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OPEN MEETING AGENDA ITEM

October 31, 2013

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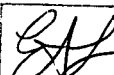
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AZ CORP COMMISSION
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Arizona Corporation Commission
DOCKETED

OCT 31 2013

DOCKETED BY 

a|i|c Arizona Corporation Commission
Commissioners Wing
1200 W. Washington
Phoenix, Arizona 85007

Re: In the Matter of the Application of Arizona Public Service Company for Approval of
Net Metering Cost Shift Solution, Docket No. E-01345-13-0248

Dear Commissioners:

On behalf of the Arizona Investment Council's 6,000 individual members who are debt and/or equity investors in Arizona utility companies, I offer these comments in strong support of APS' proposed changes to its net metering tariff.

The economic reasoning, which compellingly supports changing the current net metering compensation system, is clear. Under the current arrangement, installed rooftop solar systems drive a substantial transfer of fixed grid-related costs onto other customers who either do not want or cannot afford to install rooftop solar on their homes. Each typical rooftop solar system installed in APS' territory shifts \$1,000 of unrecovered fixed costs to the remaining customer base each and every year. With about 19,000 rooftop solar installations to date—and new installations compounding at about 500 per month—the tab for non-solar customers is growing at an exponential clip while this inequity remains unresolved.

Further, it's baffling as to why the companies selling rooftop solar systems under leasing arrangements to homeowners believe they are entitled to regulatory support for their flawed business model, which amounts to a free lunch for grid access. After all, rooftop solar systems need and depend on the grid for meeting supplemental power needs, conveying excess power back to the grid and for receiving back-up power at night and when the sun isn't shining.

Also, compensating rooftop systems for a production excess at the fully loaded retail rate makes absolutely no economic sense. The retail rate includes fixed costs for transmission, distribution and generation infrastructure, which the rooftop solar systems not only don't provide, but, in fact, utilize and depend on themselves. Why should rooftop solar systems be compensated for costs they don't incur in relation to infrastructure they don't provide?

The rooftop solar industry's current business model is predicated on the continuation of principles based, at best, on shaky economics. It needs to change in a way that encourages solar sales, but without the substantial level of financial burden currently shifted onto non-solar households. The weight of net metering cost shifts being pushed onto other customers is unsustainable from any economic, fairness or policy perspective and this bubble must someday burst.

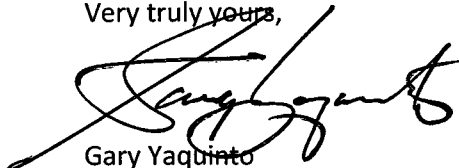
The rooftop solar industry would have the Commission and the public believe that this debate is over customer choice. That argument ignores the reality that these companies are addicted to a business model fueled by subsidies and cost transfers that keep their share prices high by subsidies placed on the backs of APS' non-solar customers.

A recent *Wall Street Journal* opinion piece, "How Government is Making Solar Billionaires,"¹ spotlights the addiction to government subsidies, including net metering, which the rooftop solar industry has come to expect and depend on. It points out that subsidy-dependent solar sales forecasts have bolstered the share price of SolarCity, which saw its share price increase by 500% since last December despite the fact the company has yet to record a profit. There is little, if any, incentive for companies like SolarCity to move to a more sustainable, less subsidy-dependent business model so long as non-solar customers are required to bear the transfer costs under an inequitable net metering system.

Unless this rapidly growing cost shift problem is treated now, it will become much more difficult for the Commission to manage at a later date. The pressure will simply mount and continue to grow from all sides. To paraphrase former Commission Chairman Mike Gleason, it is a "can which simply can't continue to be kicked down the road."

We urge the Commission to authorize APS to implement its proposed changes to the net metering system.

Very truly yours,



Gary Yaquinto
President & CEO

Original and 13 copies filed with Docket Control

¹ Finley, Alicia; *Wall Street Journal*, October 22, 2013.