

ORIGINAL

OPEN MEETING AGENDA ITEM



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

11 BOB STUMP, Chairman
 11 GARY PIERCE
 12 BRENDA BURNS
 12 ROBERT L. BURNS
 13 SUSAN BITTER SMITH

14 IN THE MATTER OF THE APPLICATION 15 OF ARIZONA PUBLIC SERVICE 15 COMPANY FOR APPROVAL OF NET 16 METERING COST SHIFT SOLUTION	DOCKET NO. E-01345A-13-0248 COMMENTS TO STAFF'S REPORT AND RECOMMENDED ORDER
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17 Staff's report confirms the core premise underlying APS's Application: the cost
 18 shift associated with Net Metering is real and will increase rates for customers without
 19 rooftop solar systems.¹ Staff's assessment concludes what has been to date an
 20 unproductive discussion regarding whether the Net Metering subsidy shifts costs to non-
 21 solar customers. Now, the Commission can focus on how to best address the cost shift
 22 and make rooftop solar fair for all customers.

23 To make rooftop solar fair, the Commission should meaningfully address the cost
 24 shift immediately, rather than waiting for another Commission to solve this issue.
 25 Deciding to delay would unnecessarily raise rates on residential customers, including a
 26 group of customers that can least afford it, all simply to preserve hidden subsidies. With
 27 Staff's acknowledgement that the cost shift is occurring and increases rates, the most

28 ¹ See Staff Report, pp. 4-5.

1 responsible course of action is to align how much solar customers contribute to the grid
2 with how much they use the grid. APS's proposals would accomplish this alignment.

3 What APS's proposals would **not** do is increase APS's revenue beyond what the
4 Commission has already approved as needed to pay for the grid's fixed costs.
5 Nonetheless, APS supports Staff's concept of returning to customers any incremental
6 revenue received from new solar customers until APS's next rate case. Just like Staff's
7 Report ends inaccurate claims that cost shifting does not occur with Net Metering,
8 APS's agreement with Staff on returning any incremental revenues should make it clear
9 that fixing Net Metering has never been about revenue to APS.

10 Instead, APS's proposals have consistently focused on fairness and creating a
11 framework to make solar—both distributed and utility scale—sustainable for the long
12 term. The cost shift associated with Net Metering is real and unfair. It must be addressed
13 promptly and in a meaningful manner. APS's proposed solutions would do so. And
14 using up-front incentives, as APS proposed, would permit gradual, transparent
15 adjustments to the subsidies that make rooftop solar viable. APS urges the Commission
16 to chart a path to a sustainable, fair solar policy by:

- 17 • Adopting APS's Net Metering Option or a modified version of Staff's Alternative
18 #2 as described below;
- 19 • Ordering additional up-front incentives as a transparent and flexible means to
20 encourage residential rooftop solar;
- 21 • Grandfathering existing rooftop systems, not just existing solar customers; and
- 22 • Returning to customers all incremental revenue received from new solar
23 customers through the Lost Fixed Cost Recovery (LFCR) mechanism as part of
24 this interim solution.

25 APS submits these Comments to Staff's Report now and will separately submit
26 proposed Amendments to Staff's Recommended Order before the Commission holds
27 Open Meeting to consider this matter.

1
2 **I. STAFF'S RECOGNITION THAT THE COST SHIFT IS REAL**
3 **CONFIRMS THAT ACTION MUST BE TAKEN NOW.**

4 Staff's Report puts to rest any debate about whether the cost shift is occurring.
5 Staff agrees with the fundamental premise behind APS's Application—that customers
6 with rooftop solar avoid paying for the grid's fixed costs and that customers without
7 rooftop solar will pay for those fixed costs through higher rates. This conclusion has two
8 critical implications that should guide the remainder of this proceeding.

9 First, the consequences of the Net Metering subsidy will only deepen if the cost
10 shift is not addressed. As more customers install rooftop solar under current Net
11 Metering rules, more costs will get shifted to customers without solar. When APS filed
12 its Application, the total shifted costs were \$18 million. Today, that amount has grown
13 to over \$19 million. And as these shifted costs grow, they increase future rates for all
14 non-solar residential customers, including those customers that can least afford it.

15 Second, the knowledge that rates will increase means that the most responsible
16 action is to meaningfully address the cost shift now. After this proceeding, every
17 additional dollar shifted to non-solar customer rates could have been avoided. The
18 growing cost shift can and should be addressed now. APS urges the Commission to
19 reject calls to wait until APS's next rate case and instead meaningfully address the cost
20 shift now before the potential rapid growth of Net Metering makes the cost shift
21 unmanageable.

