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November 7, 2013

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007-2927

Re: Arizona Public Service Company Net Metering Cost Shift Solution
Docket No. E-01345A-13-0248

To All Parties:

Please find attached the following amendments that APS proposes in this matter:

- Proposed Amendment #1: Immediate Action is Necessary
- Proposed Amendment #2a: ECT-2 Plus NM Option
- Proposed Amendment #2b: Modified Staff Alternative 2
- Proposed Amendment #3: Grandfathering
- Proposed Amendment #4: Value of the Grid
- Proposed Amendment #5: Consumer Protection Advisory (with attachment)
- Proposed Amendment #6: Solar Adjuster Pilot Program

If you have any questions, please let me know.

Sincerely,


Thomas A. Loquvam

TAL/dk
Enclosures

Arizona Corporation Commission
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**APS PROPOSED AMENDMENT #1
IMMEDIATE ACTION IS NECESSARY**

**Page 13, Line 28, after “APS’s next rate case.”
INSERT:**

However, the Commission believes that the shifting of infrastructure fixed costs from residential customers with distributed generation systems to non-DG customers is inequitable and therefore should be addressed in this docket.

**Page 21, Lines 7-10, Conclusions of Law:
STRIKE everything after “concludes that,” and
INSERT:**

“immediate action is necessary to begin addressing the inequity of cost-shifting from residential customers with distributed generation systems to non-DG customers.”

Make all conforming changes.

**APS PROPOSED AMENDMENT #2a
ECT-2 PLUS NM OPTION**

Page 10 Line 3

INSERT new paragraph:

36. The Commission believes that the ECT-2 Plus NM Option balances the collection of fixed costs between usage-based energy charges and demand-based charges, and assures that residential DG customers are more accurately charged for the services they use. Further, the Commission directs that as an interim measure through APS's next rate case, APS return to customers the additional revenue APS collects as a result of the ECT-2 Plus NM Option by crediting the Company's Lost Fixed Cost Recovery mechanism by \$55/month for each new residential Distributed Generation customer subject to the ECT-2 Plus NM Option. The Commission finds that this treatment of incremental revenue, coupled with the ECT- 2 Plus NM Option, is an equitable approach to resolve the shift of costs from residential customers with distributed generation to non-DG customers.

Page 21, Lines 12-14

STRIKE all language and

INSERT new Ordering paragraphs:

IT IS THEREFORE ORDERED that the ECT-2 Plus Net Metering Option is hereby adopted. Arizona Public Service Company shall implement the ECT-2 Plus Net Metering Option for new residential Distributed Generation customers that apply for interconnection on or after December 1, 2013.

IT IS FURTHER ORDERED that Arizona Public Service Company is hereby directed to file an updated tariff reflecting the ECT-2 Plus Net Metering Option with the Commission on or before December 1, 2013.

IT IS FURTHER ORDERED that effective December 1, 2013, Arizona Public Service Company shall credit its Lost Fixed Cost Recovery mechanism by \$55/month for each new residential Distributed Generation customer subject to the ECT-2 Plus NM Option, once the system is interconnected and operational.

Make all conforming changes.

**APS PROPOSED AMENDMENT #2b
MODIFIED STAFF ALTERNATIVE 2**

Page 20, line 9

INSERT new paragraphs:

The Commission agrees with the premise behind Staff Alternative #2 that the benefits of solar should be acquired at the lowest possible cost. Because larger-scale solar facilities offer the same benefits as rooftop solar, APS should not pay more for rooftop solar than it does for solar through purchased power agreements (PPAs). Based on information filed in the docket, \$0.07/kWh is an appropriate PPA rate for purposes of calculating the DG Premium under Staff Alternative #2. In addition, APS's typical residential DG customers avoid a retail rate of \$0.135/kWh. Putting these numbers into the framework established in Staff Alternative #2 results in a DG Premium of \$8.89 per installed kilowatt (kW) per month, which for a 6.4 kW system is \$56.89 per month. New residential customers installing solar should pay a DG Premium of \$8.89 per installed kW per month, unless they are taking service under the ECT-2 rate.

