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OPEN MEETING AGENDA ITEM

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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

NOV 08 2013

Bob Stump, Chairman
Gary Pierce, Commissioner
Brenda Burns, Commissioner
Bob Burns, Commissioner
Susan Bitter Smith, Commissioner

DOCKETED BY

IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR APPROVAL OF NET
METERING COST SHIFT SOLUTION.

Docket No. E-01345A-13-0248

COMMENTS OF THE INTERSTATE RENEWABLE ENERGY COUNCIL, INC. ON
COMMISSIONER BRENDA BURNS' LETTER REGARDING THE PROPOSAL
FROM THE RESIDENTIAL UTILITY CONSUMER OFFICE

The Interstate Renewable Energy Council, Inc. (IREC) appreciates the opportunity to submit these comments in response to questions raised by Commissioner Brenda Burns in her letter to this docket dated November 4, 2013. The letter addresses comments and proposals from the Residential Utility Consumer Office (RUCO), filed on October 30 (RUCO Proposal).

At the outset, IREC notes our agreement with RUCO that the issues associated with net metering should be part of a broader discussion in a rate case, consistent with the recommendation from Arizona Corporation Commission (Commission) Staff.¹ This position is also consistent with IREC's comments on Staff's Proposed Order, filed on October 10, and

¹ See RUCO Proposal at 1.

1 IREC's comments regarding Commissioner Pierce's letter, filed on November 6. The proposals
2 under consideration from RUCO and Staff are explicitly intended as temporary, interim
3 solutions, until these issues can be more fully explored in the next rate case. As we have stated,
4 IREC does not believe any interim action needs to be taken. Should the Commission choose to
5 implement a temporary solution, however, IREC continues to recommend Staff's Alternative #1,
6 which relies directly on the Commission-approved Lost Fixed Cost Recovery (LFCR)
7 mechanism. Unlike Staff's Alternative #2 and RUCO's Proposal, Staff's Alternative #1 does not
8 require additional, problematic benefit-cost analysis to implement it. It is the cleanest and most
9 balanced temporary solution proposed, and, if necessary, is the best available option prior to the
10 next rate case. IREC urges the commission not to adopt the RUCO Proposal, which would
11 effectively and inappropriately make changes to rates based only on RUCO's cursory analysis.

12
13 **I. Response to Commissioner Burn's Question Regarding the Impact on Non-Solar**
14 **Ratepayers if RUCO's Phased-In Approach Were Used**

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16 In her letter, Commissioner Burns states: "It would be helpful to me if RUCO would
17 provide an analysis of how much the total 'cost shift' paid by non-solar customers would be for
18 each 20 MW 'increment' of assessment (\$7, \$7.50, etc.) annually, as well as over the 20 year
19 period. In your calculation, please show the number of installations being assumed in that
20 analysis for each 20 MW increment. Likewise, it would be helpful if the solar industry, staff,

21 APS and other interested parties could give a similar rendering of the cost-shift impact on
22 non-solar ratepayers if RUCO's phased-in approach were used, based on their own analysis of
23 the cost-shift (or lack thereof)."

24
25 IREC appreciates Commissioner Burns' interest in better understanding the alleged cost
26 shift that is occurring due to net metering and the extent to which RUCO's proposed solution

1 would affect it. We do not believe that gathering analyses from the various parties will offer
2 much clarity, however. As is apparent from the various analyses of benefits and costs of net
3 metering already in this docket—including those from Arizona Public Service Company (APS),
4 the Solar Energy Industries Association (SEIA) and RUCO—parties arrive at significantly
5 different conclusions regarding the alleged cost shift depending on what methodology and inputs
6 they use. We appreciate that Commissioner Burns recognizes this at the end of her letter. Relying
7 on analysis from Clean Power Research of the conflicting studies from APS and SEIA in this
8 docket, IREC demonstrated that the root of this disparity lies in their use of substantially
9 different methodologies and inputs to generate their results. Likewise RUCO relies on its own
10 methodology and collection of inputs in supporting its proposal, although it offers substantially
11 less detail on its calculations and justification for the inputs it has chosen.