22 **II. APS'S PROPOSALS ARE THE BEST WAY TO MEANINGFULLY**
23 **ADDRESS THE COST SHIFT.**

24 Staff states that its alternative recommendations are only "bridge solutions that
25 begin to address the [Net Metering] cost-shift" until the Commission can more
26 completely address the cost shift in APS's next rate case.² The two Alternatives develop
27 a rate to be paid by new solar customers based on different methodologies. Staff

28 ² Staff Report, p. 10.

1 Alternative #1's methodology results in a low charge that would only reinforce the
2 status quo and perpetuate the growing inequity caused by the Net Metering cost shift. By
3 contrast, Staff Alternative #2 would appropriately align fixed cost contributions with
4 grid cost if accurate inputs are used.
5

6 **A. Alternative #1 Does Not Address, and Would Only Deepen, the Unfair
7 Cost Shift Recognized by Staff.**

8 Alternative #1 would impose an average \$2.76 per month charge on new solar
9 customers, for an annual charge of \$33.12. This amount falls far short of the
10 approximate \$1,000 shifted by each solar installation each year. And Alternative #1
11 would only continue the cost shift at the time of its most rapid growth. The cost shift is
12 occurring so rapidly that by the time APS's next rate case is decided, the total amount
13 shifted could be \$40 million, \$50 million or even more. Based on recent data, *APS*
14 *estimates that a cost shift of \$50 million could result in a 4% increase to residential*
15 *rates in APS's next rate case.* This potential rate increase would be in addition to any
16 rate increase that may result from traditional cost of service calculations. If left
17 unchecked, Net Metering will either result in a sharp rate increase on non-solar
18 residential customers, or even the cancellation of Net Metering for the many thousands
19 of customers that install solar between this proceeding and the rate case. Both outcomes
20 are avoidable if the cost shift is addressed now in a meaningful fashion, rather than the
21 adoption of Staff Alternative #1. Accordingly, APS opposes Staff Alternative #1.

22 **B. Staff Alternative #2 Would Result in an Appropriate Charge for Use of
23 the Grid if Accurate PPA and Retail Rate Numbers are Used.**

24 Staff's Alternative #2 is predicated on APS's position that the benefits of solar
25 should be acquired at the lowest possible cost. APS and Staff agree that this means using
26 the price to buy solar power from a utility-scale (or central station) solar facility as a
27 ceiling for the amount paid to rooftop solar customers. APS can buy solar power from
28 these larger facilities using a purchased power agreement (PPA) at a lower cost than

1 APS currently pays for rooftop solar through Net Metering. Indeed, the City of
2 Riverside, California recently signed a solar PPA for \$0.07/kWh.³ APS believes that this
3 \$0.07/kWh price is a reasonable proxy for Arizona solar prices.⁴ Because central station
4 solar offers the same societal, environmental and fuel diversity benefits as rooftop solar,⁵
5 a current solar PPA price should set a ceiling for how much APS pays for rooftop solar
6 energy in Arizona.⁶

7 The fact is, however, that APS effectively pays approximately \$0.135/kWh for
8 solar power from distributed solar customers. This is the retail rate that the typical
9 distributed solar customer avoids by installing rooftop solar.⁷ Staff's Alternative #2
10 recognizes that APS could purchase solar energy for far less than it currently does from
11 rooftop solar installations (\$0.135/kWh instead of \$0.07/kWh), and sets forth a
12 framework that involves DG customers returning this overpayment in the form of a DG
13 Premium. Alternative #2's framework produces different DG Premiums depending on
14 the inputs used. Staff develops an example DG Premium focusing on two inputs—a
15 hypothetical \$0.10/kWh PPA rate and a \$0.125/kWh avoided retail rate.

16 Those inputs, however, do not reflect current data. Instead of \$0.10/kWh, recent
17 PPAs like the one signed by the City of Riverside indicate that the PPA price should be
18 set closer to \$0.07/kWh. And instead of a \$0.125/kWh avoided retail rate, the typical
19 solar customer actually avoids an approximate \$0.135/kWh retail rate.⁸ Using these
20

21 ³ See Riverside Public Utilities Board memorandum, dated September 6, 2013, attached to APS's Notice
22 of Filing Data Requests and Responses, dated September 23, 2013.

23 ⁴ Other publicly available information supports a PPA price of \$0.07/kWh. For instance, the City of Palo
24 Alto, California recently considered three PPA bids, two of which were priced under \$0.069/kWh and
25 one of which was priced just over \$0.071/kWh. See City of Palo Alto City Council Staff Report,
available at <https://www.cityofpaloalto.org/civicax/filebank/documents/34789>. It appears that the City of
Palo Alto approved one of the PPAs priced at \$0.069/kWh. See City of Palo Alto Resolution No. 9344,
available at <https://www.cityofpaloalto.org/civicax/filebank/documents/35120>.

