal fairly with issues common to all utilities and their customers.

IREC would further recommend that these workshops not cover ground that stakeholders have already covered in earlier workshops. Given the six half- to full-day forums and workshops organized by APS in the first half of this year, we believe that the Commission can assume a certain level of understanding with respect to benefit-cost evaluation among interested stakeholders at this point. Therefore, future workshops need not review basic information on these issues. IREC urges the Commission to use any future workshops as an opportunity to develop and refine a methodology, which the Commission can then implement in APS's next general rate case. In addition, the Commission and stakeholders may rely on the work on

¹² Memorandum at 9; Proposed Order at 13, ¶ 48.

¹³ IREC Protest at 7-8.

¹⁴ Memorandum at 10; Proposed Order at 14, ¶ 52.

valuation methodology emerging from the several other states addressing these issues. Staff provides a partial compilation of these efforts in Appendix I of both its Memorandum and Proposed Order; in addition to California, Idaho, Louisiana, Virginia, and Austin, Texas, all of which Staff mention, Minnesota, Nevada, Hawaii, and Vermont are all considering or have recently considered these issues, as well. IREC participated or is participating in several of these efforts. We would welcome the opportunity to share updates from other states and information regarding emerging best practices with respect to valuation.

To further inform discussions of a standardized methodology, IREC incorporates by reference our recently released report, *A Regulator's Guidebook: Calculating the Benefits and Costs of Distributed Solar Generation*.¹⁵ The report offers lessons learned from 16 regional and utility-specific distributed solar generation benefit-cost studies summarized in the recent study by RMI mentioned above. It then proposes a standardized valuation methodology for public utility commissions to consider implementing in future studies. The standardized valuation methodology would be applicable regardless of the structure of the program or rate in which it is used.

III. If the Commission Wishes to Act in the Interim, the Commission Should Choose Staff's Recommended Alternative #1.

As stated above, IREC urges the Commission to adopt Staff's recommendation to approve neither of APS's proposals, and instead make no changes at this time and evaluate these issues in APS's next general rate case. Should the Commission determine that an interim solution is necessary, however, IREC suggests that the Commission choose Staff's

¹⁵ Available at www.irecusa.org/wp-content/uploads/2013/10/IREC_Rabago_Regulators-Guidebook-to-Assessing-Benefits-and-Costs-of-DSG.pdf.

Recommended Alternative #1: an LFCR flat charge for all new DG customers.¹⁶ As Staff indicates, unlike both of APS's proposals, Alternative #1 is revenue-neutral; it simply shifts a portion of transmission and distribution costs to NM customers and away from non-DG customers.

Moreover, the Commission has already considered and approved the LFCR in Decision No. 73183. As Staff notes, the LFCR was explicitly designed to address lost fixed costs, such as those about which APS expressed concern in its Application.¹⁷ Staff further notes that the Commission has approved LFCR mechanisms in other instances.¹⁸ The LFCR is familiar to the Commission and has worked in the past; if necessary, IREC believes it could serve as an adequate interim solution here, as well. IREC emphasizes, however, that Alternative #1 should be considered a "bridge solution," as intended by Staff, until these issues can be addressed comprehensively in a future general rate case.¹⁹ IREC does not believe that such an interim solution is necessary, and, as stated above, our primary recommendation is that the Commission make no changes at this time and evaluate these issues in APS's next general rate case

IV. Alternative #2 Is Not an Appropriate Interim Solution but May Warrant Further Consideration in Workshops.

Staff also offers Recommended Alternative #2, an LFCR DG Premium for all new DG customers, for the Commission's consideration. As Alternative #2, Staff proposes establishing a cap on NM such that any NM credit is no greater than the price that APS would pay to acquire the same amount of solar via power purchase agreement (PPA) for small (1-5 MW) facilities

¹⁶ Memorandum at 11-12; Proposed Order at 14-17, ¶¶ 55-60.

¹⁷ See, e.g., APS Application at 7-10 (discussing how APS believes NM shifts costs).

¹⁸ Memorandum at 12; Proposed Order at 16, ¶ 59 and n.8.

¹⁹ See Memorandum at 10; Proposed Order at 14, ¶ 53.

interconnected at the sub-transmission level.²⁰ Staff states that this would effectively establish a “DG Premium.”

While IREC appreciates Staff’s efforts in crafting this second alternative approach, we do not believe the Commission should implement Alternative #2 without significant further analysis and discussion. Therefore, we do not believe it is an appropriate interim solution in this docket. Specifically, IREC does not agree that the PPA price for 1–5 MW solar facilities is the correct benchmark from which to begin to assess charges to NM customers, whose solar generation is typically much smaller and more distributed. For example, 1–5 MW solar facilities typically require transmission and/or distribution system upgrades whereas NM facilities do not. IREC believes that it would be more appropriate to consider the PPA price for solar facilities smaller than 500 kW, which can be sited on a distribution circuit without upgrades. In the end, Alternative #2 raises the same “Subjective Value” and public policy issues as both of APS’s proposed options; it brings the conversation directly back to the mire in which this docket is currently stuck.

