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SEIA Solar Energy Industries Association®

OPEN MEETING AGENDA ITEM



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Arizona Corporation Commission

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November 6, 2013

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Re: Net Metering Docket No. E-01345A-13-0248

AZ CORP COMMISSION DOCKET CONTROL

Commissioner Pierce:

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The Solar Energy Industries Association (“SEIA”) appreciates your thoughtful analysis of the allegations that Arizona Public Service (“APS”) has raised with respect to net metering. SEIA participated very actively in the technical conferences that preceded APS’s filing of its “solutions,” was an early intervenor in this Docket No. E-01345A-13-0248 (the “Docket”) opened to consider APS’s claims, and will continue to participate in regulatory, legislative and other legal and technical proceedings related to net metering, both in Arizona and in numerous other states, including any further regulatory or legal proceedings in the wake of the Commission’s final determinations in this Docket.

Your letter requested a very specific response to the following: “Of the scenarios shown in Staff’s Appendix III, which is the most realistic scenario?” As explained in the balance of this letter, SEIA has no response to offer on this question as SEIA does not believe that the issues that this question seeks to address are appropriately before the Commission.

In fact, your letter makes clear precisely why this question is not properly before the Commission. After noting that Staff’s primary recommendation that the Commission defer further consideration of the issues raised in the Docket because “[t]he appropriate time for designing rates that equitably allocate the costs and benefits of net metering is during APS’s next general rate case,” you go on to write that “if the Commission were to conclude that Net Metering results in a cost shift,” (emphasis added) then the Commission would need to determine what to do about it. That threshold has not been reached, however, and for the reasons discussed at length in SEIA’s Protest and Motion to Dismiss and other filings in this Docket, cannot be reached outside APS’s next general rate.

Both SEIA and Staff have come to this conclusion and, for the reasons noted in its Protest and Motion to Dismiss, SEIA finds that this conclusion is legally compelled. That Staff has presented the Commission with alternatives does not detract from the fact that Staff’s actual recommendation is that further consideration of these issues be deferred.

APS has attempted to cast the issues raised in this Docket as an imminent need to address an alleged cross-subsidization from net metering to non-net metering customers. As an initial matter, SEIA notes that the Crossborder Study found that the cross-subsidy in fact runs the opposite direction, and that ratepayers with distributed solar systems are actually using their personal funds to pay for solar systems that confer significant – and entirely uncompensated – benefits on the APS grid and, as a result, on APS’s non-net metering customers. Such a factual dispute cannot be resolved outside of a rate case. Only in a rate case can all appropriate costs of service, and the variation in costs of providing services among different customer classes, be properly assessed, measured against the utility’s infrastructure and other property used in

providing those services, and appropriately apportioned so that as much as possible the actual cost causer is the cost payer.

SEIA further notes that the appropriate response to finding a cross-subsidy (in either direction) would be to evaluate it and all other cross-subsidies in a general rate case, where variations from the cost causer-cost payer default are sometimes permitted. This would allow the Commission to fully develop all issues related to cross-subsidies that might have offsetting effects, including, e.g., the cross-subsidy offered by existing ratepayers to future ratepayers of line extensions in support of new development – a cross-subsidy you yourself supported.

Separately, we note that because the question posed in your letter relates to Staff's Alternative #2, there is no appropriate answer to your question, as Staff's Alternative #2 is fundamentally flawed. As discussed in greater detail in SEIA's response to Staff's memorandum and recommended order, filed in this Docket on November 4, 2013, Staff's Alternative #2 rests on the false premise that the purpose of the net metering program is to enable APS to obtain solar energy at the lowest possible cost. That may be a feature of the net metering program – in fact, again as noted by the Crossborder Study, net metering solar systems confer significant uncompensated benefits on APS and its non-solar ratepayers – but that is certainly not its purpose. The purpose of the net metering program is to offer customers of APS (and other utilities) a choice in how they obtain the energy they use. Given this, any comparison between the net metering program and a "1 to 5 MW size system interconnected at the sub-transmission level" is illogical.

Finally, given that you have not yet reached any conclusions about the issues presented by this case, SEIA would like to take the opportunity to reemphasize that there is only one appropriate outcome of this Docket: deferral of the issues raised until APS's next general rate case. Adopting anything other than Staff's recommended resolution of such a deferral is inappropriate and unsupportable and certainly not, as you write, "a start in the right direction." Which direction is the right one has not been determined, should not be determined outside a rate case, and cannot be legally addressed outside a rate case, where all finally-determined cross-subsidies built into APS's rate structures can be simultaneously reviewed and the appropriate treatment of each considered.

Spreadsheets designed to produce a result supporting an allegation are not a substitute for proper ratemaking procedure. The requirements of Arizona law are clear: the determinations that APS is attempting to have the Commission make require a rate case proceeding. APS's attempt to induce a disarrayed need to "do something" in the Commission should be turned aside. The only appropriate and legal path forward is for the Commission to consider any alleged cost shift in APS's next rate case.

As an adjunct to this temporary deferral, it would be reasonable for the Commission to order a study period during which a neutral third party can assess the costs and benefits of net metering (ideally both for APS and for the other Arizona electric utilities). If, as a result of this study period, there is a reasonable basis to determine that there is a cost-shift – either from net metering customers to non-net metering customers, or vice versa – then there might be a basis for granting APS relief from the Settlement Agreement's requirement that it not file a rate case

until 2015. There is not at this time, however, a sufficient basis for making that finding and disturbing the Settlement Agreement.

Again, SEIA appreciates your careful consideration in these matters, and looks forward to working with APS and the Commission in the years ahead as the appropriate path toward Arizona's bright solar future is determined.

Sincerely,



Carrie Cullen Hitt
Senior Vice President of State Affairs