12
13 For example, RUCO examines all distributed solar generation, including energy
14 immediately consumed onsite, rather than just the net exports.² This inclusion of all-output
15 results is inappropriate because the energy used onsite never touches the grid and does not
16 impact other ratepayers; as RUCO recognizes, it is analogous to energy conservation or energy
17 efficiency. For example, from the utility's perspective, a customer making energy-efficiency
18 improvements to achieve near-zero electricity demand looks much like a customer who installs
19 an on-site solar system to offset most or all of her demand. Thus, any benefit-cost analysis of net
20 metering should be limited to the power exported to the grid from net-metered systems,
21 consistent with best practices.³ IREC notes that to the extent that net metering benefits are
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25 ² See RUCO Proposal at 10.

26 ³ See IREC, *A Regulator's Guidebook: Calculating the Benefits and Costs of Distributed Solar Generation*,
at 15-16 (Oct. 2013), available at www.irecusa.org/wp-content/uploads/2013/10/IREC_Rabago_Regulators-Guidebook-to-Assessing-Benefits-and-Costs-of-DSG.pdf; see also Letter of the Interstate Renewable Energy

1 calculated to outweigh costs, consideration of all generation amplifies the calculated net benefit.
2 However, if net metering costs outweigh benefits, as RUCO has determined, the opposite is true;
3 that is, the net costs are amplified.

4 Moreover, as RUCO acknowledges, it took a “conservative view on the benefits” of
5 distributed solar generation. RUCO appears only to have considered avoided generation costs
6 and the capacity value of distributed solar, and to a limited extent avoided transmission costs and
7 avoided environmental compliance costs, if the Renewable Energy Credit (REC) is transferred.
8 RUCO does not appear to include the values associated with the full range of avoided
9 transmission and distribution costs, avoided line losses, grid support (ancillary) services, market
10 benefits, security benefits, avoided Renewable Energy Standard compliance costs, and various
11 other environmental and social benefits. While some of these benefits are difficult to value, most
12 have established methodologies on which RUCO or the Commission could rely.⁴ It is erroneous
13 to assume they are “questionable” or will “never materialize.”⁵

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16 Therefore it is likely that RUCO has substantially underestimated the benefits of
17 distributed solar generation, and thus overestimated the net costs and the purported associated
18 cost shift to non-participants. RUCO’s proposed charge depends on this faulty evaluation. Even
19 if RUCO provides the additional analysis requested by Commissioner Burns, its justification for
20 its proposed charges and its explanation of the charge’s effects remain questionable and
21 inconsistent with the perspectives of several other parties in the docket. Further, adoption of
22 RUCO’s proposal would not afford an opportunity for parties to thoroughly examine and vet the
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25 Council, Inc. to the Docket, at 2 (filed Nov. 6, 2013) (further explaining the importance of an export-only analysis to
an evaluation of net metering in the context of the recent California net metering study filed in this docket).

26 ⁴ For a more exhaustive explanation of these issues, see IREC, *A Regulator’s Guidebook: Calculating the
Benefits and Costs of Distributed Solar Generation*.

⁵ See RUCO Proposal at 3, 4.

1 underlying assumptions used. It would be inappropriate to make what amount to rate changes at
2 this time based on RUCO's limited and untested analysis.

3 As IREC has emphasized in our Protest and in our other filings in this docket, we urge
4 the Commission and stakeholders to develop, through an open and collaborative process, a
5 common methodology and set of inputs to inform its policy decisions. Relying on this agreed-
6 upon framework, an unbiased third party, such as Clean Power Research, could model the
7 benefits and costs of distributed solar generation, producing a fair and neutral set of data. This
8 data would allow the Commission to evaluate the policy options suggested by APS, Staff, RUCO
9 and other parties, and determine how to move forward. In particular, such data could help to
10 evaluate whether and to what extent any cost shifting is occurring, and whether and to what
11 extent RUCO's proposal—or any other proposed charge or policy change—affects such a cost
12 shift. Until this analysis is done, comparing data generated by different parties under different
13 evaluation models in the absence of any cross examination or vetting does not offer insight into
14 the appropriate path forward.
15