Furthermore, Alternative #2 stands in contrast to Alternative #1, which is based directly on the LFCR, a mechanism that has already been vetted by stakeholders or considered by the Commission. Although the DG Premium under Alternative #2 would be collected through the LFCR, the valuation of the Premium is untethered from the LFCR or any other Commission-approved valuation methodology. While IREC primarily supports taking no action regarding NM at this time, if an interim solution is necessary, Alternative #1 is a substantially better option than Alternative #2.

²⁰ Memorandum at 13-15; Proposed Order at 17-20, ¶ 61-70.

That being said, IREC believes that the concepts that Staff raises in Alternative #2 are worth considering going forward, potentially in future workshops, should the Commission choose to hold them, or in the next general rate case in which the Commission reconsiders NM. For example, it may be that APS's treatment of and pricing for other small solar facilities interconnected at the distribution level is instructive in considering appropriate valuation for even smaller, distributed NM facilities. We would welcome the opportunity to discuss this idea further in workshops, a future general rate case or another forum.

Finally, IREC notes that we have not moved forward with any further benefit-cost modeling with Clean Power Research (CPR), although we remain ready to retain CPR to do such modeling, as indicated during the APS workshops and in our Protest.²¹ Given the filings and progress in this docket to date, it has not been clear whether the Commission would be interested in further benefit-cost analysis or willing to provide the necessary input on modeling assumptions at this time. If the Commission proceeds with the workshops recommended by Staff, objective benefit-cost analysis based on agreed-upon inputs and assumptions could inform the development of a standardized methodology for the valuation of distributed generation, as discussed above. IREC and CPR could assist with such an effort. IREC continues to believe such independent analysis is essential to inform any NM policy changes. Adopting Alternative #2 without further discussion and evaluation would circumvent this critical step. Therefore, as stated above, IREC recommends taking no action at this time.

²¹ IREC Protest at 7-8.

V. If the Commission Chooses to Make Any Modifications to Net Metering, the Commission Should Grandfather Existing Net Metering Customers and Any Grandfathering Should Pertain to the Premises on Which the Net-Metered System Is Sited.

If the Commission moves forward with any NM policy modifications in this docket—one of APS's options, one of Staff's alternatives, or something else—IREC agrees with both APS and Staff that existing NM customers should be grandfathered under the current rules.²² IREC strongly supports Staff's recommendation that any grandfathering of existing NM customers should pertain to the premises on which the net-metered system is sited rather than a particular customer as APS has proposed.²³ Grandfathering NM customers based on the premises effectively protects a customer's investment in the DG system, which she cannot move with her to a new premises. IREC recommends that such grandfathering should apply to NM customers that have signed NM contracts before and no more than two weeks after the Commission's implementation of any changes, whenever that occurs.

If any NM charges or premiums are implemented, IREC also agrees with Staff that any customer that voluntarily selects the ECT-2 rate should be exempt from the charge because the ECT-2 rate addresses the collection of lost, fixed costs through a demand charge.²⁴ IREC believes that it is unlikely that any customers will voluntarily switch to the ECT-2 rate, however, because doing so would make NM uneconomic for most customers.

²² APS Application at 13-14; Memorandum at 8, 15-16; Proposed Order at 20, ¶ 71.

²³ Memorandum at 8, 15-16; Proposed Order at 20, ¶ 71.

²⁴ Memorandum at 7, 12, 15; Proposed Order at 10, 16, 20; ¶¶ 35, 58, 70

VI. Conclusion

As emphasized throughout these Comments, IREC agrees with Staff's primary recommendation that the Commission reject APS's proposals to modify NM, make no changes to NM at this time, and evaluate the valuation of DG and any changes to NM in APS's next general rate case. IREC also supports Staff's proposal for Commission-led workshops to develop a standardized methodology for the valuation of DG in advance of APS's next rate case. If the Commission determines that it should adopt an interim solution, IREC urges the Commission to choose Staff's recommended Alternative #1, an LFCR flat charge for all new DG customers, rather than Staff's Alternative #2, an LFCR DG Premium all new DG customers. Finally, if the Commission chooses to make any modifications to NM, IREC strongly supports Staff's suggestion that any grandfathering of existing NM customers should pertain to the premises on which the net-metered system is sited.

Respectfully submitted this 10th of October, 2013,



Erica Schroeder
KEYES, FOX & WIEDMAN LLP
436 14th Street, Suite 1305
Oakland, CA 94612
Telephone: (510) 314-8206
Email: eschroeder@kfwlaw.com

Giancarlo G. Estrada
ESTRADA-LEGAL, PC
One East Camelback Road, Suite 550
Phoenix, Arizona 85012
Telephone: (602) 635-7414, Fax: (602) 635-7421
Email: gestrada@estradalegalpc.com

Attorneys for: INTERSTATE RENEWABLE
ENERGY COUNCIL, INC.

CERTIFICATE OF SERVICE

I hereby certify I have this day sent via overnight mail an original and thirteen copies of the foregoing on this 9th day of October, 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 by mail on all parties of record in this proceeding.

Dated this 9th day of October, 2013, in Oakland, CA.



Erica Schroeder
KEYES, FOX & WIEDMAN LLP
436 14th Street, Suite 1305
Oakland, CA 94612
Telephone: (510) 314-8206
Email: eschroeder@kfwlaw.com

Attorney for: INTERSTATE RENEWABLE
ENERGY COUNCIL, INC.