Until the resolution of APS's next rate case, APS should return any incremental revenue that APS receives from new residential DG customers by crediting APS's Lost Fixed Cost Recovery (LFCR) mechanism in the amount of the DG Premium paid by those customers.

Page 21, Line 15

INSERT new Ordering paragraphs:

IT IS FURTHER ORDERED that Arizona Public Service Company shall implement a Distributed Generation Premium of \$8.89 per installed kW per month for new residential Distributed Generation customers who are not taking service under the ECT-2 rate, effective December 1, 2013.

IT IS FURTHER ORDERED that Arizona Public Service Company is hereby directed to file an updated tariff reflecting the Distributed Generation Premium with the Commission on or before December 1, 2013.

IT IS FURTHER ORDERED that effective December 1, 2013, Arizona Public Service Company shall credit its Lost Fixed Cost Recovery mechanism by the amount of the DG Premium paid by each new residential Distributed Generation customer.

Make all conforming changes.

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**APS PROPOSED AMENDMENT #3
GRANDFATHERING**

Page 20, Line 16

INSERT after “a specific customer”:

The Commission agrees with Staff’s proposal.

Page 21

INSERT new Ordering paragraph:

IT IS FURTHER ORDERED that any residential customer who currently has a Distributed Generation system installed on their homes, or who has submitted an application and a signed contract with a solar installer to Arizona Public Service Company by December 1, 2013, is to be grandfathered under the Net Metering policies currently in effect. This grandfathering applies to the Distributed Generation system and premises where the DG system is sited.

Make all conforming changes.

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**APS PROPOSED AMENDMENT #4
VALUE OF THE GRID**

Page 14, line 8

INSERT after “to obtain stakeholder input”:

The Commission believes that these discussions should include the role and value of the electric grid as it relates to rooftop solar, other forms of distributed generation and customer-sited technology generally.

Page 21, Line 17

INSERT after “DG installation brings to the grid”:

“and the role and value of the electric grid as it relates to rooftop solar, other forms of distributed generation and customer-sited technology generally.”

Make all conforming changes.

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**APS PROPOSED AMENDMENT #5
CONSUMER PROTECTION ADVISORY**

Page 20, line 20

**DELETE “Staff’s additional language, as shown in Appendix IIA” and
INSERT:**

“the additional language, as shown in NEW Appendix IIA. APS shall require that the residential customer owning or leasing the interconnecting rooftop solar system sign New Appendix IIA as part of the interconnection process.”

Page 22, line 3

**DELETE “Staff’s additional language, as show in Appendix IIA” and
INSERT:**

“the additional language, as shown in NEW Appendix IIA. APS shall require that the residential customer owning or leasing the interconnecting rooftop solar system sign New Appendix IIA as part of the interconnection process.”

**Replace Staff’s Appendix IIA with the attached NEW Appendix IIA.
Make all conforming changes.**

ATTACHMENT TO APS PROPOSED AMENDMENT #5

NEW Appendix IIA

**DISCLAIMER
POSSIBLE FUTURE RULES and/or RATE CHANGES
AFFECTING YOUR ROOFTOP PHOTOVOLTAIC SYSTEM**

The following is a supplement to Paragraph 10.6 of the Interconnection Agreement you signed with Arizona Public Service Company (APS):

- 1) APS's electricity rates, basic charges and service fees are subject to change. Future adjustments to these items may positively or negatively impact any potential savings or the value of your rooftop photovoltaic system.
- 2) You will be responsible for paying any future increases to electricity rates, basic charges or service fees from APS.
- 3) Your rooftop photovoltaic system is subject to the current rates, rules and regulations established by the Arizona Corporation Commission ("Commission"). The Commission may alter its rules and regulation and/or change rates in the future, and if this occurs, your system is subject to those changes.
- 4) Any future electricity rate projections presented to you are not approved by APS or the Commission. They are based on projections formulated by external third parties not affiliated with APS or the Commission.

