

OPEN MEETING AGENDA ITEM

**SOUTHWESTERN**

Power Group II, LLC

An Energy Company - Alliance Builder



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AZ CORP COMMISSION  
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November 4, 2013

Chairman Bob Stump  
Hon. Gary Pierce  
Hon. Brenda Burns  
Hon. Susan Bitter-Smith  
Hon. Bob Burns

Arizona Corporation Commission  
**DOCKETED**

NOV 04 2013

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

DOCKETED BY	
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Re: Comments for Consideration on the issue of Net Metering

Dear Chairman Stump and Commissioners,

I write to provide SouthWestern Power Group's comments on Net Metering. We are a long-time participant in Arizona's competitive wholesale market and are not actively involved in the rooftop solar industry. We have been an active participant in all of the APS workshops held earlier this year on net metering, as well as the RUCO workshops.

Unfortunately this issue has generated far more heat than light. We encourage the Commission to concentrate on the facts of the matter and disregard the rhetoric coming from both sides on this issue. We do not believe this matter is about being for or against rooftop solar, consumer choice or the Commission's renewable energy policy. The central issue is about rate design.

We believe the facts are as follows:

1. Under the current APS rate structure, net metering creates a cost shift from ratepayers that have installed rooftop solar to those who do not. This is a simple fact and there is no point in arguing otherwise.

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2. The size of the problem appears to be relatively small today. However the problem is growing in proportion to the amount of rooftop solar that is installed (which is accelerating). Unfortunately, the Commission's successful policy of promoting distributed generation and specifically rooftop solar is causing a growing economic problem for APS, its customers and the Company's shareholders.
3. The fundamental economic problem is that APS recovers its fixed costs generally through variable consumption of energy by its residential retail customers. In other words, APS' fixed cost recovery depends on the amount of electrical demand (capacity) and energy use of all of its customers. This mismatch in the allocation of fixed costs to variable consumption is the root of the problem.
4. The public fight between APS and the rooftop solar industry is a reflection of the business loss and gain that is at stake. APS is not fully recovering its costs (because of faulty rate design) and wonders who is going to make up the foregone revenue. The rooftop solar industry is concerned that without net metering, it cannot offer an economically-attractive product to its customers.
5. The true "fight" that should be occurring, but is not, is between classes of ratepayers, i.e., those that have rooftop solar (or want to have it) and those that do not. Today, 97% of APS' customers do not have rooftop solar. This silent 97% are not aware that their future rates are likely to increase because of the current net metering policy.
6. The rooftop solar industry believes that the longer term benefits of rooftop solar will outweigh the short-term cost recovery problems that APS is rightly concerned about. They point to studies that show this having a positive benefit/cost ratio. We are skeptical of these studies because of their lack of hard data and experience. Our view is that rooftop solar does provide some benefit (as distributed generation) to APS and all of its customers. However this benefit may not be worth the retail price of electricity that is paid under net metering. We believe rooftop solar is worth the wholesale cost of solar PV plus some margin to account for avoided distribution system costs.
7. Whatever the Commission decides to do, we believe that existing rooftop solar customers should not be affected and should effectively be grandfathered under the existing rules.

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8. Finally, we believe the Commission needs to take action now and should not wait until the next general rate case to address this problem. We appreciate that it is procedurally difficult to fix a rate design issue outside of a rate case. Nonetheless, this problem is not small, is growing quickly and requires your attention today.

We believe that APS, its customers and the Commission are best served by a rate design that accurately allocates fixed costs to fixed-charge recovery mechanisms and variable costs to variable-charge recovery mechanisms. 3% of APS' customers wanted rooftop solar and there are likely to be more such customers in the future. The problem of rate design needs to be dealt with now.

We appreciate the opportunity to provide comment on the matter.

Sincerely,



David Getts

General Manager