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BEFORE THE ARIZONA CORPORATION COMMISSION

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3 **BOB STUMP, CHAIRMAN**
4 **GARY PIERCE COMMISSIONER**
5 **BRENDA BURNS, COMMISSIONER**
6 **ROBERT L. BURNS, COMMISSIONER**
7 **SUSAN BITTER SMITH, COMMISSIONER**

Arizona Corporation Commission
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AZ CORP COMMISSION
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8 **IN THE MATTER OF THE APPLICATION**
9 **OF ARIZONA PUBLIC SERVICE**
10 **COMPANY FOR APPROVAL OF NET**
11 **METERING COST SHIFT SOLUTION**

E-01345A-13-0248

**COMMENTS OF THE ARIZONA
COMPETITIVE POWER ALLIANCE**

12 The Commission has reached an inflection point in the provision of retail electric service.

13 The costs of various forms of distributed generation—in this case, rooftop solar—are currently
14 cheaper than—or in close proximity to—the retail rates that APS is allowed to charge for the
15 power that those distributed forms of generation offset. This new phenomenon would not be
16 problematic except that those retail rates contain substantial fixed costs that are not eliminated by
17 the production that occurs from the distributed generation. This rate design issue causes two
18 problems: First, as customers who adopt distributed generation use less energy, they no longer
19 pay the share of fixed costs that are associated with the infrastructure that they continue to use.
20 This causes a shift of costs that are initially borne by the utility and then are eventually borne by
21 other rate payers.

22 Second—and of more concern to Alliance members—customers who receive price signals based
23 on retail rates adopt technology that produces power at a cost that is higher than the wholesale
24 cost of power. This increase in distributed generation serves to crowd out less expensive
25 generation capacity—including utility scale renewable capacity—and at the same time increases
26 the total cost of generation to the entire system.

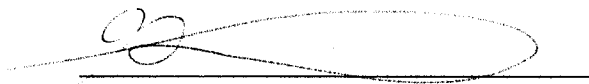
While the issue has first become manifest in the contest of rooftop solar systems and net
metering, the fundamental issue is rate design and the current faulty price signals will result in
customers switching to a broader form of retail electric alternatives such as natural gas appliances
or alternative forms of generation that appear to be just over the horizon.

The long term solution will be for the ACC to establish retail electric rates that reflect the true
portion of fixed and variable costs associated with serving each customer. Unfortunately, this
type of rate design change can only be accomplished in the context of a full rate case.
Additionally, this type of change would provide a dramatic shift in the way that customers pay for
retail electric usage and, in order to avoid customer shock, would have to be phased in over a long
time period, probably involving multiple rate cases.

1 Staff and RUCO have suggested interim steps that can help correct the faulty price signals
2 without having to wait until APS's 2015 rate case. The ACC should do what it can within its
3 constitutional constraints to correct this price distortion and then continue to correct the problem
4 in the next APS rate case.

5 RESPECTFULLY SUBMITTED this 4th day of November, 2013
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13 ORIGINAL and 13 copies of the
14 foregoing hand-delivered for filing
this 4th day of November, 2013

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