By signing below, you acknowledge that you have read and understand the above disclaimer.

Name

Date

**APS PROPOSED AMENDMENT #6
Solar Adjuster Pilot Program**

Page 20, line 9

INSERT new paragraphs:

After reviewing the filings in this matter, it is clear that the embedded net metering incentive results in non-solar customers paying more than necessary for solar resources. Instead of an incentive embedded in net metering, the Commission believes that any compensation provided to customers installing rooftop solar should be adjustable to reflect market conditions and policy of the Commission. The transparency of up-front incentives also permits the Commission and the public to better understand how much is being paid to incentivize rooftop solar.

Since the adoption of the Arizona Renewable Energy Standard (RES), the Commission has authorized up-front incentive budgets for residential rooftop solar installations that have transparently spread funding over time in a way that can be decreased as market conditions change. This has allowed all APS customers to benefit from the declining costs of installed rooftop solar systems and other financing tools available in this market. The Commission believes that the best means to encourage rooftop solar in the future is to rely on compensation that can be adjusted, rather than a fixed incentive, like net metering.

The Commission recognizes that a new rate for future rooftop solar customers may require additional compensation in order to support continued installations. However, the Commission does not know how much compensation will be needed. In order to determine the appropriate level of supplemental compensation, the Commission introduces a "Solar Adjuster Pilot Program." The Solar Adjuster will reduce installation costs as an up-front and transparent level of supplemental compensation payable to a customer that applies to install a rooftop solar system in 2014 through the program.

APS notes that based on the expected level of residential rooftop solar installations it will see through year-end 2013, the Company estimates it would need 26 MW annually from 2014 through 2025 to remain in compliance with the residential component of the Distributed Energy portion of the RES in 2025. The Commission believes that this amount of annual capacity should not be a cap for the amount of rooftop solar that can be installed in the APS service territory, but should define the total Solar Adjuster Pilot budget.

Therefore, the Commission orders APS to initiate the Solar Adjuster Pilot Program for residential customers installing rooftop solar in 2014 modeled on

past DG program administration. All funding for this program will be taken from unallocated funds within the APS 2014 REST budget and will not exceed \$35 million under Option 1 below, or \$21 million under Option 2 below. If the budget allocated is not exhausted in the nomination period, the \$/watt compensation will remain the same in the subsequent nomination period. To ensure that funding is available throughout 2014, APS is ordered to use a funding mechanism that makes specific budget and capacity available on a regular interval through the year as outlined in the table below:

Option 1, Table 1: \$35M Budget

Funding Period	Jan-Feb	Mar-Apr	May-Jun	July-Aug	Sep-Oct	Nov-Dec	
\$/watt	\$1.50	\$1.50	\$1.40	\$1.40	\$1.30	\$1.30	Max Total Budget
Budget Cap (\$M)	\$6.25	\$6.25	\$5.83	\$5.83	\$5.42	\$5.42	\$35.00

Option 2, Table 2: \$21M Budget

Funding Period	Jan-Feb	Mar-Apr	May-Jun	July-Aug	Sep-Oct	Nov-Dec	
\$/watt	\$1.50	\$1.50	\$1.40	\$1.40	\$1.30	\$1.30	Max Total Budget
Budget Cap (\$M)	\$3.75	\$3.75	\$3.50	\$3.50	\$3.25	\$3.25	\$21.00

Page 21, Line 15

INSERT new Ordering paragraphs:

IT IS FURTHER ORDERED that Arizona Public Service Company shall offer the Solar Adjuster as a pilot program available to all new rooftop solar customers as described in Paragraphs __. Any funding needed for this program will be taken from unallocated funds within the APS REST budget and will not exceed \$35 million in 2014.

IT IS FURTHER ORDERED that Arizona Public Service Company shall include as part of its 2015 REST plan, a proposal for Commission consideration on the future Solar Adjuster program and necessary funding to comply with its ongoing DE REST requirements.

Make all conforming changes.