26 ⁵ See APS Response to Staff Data Request 1.34.

27 ⁶ APS notes that because central station solar captures 100% of the benefits of solar, all discussions
regarding generation capacity benefits or the "value of solar" are moot. The only question remaining is
28 how to ensure that APS customers pay the lowest possible price to obtain the benefits of solar.

⁷ This avoided retail rate is before sales tax.

⁸ See APS's Responses to Staff Data Requests 1.21 and 1.49.

accurate numbers with Alternative #2's framework results in a DG Premium of \$56.89 as shown in the following table recreated from Appendix III of Staff's Report:

Assumed Annual Rate of Production Retail Rate		1641 kWh/kW \$0.135	
A.	Customer DG System Size	6.4	kW
B.	Assumed Annual Rate of Production	1,641	kWh/kW
C.	Calculated Annual Production	10,502	kWh (A*B)
D.	Assumed Customer Retail Rate	\$0.135	/kWh
E.	Annual Retail Cost of Production	\$1,417.82	(C*D)
F.	Assumed Utility Scale PPA Rate	\$0.07	/kWh
G.	Annual PPA Cost of Production	\$735.17	(C*F)
H.	Annual DG Premium	\$682.66	(E-G)
I.	Monthly LFCR DG Premium	\$56.89	(H/12)
J.	Monthly LFCR DG Premium Per kW	\$8.89	(I/A)

A DG Premium of \$56.89 would roughly align fixed cost contributions with grid use. In other words, Alternative #2 creates a solution that would meaningfully address the cost shift if accurate inputs are used.

C. The Commission Should Select One of APS's Proposals, Notwithstanding the Two Concerns Raised by Staff.

In addition to offering a meaningful solution, Alternative #2 with accurate inputs indirectly confirms that APS's proposals reach the right result. A monthly payment of \$56.89 is roughly equal to the amount that new solar customers would pay under APS's Proposals.⁹ In addition, APS's proposals use existing rates and can be implemented without creating a new charge. In fact, it appears that Staff sees independent value in APS's proposals. Staff states that "the equitable distribution of DG costs and benefits ideally requires all [Net Metering] customers to have some form of demand-based charges."¹⁰ APS's Net Metering Option is exactly that—APS's demand-based ECT-2 rate that keeps Net Metering intact.

⁹ APS's Net Metering Option would result in a typical new solar customer incrementally contributing approximately \$55/month to the grid's fixed costs. APS's Bill Credit Option would result a typical new solar customer incrementally contributing approximately \$81/month to the grid's fixed costs.

¹⁰ Staff Report, p. 6.

1 Notwithstanding Staff's positive statements regarding ECT-2, Staff raises a
2 concern that APS's Net Metering Option would force customers onto a specific rate
3 schedule.¹¹ It is not clear, however, how customers would be forced to do anything.
4 Customers would only transition to rate schedule ECT-2 after deciding to install solar in
5 the first place. Moreover, Staff recognizes that when a customer installs solar, they shift
6 costs onto non-solar customers, a circumstance over which non-solar customers can
7 exercise no choice. APS believes that any consideration of rate choice for solar
8 customers should be considered in tandem with the choices non-solar customers have
9 regarding rate increases caused by the cost shift. Finally, Staff notes that equitably
10 balancing the costs and benefits of solar ideally requires a demand-based charge.¹² It is
11 precisely this ideal that prompted APS to propose ECT-2 as one of its two options.
12

13 Staff also expresses concern that APS's Bill Credit Option would implicate
14 customers' ability to supply their own power. But under the Bill Credit Option,
15 customers still place their rooftop solar on their side of the meter and still supply their
16 own power. The Bill Credit Option solely changes how customers are credited for their
17 solar production so that their monthly bill accurately reflects the extent to which they
18 use and rely on the electrical grid. The Bill Credit Option is essentially an accounting
19 mechanism; it does not change the physical reality of customers receiving power from a
20 solar facility they install on their rooftop.

