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EXCEPTION

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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

NOV 10 2014

10 COMMISSIONERS

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

DOCKETED BY 

15 IN THE MATTER OF THE APPLICATION OF
 ARIZONA PUBLIC SERVICE COMPANY FOR
 16 APPROVAL OF ITS 2014 RENEWABLE
 ENERGY STANDARD IMPLEMENTATION
 17 PLAN FOR RESET OF RENEWABLE ENERGY
 ADJUSTOR

DOCKET NO. E-01345A-13-0140

19 IN THE MATTER OF THE APPLICATION OF
 ARIZONA PUBLIC SERVICE COMPANY FOR
 20 APPROVAL OF ITS 2015 RENEWABLE
 ENERGY STANDARD IMPLEMENTATION
 21 FOR RESET OF RENEWABLE ENERGY
 ADJUSTOR

DOCKET NO. E-01345A-14-0250

23 **EXCEPTIONS TO STAFF'S PROPOSED ORDER**

24 APS thanks Commission Staff for its hard work in assessing APS's proposals in
 25 this docket and appreciates the complexity of analysis and policy considerations that
 26 must be made in evaluating these proposals. Staff's Proposed Order contemplates two
 27 key issues: 1) APS need for the 20 MW program relative to the 2009 Settlement
 28 requirement; and 2) the cost comparison between utility-owned DG and customer-

1 owned DG. Although APS cannot guarantee that AZ Sun DG is needed for compliance
2 with the 2009 settlement requirement, APS must respectfully disagree with Staff's
3 conclusions regarding the cost of utility-owned DG when compared to customer-owned
4 DG.

5 AZ Sun DG represents a truly innovative project with benefits and opportunities
6 that provide an independent reason for Commission approval. These include the
7 opportunity to study how strategically targeted rooftop solar could benefit the grid and
8 the chance to offer solar to customers who have been paying into the RES fund, but who
9 third-party solar providers will not serve. Aside from the merits of AZ Sun DG, these
10 Exceptions address the incorrect conclusion that customer-owned DG is the least
11 expensive means for APS to acquire renewable energy. This conclusion is contrary to
12 Staff's prior conclusions regarding DG costs and has been definitively rejected by the
13 Commission. APS requests that the Recommended Order be modified to reflect an
14 approval of AZ Sun DG and to correct the analysis and conclusion regarding the costs of
15 customer-owned DG.

16 **I. Staff and the Commission Have Been Clear: Non-DG Customers Pay**
17 **for the full cost of Third-Party Owned DG Through the Cost Shift.**

18 In 2012, Commission Staff proposed a "paradigm shift"—a change in
19 Commission policy based upon the (incorrect) belief that customer-sited DG was the
20 least-cost means for APS to acquire renewable energy.¹ Less than a year later, however,
21 Staff reversed its position. In the Net Metering Cost Shift Solution docket, Commission
22 Staff concluded that third-party owned DG is not the least cost means for APS to acquire
23 renewable energy. Instead, Staff concluded that third-party owned DG shifts costs to
24 (and increases the rates of) customers without DG:

25 As more customers offset a portion of their monthly bills using energy
26 produced by their DG systems, they purchase less energy from the utility.
Because residential rates are typically designed to recover much of the

27 ¹ See Staff Report at 8-9, Arizona Public Service Company – Application for Approval of Updated
28 Green Power Rate Schedule GPS-1, GPS-2, and GPS-3, Docket No. E-01345 A-0394, and Approval of
Its 2013 Renewable Energy Standard Implementation for Reset of Renewable Energy Adjustor, Docket
No. E-01345A-0290 (Oct. 18, 2012).

1 utility's fixed costs through volumetric energy rates, **DG customers**
2 **effectively pay less of these fixed costs. The additional fixed costs then**
3 **must be picked up by non-DG customers either through higher energy**
4 **rates or through other mechanisms** such as APS's Lost Fixed Cost
5 Recovery mechanism []. The magnitude and significance of this cost shift
6 increase as more and more DG systems are added to the utility's system.²

7 The Commission subsequently agreed. In Decision No. 74202, the Commission
8 found that "the proliferation of DG installations results in a cost shift from APS's DG
9 customers to APS's non-DG residential customers absent significant changes to APS's
10 rate design."³ To begin addressing the cost shift, the Commission concluded that a
11 reasonable interim charge for new DG customers would be \$3/kW, or approximately
12 \$21 per month for the average 7kW system.⁴ Nonetheless, the Commission instituted a
13 lower \$0.70/kW charge, as a placeholder, under the circumstances presented in Docket
14 No. E-01345A-0248.⁵

15 Despite this history, Staff's Report suggests that customer-owned DG is less
16 expensive because the customer supplies the capital for the DG system in question. This
17 isn't true. Customers don't give away the \$20,000-\$30,000 required for a DG system.
18 Customers without DG pay back this customer investment *through the cost shift*, with
19 interest. Both categories of DG involve the same panels and inverters, the same
20 customer locations, and even the same actual installers.

