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Arizona Corporation Commission

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October 17, 2013

DOCKETED BY

RE: Arizona Public Service Company ("APS") – Application for Approval of Net Metering Cost Shift Solution (Docket No. E-01345A-13-0248)

Dear, Parties to (Docket No. E-01345A-13-0248)

On September 30, 2013, the Commission's Utilities Division Staff ("Staff") docketed a report on APS's Net Metering Cost Shift Solution proposals and offered its own alternative proposals based upon its analysis of the available data.

On pages 4 & 5 of the Staff Report it states, "With increasing levels of DG penetration, the potential of shifting costs from customers with DG [distributed generation] to those customers without such systems becomes apparent. As more customers offset a portion of their monthly bills by using energy produced by their DG systems, they purchase less energy from the utility. Because residential rates are typically designed to recover much of the utility's fixed costs through volumetric rates, DG customers effectively pay less of these fixed costs. The additional fixed costs then must be picked up by non-DG customers either through higher energy rates or through other mechanisms such as APS's Lost Fixed Cost Recovery ("LFCR") mechanism. The magnitude and significance of this cost shift increases as more and more DG customers are added to the utility's system."

The Staff Report, while rejecting the two APS proposals, did offer three alternatives for the Commission to consider. Staff's primary recommendation is "that the Commission take no action on the instant application and defer the matter for consideration during APS's next rate case." Staff noted that "any cost-shift issue created by net metering is fundamentally a matter of rate design. The appropriate time for designing rates that equitably allocate the costs and benefits of net metering is during APS's next general rate case."

If the Commission were to conclude that Net Metering results in a cost shift, the question becomes how and when the Commission should offer a policy solution that addresses it. The fact is that APS will not be filing a rate case until 2015, with new rates going into effect no sooner than July 2016. The length of time involved would increase the problem that would need to be solved at that time.

Staff also offered two alternative proposals stating that "should the Commission wish to apply the concept of rate-making gradualism to this matter, Staff offers the following two alternative recommendations as bridge solutions that begin to address the net metering cost-shift issue until the matter can be more comprehensively resolved in a future general rate case."

Both of Staff's alternatives involve adjustments to the LFCR mechanism. Neither of the alternatives would increase revenues to APS, but they do adjust how much the DG customers vs. the non-DG customers pay through the LFCR.

The first alternative would charge all new DG customers the Flat Charge LFCR (\$2.76/month) rather than calculate the LFCR as a percentage of the customer's total bill. This would add about \$2.00 per month to all new DG customers' bills and be offset by an imperceptible decrease to the LFCR on non-DG customers' bills. While this proposal would begin to address the alleged cost shift, and would be a start in the right direction, it may be little better than waiting until the next rate case.

"Staff's second recommended alternative would establish a cap on the net metering incentive to ensure that it is no greater than the price APS would pay to acquire the same amount of solar via a wholesale PPA [purchased power agreement]. This would ensure that APS's non-DG customers attain the value of solar, at the lowest cost." Staff's formula, assumptions and calculations are presented on pages 13 – 15 of the Staff report. The second alternative would also make an adjustment through the LFCR mechanism, but would go further in adjusting the alleged cost shift. Staff appears to have used conservative values for the Assumed Retail Rate and the Assumed Utility Scale PPA Rate. Staff also added Appendix III to its report which shows a large number of LFCR calculation scenarios using a variety of Assumed Retail Rates and various Assumed Utility Scale PPA Rates.

My question to the parties to the Docket is – 'Of the scenarios shown in Staff's Appendix III, which is the most realistic scenario'? We have Staff's conservative scenario on one end of the scale; I would like to have more information in order to be able to determine the most realistic scenario on the other end of the scale. What is the most realistic Assumed Utility Scale PPA Rate? What is the most realistic Assumed Retail Rate? Please keep in mind that, for the purposes of this exercise, the definition of Utility Scale in the Staff report is 1 to 5 MW size system interconnected at the sub-transmission level.

I am assuming this docket will be addressed at the November Open Meeting; therefore, I am asking that all responses to this letter be docketed no later than November 6, 2013. In your response, please explain, in detail, why you believe the scenario you have chosen is based on the most realistic assumptions.

I look forward to receiving your responses to this letter. I have not yet reached any conclusions about the issues presented by this case, and your responses to my letter will be helpful as I continue to evaluate all the information presented in this case.

Sincerely,



Commissioner Gary Pierce

cc. Chairman Bob Stump  
Commissioner Brenda Burns  
Commissioner Susan Bitter Smith  
Commissioner Bob Burns