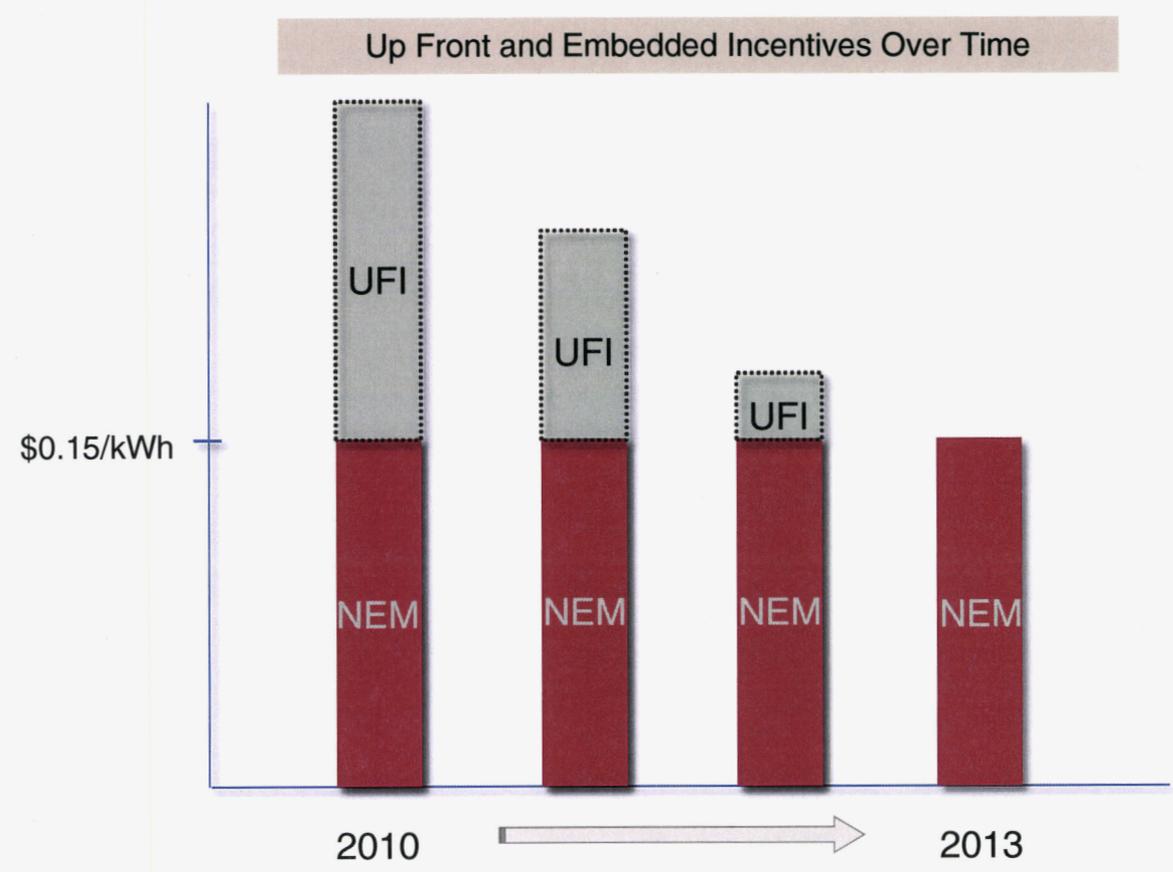
21 **III. UP-FRONT INCENTIVES ARE A TRANSPARENT AND FISCALLY**
22 **RESPONSIBLE MEANS TO ENCOURAGE ROOFTOP SOLAR.**

23 Up-front incentives paid to residential customers installing solar have steadily
24 declined since their inception. In 2008, APS offered an up-front incentive of \$3.00/watt.
25 The up-front incentive began 2013 at \$0.10/watt, and has now gone to zero. Although
26 some have celebrated the disappearance of up-front incentives as proof that rooftop solar

27 ¹¹ Staff Report, p. 7.

28 ¹² Staff Report, p. 6.

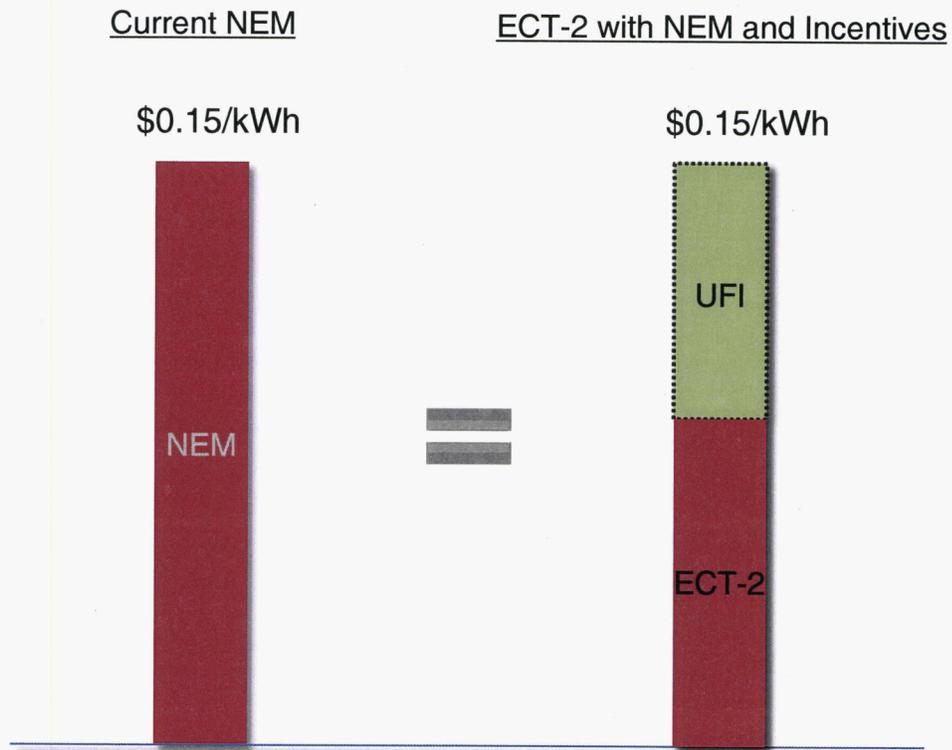
1 can now stand on its own without incentives, this is flatly wrong. Rooftop solar
2 customers still receive incentives through Net Metering in the form of an avoided retail
3 rate. The following chart demonstrates how Net Metering has become increasingly
4 relevant to rooftop solar transactions as up-front incentives have declined:
5