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17 Given the lack of clear data and the contentious debate regarding all of the analysis done
18 to date, IREC continues to recommend Staff's Alternative #1 as the appropriate interim solution.
19 Alternative #1 does not rely on additional analysis of the benefits and costs of distributed
20 generation, but rather is dependent only on the LFCR, which the Commission has already
21 approved. If the Commission determines that an interim solution is necessary, Alternative #1 is
22 the most appropriate option to put in place while the Commission and other stakeholders develop
23 a more robust benefit-cost analytical framework in anticipation of the next rate case.
24

25 **II. Response to Commissioner Burn's Comments Regarding RUCO's Proposal to**
26 **Phase In Changes over 20 Years**

1 In her letter, Commissioner Burns also states: "Further, it is notable that while RUCO
2 believes the cost shift is \$20 (or perhaps even \$50 in the short term), per month, per new solar
3 customer, they seem to have taken the position that non-solar customers should continue to
4 subsidize each of the solar-customer systems for a full 20 years. It would be helpful to have
5 greater insight into RUCO's decision-making on that point."
6

7 IREC believes that RUCO already offers some explanation of why it has proposed a
8 phased-in charge. In fact, although IREC does not support RUCO's proposed charge and
9 questions RUCO's underlying calculations, we believe RUCO makes an important point with
10 respect to phasing in a new charge. As RUCO states, ratepayers have invested millions of dollars
11 in distributed solar generation and the nascent market continue to grow. A fixed charge like the
12 one RUCO proposes could prove to be "business stopping" and could "cut off this investment
13 right before ratepayers could start to see real benefits."⁶ Phasing in the charge attempts to
14 balance the possible (although as yet unsubstantiated) rate impacts to non-participating
15 ratepayers with the broad interest in encouraging distributed solar development in Arizona, and
16 the more specific interests of participating customers and the solar industry. We urge the
17 Commission to keep this in mind in considering its various options.
18

19 **III. Response to Commissioner Burn's Question Regarding Whether RUCO's Proposal**
20 **Protects Ratepayers**

21 In closing, Commissioner Burns asks: "Do the parties believe that RUCO's proposal
22 protects ratepayers from a 'ballooning cost shift', why or why not?" As noted above, IREC
23 fundamentally disagrees that there is any evidence of a "ballooning cost shift." We strenuously
24 recommend that the Commission undertake an unbiased analysis of the benefits and costs of
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26 ⁶ RUCO Proposal at 8.

1 distributed solar prior to moving forward with RUCO's or any other proposals to change net
2 metering policy. The Commission needs a clearer understanding of the actual benefits and costs
3 of net metering before it can make informed decisions about changing net metering policy, and
4 the most appropriate forum for such an analysis would be a general rate case. Currently, the
5 Commission has only the conflicting analyses and data available in this docket, which do not
6 offer any useful insight into the appropriate treatment of net metering in Arizona.
7

8 IREC strongly supports the Commission's efforts to find a fair policy solution that
9 encourages solar while protecting non-participating ratepayers from unfair cost shifts.
10 Transparent, unbiased analysis and robust data are essential to informing such a solution. Until
11 the Commission has conducted such an evaluation, we urge it not to alter net metering, a policy
12 that has to date supported a successful solar industry in Arizona and allowed many of its citizens
13 to reap the benefits of solar self-generation.
14

15 Respectfully submitted this 8th day of November, 2013,
16

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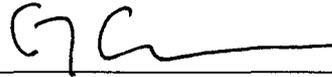
CERTIFICATE OF SERVICE

I hereby certify I have this day served an original and thirteen copies of the foregoing on this 8th day of November, 2013, with:

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

I hereby certify that I have this day served the foregoing documents by mail on all parties of record in this proceeding.

Dated this 8th day of November, 2013, in Phoenix, Arizona.



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