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**Edison Electric
Institute**

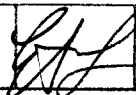
Edward H. Comer
Vice President, General Counsel & Corporate Secretary

June 24, 2014

Commissioner Susan Bitter Smith
Arizona Corporation Commission
1200 W Washington Street
Phoenix, AZ 85007

Arizona Corporation Commission
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DOCKET 001

Re: Value and Cost of Distributed Generation (Including Net Metering)
Docket No. E-00000J-14-0023

Dear Commissioner Bitter Smith:

The Edison Electric Institute (EEI) is pleased to respond to your request for comments on the list of Rate Design Principles of the Solar Energy Industries Association (SEIA) that were submitted during the Workshop. EEI is the national association of shareholder-owned utilities.

Renewables are an important and growing segment of our power supply mix and will play an even more important role in the future. Appropriate rate designs can help enable the growth of new clean technologies to the benefit of all consumers in Arizona.

With this in mind, EEI responds to the SEIA principles in the record. Our comments will identify each SEIA principle set forth in the workshop and then identify EEI's views as to how such principles relate to this Commission's efforts to address proper rates for electric service to all customers. Ultimately there are many different ways in which rates can be designed to achieve fair and affordable rate design to enable technological innovations and a cleaner energy mix.

SEIA Principle 1:

Rates should be based on marginal costs which emphasize a long-term perspective.

There has long been a debate on whether rates for electric service should be based on marginal or average embedded costs. It is important to be aware of the long-run perspective for planning purposes, especially as new technologies are transforming the

grid and require investments in automatic controls, sensors, monitors and other equipment in order for the grid to be more dynamic and resilient to meet new customer interests, including the interest in distributed generation.

The vast majority of regulatory commissions have chosen to use embedded costs because of the precision it offers. The determination of marginal costs can be highly subjective and imprecise. Moreover, rates based on marginal costs can often be unaffordable.

EEl believes that a Commission should use the same approach (marginal or embedded) in setting rates for traditional utility service and in setting rates for sales of power from distributed generators. A hybrid approach will distort the pricing system to produce unfair and inefficient results.

SEIA Principle 2:

Rates should encourage conservation and integration of renewables.

Conservation and integration of renewables are a very important component of the resource mix. However, sound rate design must balance renewable goals with other important principles and policy goals. One of the most important considerations is the cost-causation principle that customers should pay the costs of the services that they use and should not shift such costs to other customers. As the Arizona and California Commissions found, net metering as currently applied results in a substantial cost shift from customers with DG to those who do not have DG. This problem can be fixed with proper rate design that assures that all customers pay for the fixed costs of the systems that they use.

One of the reasons the City of Austin adopted “net billing” (i.e., where distributed generators are required to pay utility rates for all the power they produce and purchase from the utility) is that customers with “free” solar power tended to increase consumption and reduce conservation.

SEIA Principle 3:

Rates should reduce peak demand.

SEIA Principle 4:

Rates should include the development of time-of-use (TOU) tariffs.

Time-of-use tariffs for energy consumption can be one way to price distributed generation as long as fixed costs are paid for as well. However, it is important to be sure that time of use price signals are not excessively generalized.

SEIA Principle 5:

Rates should be based on cost-causation principles.

We have general agreement on this point. Customers should pay rates that reflect all the costs of services that they receive. Ideally rates for fixed delivery costs should be unbundled from rates for power supply costs. Such separation of rates will also provide customers with greater transparency (consistent with SEIA Principle 7).

SEIA Principle 6:

Any rate design should not be discriminatory toward renewables.

Customers who use distributed renewable generation exhibit different system needs and impacts which are not present with traditional customers. As EPRI's study on "The Integrated Grid" and experiences in Germany and Hawaii demonstrate, utilities have to invest much more to modernize the grid and grid support system when penetration levels of distributed renewable generation increases.

It is not discriminatory to set rates differently for customers who exhibit different patterns of system use and system impacts. Rather, this tailoring of customer rates to their energy needs provides more accurate price signals and reduces the financial impact on other customers.

SEIA Principle 7:

Rates should have transparency, with enough availability of data so that the customer has predictability into what their rate should be.

Regulatory commissions should require the same transparency of data on all costs and "benefits" that they consider and should be consistent in their treatment of like costs. For example, they should treat credits for "avoided distribution and transmission costs" the same way they treat utility grid costs. Similarly, regulators should treat attributes such as avoided emissions consistently for all generation sources that avoid the same emissions.

Publication of the terms and conditions of approved rates helps provide transparency and predictability for consumers.

SEIA Principle 8:

Any rate redesign should minimize any impact to existing customers, such as grandfathering in existing customers (no retroactivity), with the option to opt into a new rate.

SEIA Principle 9:

There should be a smooth transition to a new rate structure.

Utilities as well as customers prefer to avoid drastic changes in rates or rate design. But rates and rate designs must be fair and equitable. They also must have the flexibility to change to adapt to new technologies, new situations and changes in costs,

usage patterns and regulatory policies. This is particularly true with a policy such as net metering that was initially introduced as an exception to normal rate policies in order to jump start investments in new technologies. Modifying the recovery of fixed costs is one way to minimize rate design changes to customers and promote customer acceptance and understanding of rate design changes.

Regulatory commissions should be very reluctant to bind future commissions by grandfathering rates for terms as long as 20 years into the future.

**SEIA Principle 10:
Customer charges should be avoided.**

This principle is inconsistent with SEIA Principle 5 that rates should be based on cost-causation principles. It is appropriate to charge customers for the costs of services that they use or cause to be incurred. Eliminating customer charges for fixed costs increases the likelihood of cost shifting.

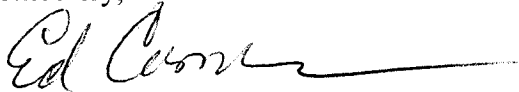
**SEIA Principle 11:
Rates should encourage economically efficient decision-making.**

Appropriate pricing, relying on the cost causation principle, proper separation and payment for fixed and variable costs, the avoidance of cross-subsidies and time of use rates, encourages fair, equitable and economically efficient decision making.

CONCLUSION

Again, EEI is pleased to have an opportunity to participate in this proceeding and to address the principles submitted on behalf of SEIA.

Sincerely,



Edward H. Comer
Vice President, General Counsel & Corporate Secretary

cc: Chairman Bob Stump
Chairman Gary Pierce
Commissioner Brenda Burns
Commissioner Robert L. Burns