20 The embedded incentive in Net Metering and up-front incentives are essentially the
21 same thing—a financial benefit provided to customers who install rooftop solar. The
22 primary difference is how the payments are made. Up-front incentives involve a single
23 cash payment when the customer installs solar, whereas Net Metering involves reduced
24 monthly electricity payments.

25 It is because of this difference that the Commission should address the cost shift
26 by (i) removing the hidden incentive embedded in Net Metering; and (ii) reinstating up-
27 front incentives as the means by which policy goals, such as compliance with the REST,
28

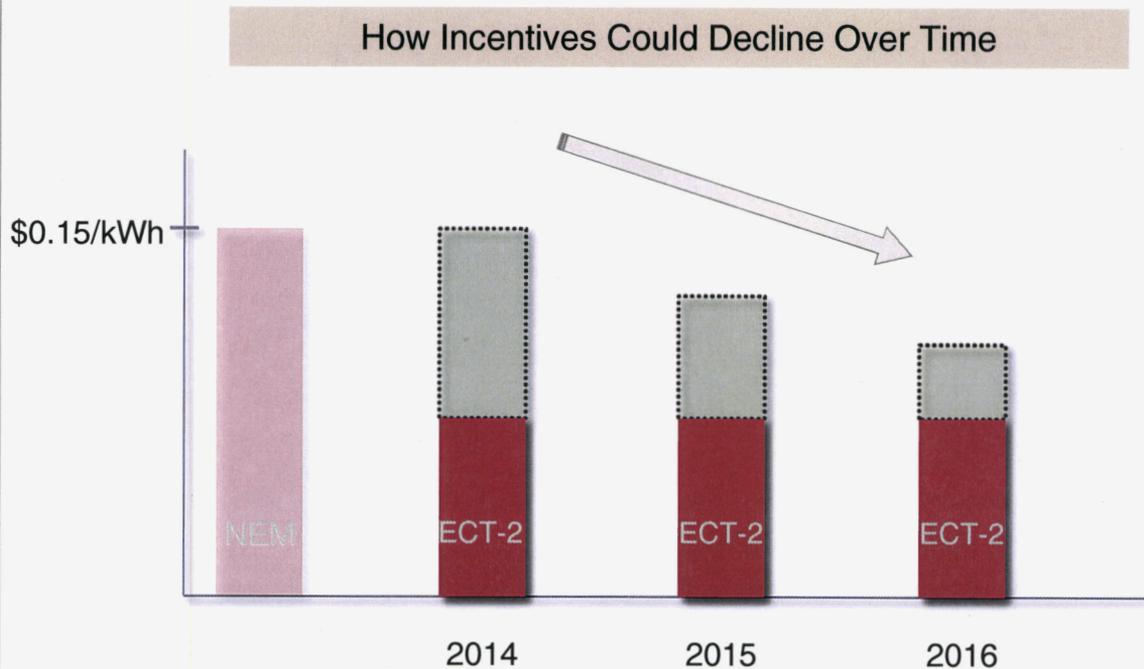
1 are achieved. If the Commission selected APS's Net Metering option, it could use up-
2 front incentives to flexibly incentivize rooftop solar, even up to the amount solar
3 customers receive today through the current Net Metering incentive, as shown in the
4 following chart:
5



Up-front incentives give the Commission a transparent view into the amount paid to incentivize solar. With that knowledge, the Commission can finely tune payments to encourage innovation and reduce costs to customers.

By contrast, Net Metering does not encourage innovation or reduce costs to customers. Net Metering is a rigid incentive that does not and cannot react to market conditions. As an inflexible incentive, Net Metering functions like a feed-in tariff. Both feed-in tariffs and Net Metering lock in certain levels of payment. But when market conditions change, the amount paid does not. If the Commission were to accept Staff's

1 recommendation and do nothing until APS's next rate case, the incentive paid to rooftop
2 solar customers would remain locked at approximately \$0.135/kWh until then:



15 The flexibility offered by up-front incentives affords the Commission greater
16 control over the amount customers pay to fund solar incentives in relation to the amount
17 installed. If, for instance, the cost to install solar drops, the Commission could reduce the
18 up-front incentive *without reducing the financial proposition for customers installing*
19 *solar*. In this circumstance, customers as a whole would pay less over time and the
20 Commission would be pushing solar installers to continue cost reductions. With Net
21 Metering, however, the price cannot be reduced so easily. Relying on Net Metering,
22 instead of up-front incentives, to encourage rooftop solar will still result in solar being
23 installed, but customers would pay more and an opportunity to encourage innovation
24 and cost reductions would be lost. APS urges the Commission to use up-front incentives,
25 rather than the current hidden incentive in Net Metering, to encourage rooftop solar.

1
2 **IV. APS PROPOSES UP-FRONT INCENTIVES FUNDED BY MONEY**
3 **ALREADY CREDITED TO APS's REST PROGRAM.**

4 APS has already collected \$35 million through the REST surcharge that is
5 currently unallocated. APS proposes that the Commission use at least some of this
6 money to fund up-front incentives that would replace the embedded Net Metering
7 incentive. Up-front incentives would enable the Commission to encourage new rooftop
8 solar installations, while adjusting the amount paid by all other customers as needed.
9 This flexibility and transparency is something lacking under the feed-in tariff-like
10 structure of the current Net Metering incentive.

11 **A. Through Up-Front Incentives, Customers Under ECT-2 Could Receive**
12 **the Same Financial Proposition Provided Now by Net Metering.**

13 The Commission could preserve the current Net Metering incentive by adopting
14 APS's Net Metering Option and layering the financial benefit of up-front incentives on
15 top of the retail rate avoided through ECT-2. The typical solar customer on ECT-2
16 avoids an average of 7.9 cents per kWh, less than the (after-tax) 14.9 cents per kWh that
17 the typical solar customer avoids while on other rates.¹³ This means that to equal the
18 current embedded Net Metering incentive, an up-front incentive would need to match a
19 7 cent per kWh financial benefit:

20 (14.9 cents/kWh existing residential rate offset) - (7.9 cents/kWh ECT-2 rate offset)

21 =

22 (7 cents/kWh equivalent needed from UFI)

23
24 Based on APS's analysis, each \$1/watt up-front incentive translates into approximately a
25 4 to 5 cent per kWh financial benefit over twenty years. Assuming that a \$1/watt up-
26 front incentive equates to the mid-point of 4.5 cents per kWh, **an up-front incentive of**

27
28 ¹³ See APS's responses to Staff's Data Requests 1.29 and 1.41.

1 **\$1.50/watt would be needed to match the 7 cents per kWh** referenced above. In other
2 words, the Commission could meaningfully address the cost shift through the use of
3 ECT-2, but still ensure that new solar customers receive the existing rate offset seen
4 today, by ordering an up-front incentive of \$1.50/watt.

5 Shifting the embedded Net Metering incentive to an up-front incentive would
6 provide two key advantages over the existing structure. First, the demand-based ECT-2
7 rate schedule gives customers greater control over managing their energy costs and
8 allows for a substantive reduction in the costs that are shifting to non-solar customers.
9 Second, a step-down mechanism can be applied to the \$/watt up-front incentive,
10 allowing the incentive level to adjust as the Commission deems appropriate. This has
11 proven to be an effective means of lowering the overall cost of solar subsidies on all
12 customers over the last several years.

13 **B. Using Up-Front Incentives Permits the Commission to Adjust Incentives**
14 **as Needed to Achieve Compliance and Other Policy Goals.**

15 Using a \$1.50/watt up-front incentive and APS's ECT-2 rate would result in the
16 same financial impact provided by the embedded Net Metering incentive. As a result of
17 the current Net Metering incentive, APS residential customers are installing a significant
18 amount of capacity every year. If an up-front incentive were set at \$1.50/watt, APS has
19 every reason to believe that the rate of installations would continue and, in fact, increase
20 as costs continued to decline.

21 This rate of installations, however, exceeds what APS needs for compliance with
22 the Renewable Energy Standard and Tariff. APS's projections indicate that to achieve
23 compliance with the DE portion of the REST in 2025, APS needs approximately 26 MW
24 of new residential DE capacity each year between 2014 and 2025.

25 Given that APS only needs 26 MW for compliance, but the current financial
26 proposition offered by the embedded Net Metering incentive results in customers
27 installing 45 MW, the Commission may find it prudent to moderate the financial
28

1 incentives offered to potential customers. This is precisely the flexibility afforded by up-
 2 front incentives, but unavailable due to the feed-in tariff-like structure of Net Metering.
 3 Up-front incentives permit adjustments to the financial incentives offered to potential
 4 solar customers to reflect cost declines or Commission policy decisions, whereas the
 5 incentive provided by Net Metering does not. If the Commission ordered APS to replace
 6 Net Metering with up-front incentives, APS could meet compliance with the distributed
 7 energy requirements in the REST, but at less cost to customers.

8 **C. Funding Already Exists for a Substantial 2014 Up-Front Incentive.**

9 APS believes there is a unique opportunity in 2014 to fund the up-front incentives
 10 necessary to compliment the implementation of the ECT-2 rate offset, while still
 11 minimally impacting customer bills. As described in APS's 2014 RES Implementation
 12 Plan filing, APS collected \$28 million dollars through the RES surcharge, but remains
 13 unallocated. In its Recommended Opinion and Order, Staff proposes using \$14 million
 14 of this total to reduce the 2014 RES budget. This proposal would leave the remaining
 15 \$14 million to fund up-front incentives in 2014. Additionally, timing of the in-service
 16 date for the Solana Generating Station has resulted in an additional \$7 million in
 17 collected, but unallocated funds available to fund up-front incentives in 2014. This
 18 brings the total amount of collected, but unallocated, funds to approximately \$35
 19 million.

20 **D. The Commission Has Various Options Related to Up-Front**
 21 **Incentives.**

22 In light of the various incentive levels, resulting retail rate offsets and required
 23 budgets, the following table summarizes some up-front incentive options:

24

Effective Residential Rate Offset	Starting Incentive Level	Approximate 2014 Budget	Expected Capacity
\$0.135/kWh	\$1.50/watt	\$38 million	26 MW
	\$1.50/watt	\$21 million	14 MW
\$0.125/kWh	\$1.30/watt	\$32 million	26 MW
	\$1.30/watt	\$21 million	17 MW

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From whatever starting point is chosen, APS proposes that the Commission order a step down methodology that ensures funding will be available through the year, similar to APS's residential or commercial incentive programs. The methodology should also use a step down or similar mechanism that causes incentive levels to decline based on market activity, ensuring that APS achieves compliance at the lowest incentive level (and thus lowest cost to customers) possible.

V. APS WILL RETURN TO CUSTOMERS ALL INCREMENTAL REVENUE AS PART OF AN INTERIM SOLUTION.

Contrary to various allegations in this proceeding, APS's proposals were focused on cost shifting and sustainability rather than about near term revenue loss to APS. In fact, neither proposal would generate revenue beyond what the Commission has already deemed necessary to maintain the electric grid. Instead of revenue, APS's proposals were driven by the need to address the inequitable rate increases to non-solar residential customers caused by the cost shift. To prove this, APS agrees that as part of any solution adopted in this matter, APS will return to customers all incremental revenue received from new solar customers resulting from the new solar rate adopted until new rates go into effect at the end of APS's next rate case.

APS supports Staff's proposal to return the revenue by crediting APS's LFCR. Calculating the precise amount of the incremental revenue, however, is challenging because the revenue will be different for each new solar customer. New solar customers migrate from different rates and use different amounts of electricity every month. In light of this complexity, APS proposes to credit the LFCR with a flat amount calculated to reflect the average grid contribution paid by all new solar customers. For each new solar customer, APS would credit the LFCR by \$55/month under the Net Metering Option and \$81/month under the Bill Credit Option until APS's next rate case. These amounts are based on the testimony of APS witness Charles Miessner and are intended

1 to reflect the entire additional grid contribution that new solar customers would pay
2 under each option, respectively.

3
4 **VI. OTHER ASPECTS OF STAFF'S REPORT MERIT SERIOUS**
5 **CONSIDERATION.**

6 Beyond the issue of how new solar customers should contribute to the grid's
7 fixed costs, Staff's Report contains a few other proposals that APS either supports
8 outright, or supports with proposed modifications intended to further Staff's stated
9 objective.

10 **A. APS Supports Staff's Grandfathering Proposal.**

11 Staff recommends that any customer who currently has a DG system installed on
12 their home, or submits an application and a signed contract with a solar developer to
13 APS by October 31, 2013, should be grandfathered under the current Net Metering rules.
14 Staff also proposes that the grandfathering be tied to the DG system and not the
15 customer. Based on feedback from customers, APS agrees with and supports Staff's
16 grandfathering proposal.

17 **B. APS Supports Staff's Consumer Protection Advisory, but Proposes**
18 **Modified Language to Better Achieve Staff's Objectives.**

19 Staff recommends a consumer protection advisory designed to caution new solar
20 customers regarding the nature of utility rates. It is well known that utility rates and rate
21 design evolve to reflect any number of changed circumstances. Staff's consumer
22 advisory would remind prospective solar customers of this reality before they enter into
23 20 year contracts for rooftop solar. APS supports Staff's advisory as a prudent,
24 responsible and consumer friendly action to assist customers in making well-informed
25 decisions about whether to install solar.

26 Staff attaches two alternative advisories and proposes that customers sign the
27 advisory during the interconnection process. APS appreciates Staff's proposals and
28 agrees that customers would benefit from a stronger notice than that contained in APS's

1 current interconnection agreement. Staff's draft advisories, however, may not make
2 clear that the financial underpinning of Net Metering may change in a way that would
3 make their rooftop solar system uneconomic. To address this concern, APS proposes
4 modifying Staff's advisories in the form that is forthcoming with APS's to-be-filed
5 amendments. APS believes that the attached advisory would further Staff's goal of
6 protecting consumers by only making it more likely that customers are able to make
7 informed decisions.
8

9 **C. Staff's Proposed Workshop Should Be Expanded to Ensure That the**
10 **Workshop Covers all Relevant Topics.**

11 In its Report, Staff acknowledges that the "value" provided by solar is subjective,
12 and that it is also distinct from the objective costs caused by solar. Although one could
13 compensate solar customers based upon the "value of solar," doing so necessarily
14 requires a policy decision that non-solar customers should pay higher rates to promote
15 societal values. To permit further discussion regarding such policy decisions, Staff
16 proposes a workshop to explore the subjective value of solar. APS welcomes dialogue
17 regarding subjective values, but not if that dialogue is an excuse to permit unfettered
18 growth of the cost shift. Dialogue concerning subjective values can only commence after
19 the shift of objective costs to non-solar customers has been meaningfully addressed.

20 In addition, APS believes that other policy issues are so intertwined with the
21 advent of customer-sited technology that they must be included as part of any dialogue
22 regarding the "value of solar." If Staff's proposed workshop is to be relevant and
23 successful, it must include a robust discussion regarding the role and value of the
24 electric grid as it relates to rooftop solar, other forms of distributed generation and
25 customer-sited technology generally. By adding the value of the grid to the workshop's
26 core agenda, the Commission will make it more likely that the workshop results in a
27 meaningful and worthwhile discussion.
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VII. CONCLUSION

The California Public Utilities Commission (CPUC) staff recently concluded that rooftop solar will shift *\$1.1 billion* to non-solar California customers by 2020.¹⁴ The CPUC and Arizona Corporation Commission Staff now join a growing chorus of public utility commissions that recognize the cost-shifting impact of the Net Metering subsidy.¹⁵ The issue now confronting California policymakers is the same issue in this proceeding: with confirmation of a rapidly growing cost shift that will increase rates on non-solar customers, what should be done about it?

APS believes that its proposals provide a clear answer. APS has proposed two solutions, based on existing rates, that Staff's own analysis confirms will appropriately match the amount solar customers contribute to the grid with the degree to which they use it. APS advocates grandfathering existing solar customers and has also proposed using up-front incentives, as needed, as a transparent way for the Commission to manage the impact on the solar industry and slowly reduce subsidies in a manner that will build a sustainable future for solar. APS also agrees to return all incremental revenue it receives from new solar customers as a result of this proceeding through its next rate case. APS's proposals represent a balanced and fair compromise that will:

- mitigate future rate increases;
- grandfather existing solar customers;
- involve APS returning all incremental revenue; and
- create a sustainable, non-subsidized path for the future of solar.

¹⁴ The CPUC draft study was docketed in this proceeding on September 30, 2013. The study's conclusions relevant to this proceeding are final; the study is only a draft for the purpose of limited comments from intervenors.

¹⁵ See, e.g., *In re Idaho Power Co*, Docket No. IPC-E-12-27, Order No. 32846, p. 11 (Idaho P.U.C., July, 3, 2013) ("We agree with the Company that net metering customers do escape a portion of the fixed costs and shift the cost burden to other customers in their class.").

1 Similar to APS's proposals, Staff's Alternative #2 would meaningfully address the cost
2 shift if accurate data are used. APS urges the Commission to act now by adopting either
3 one of APS's proposals or Staff's Alternative #2 with accurate data.
4

5 RESPECTFULLY SUBMITTED this 4 day of November 2013.

6
7 By _____

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11 ORIGINAL and thirteen (13) copies
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13 November, 2013, with:

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20 All Parties of Record.

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