21 It does appear that Table 5 of Staff's Report acknowledges the fact of the cost
22 shift. But Table 5 does not show the complete cost shift. For instance, Table 5 identifies
23 the cost shift as a flat \$3 million annual revenue requirement for the entire life of the DG
24 system, which appears to come from APS's prior analysis that a rooftop solar
25 installation can shift \$1000 of fixed costs per year to other customers. But this \$3
26 million revenue requirement should be escalated over time to reflect possible future rate
27 increases. In addition, the \$1000 cost shift estimate already included fuel savings. To

28 ² Staff Report, p. 4-5, Application for Approval of Net Metering Cost Shift Solution, Docket No. E-01345A-13-0248 (Sept. 30, 2013) (emphasis added).

³ Decision No. 74202 at Paragraph 49 (Dec. 3, 2013).

⁴ *Id.* at Paragraph 84.

⁵ *Id.* at Paragraph 85.

1 include fuel savings again, as Table 5 does, double counts those savings. The following
 2 Table lists and quantifies the corrections needed to address Staff's analysis:

3
 4 **Analysis of Staff Customer Owned DG proposal and APS Owned DG proposal**
 5 in \$M's

	<u>Customer Owned DG</u>		<u>APS Owned DG</u> ⁴
Staff ROO	19.8	Staff ROO	54.2
Fuel Savings ¹	13.3		
Cost Shift escalation ²	7.0	O&M Adjustment ⁵	(2.9)
Cost Shift precision ³	<u>4.0</u>	Annual rounding adjustment	<u>(5.6)</u>
Adjusted Staff proposal	44.1	APS Owned Proposal	45.7

10 ¹ Removal of the fuel savings as it is accounting for in the cost shift amount.

11 ² Escalate cost shift 2.5%/yr

12 ³ Unrounded annual cost shift amount that is multiplied by 3,000 customers over 20 yrs.

13 ⁴ Amounts represent low case at \$2.85/watt_{dc}

14 ⁵ APS proposes to reduce O&M assumption to \$20/kW-yr

15 After accounting for all of these changes, the costs for utility-owned and third-
 16 party owned DG are roughly the same. The two ownership forms, however, are
 17 qualitatively distinct, and a simple comparison of the two numbers can be misleading.
 18 With utility-owned DG, the Commission makes a decision regarding whether the utility
 19 may collect the associated revenue requirement. After assessing the benefits of the
 20 proposed DG project, the Commission can accept or reject the proposed revenue
 21 requirement, or take other appropriate action. But this doesn't happen with third-party
 22 owned DG. Costs are shifted to non-DG customers each time a third-party installation
 23 occurs—without regard for benefit or resource need. In addition, utility-owned projects
 24 can provide operational benefits, such as maximizing production during peak load times
 25 or potentially benefitting the grid through strategically locating solar. Although utility
 26 and third-party owned DG appear to be roughly similar in terms of customer rate impact,
 27 this is an overly simplified comparison that does not account for the full range of
 28 benefits derived from utility ownership.

1 **II. The Benefits and Opportunities Offered by AZ Sun DG Warrant**
2 **Approving the AZ Sun DG Project.**

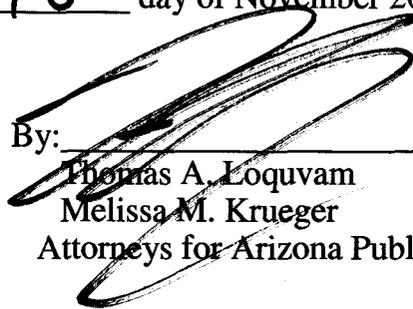
3 Staff's Report acknowledges many of the benefits offered by AZ Sun DG. These
4 include offering solar to customers with limited income or lower credit scores, the use of
5 next-generation inverters, and the opportunity to study strategic grid placement.
6 Although Staff's Report expresses doubt regarding the benefits of maximizing solar
7 production during peak load, this benefit is significant. APS must build its system to
8 supply energy to all of its customers at the time of peak demand. This timeframe occurs
9 in the late summer afternoons when air conditioners are turned on in residential homes
10 across APS's service territory. Energy produced during this period provides more
11 support to APS's resource portfolio, and rooftop solar that is oriented towards the west
12 and southwest will produce more energy during this critical period. By contrast, south
13 facing solar panels produce the bulk of their energy during the middle of the day, when
14 customer needs are easily met by existing resources. Although a south-facing solar panel
15 might produce more energy on a kWh to kWh basis, simply comparing the quantity of
16 energy does not account for the equally-important capacity benefits provided by
17 generation resources.

18 **III. Conclusion**

19 AZ Sun DG is a truly innovative project that will provide significant benefits and
20 opportunities to customers and APS. Beyond contributing to APS's 2009 settlement and
21 REST compliance requirements, this program will help APS to better integrate new
22 renewable energy resources and manage the challenges associated with the increasing
23 amount of solar being interconnected to the grid. To date, there has been no opportunity
24 to study the benefits of strategically placing solar on the grid; APS's Flagstaff project
25 has been focused on studying the impact of putting significant amounts of DG on a
26 single feeder. And customers with limited income or lower credit scores currently have
27 no opportunity to install solar with third-party providers. To capture potentially
28 significant grid benefits, and to give these customers the opportunity to "go solar," APS
requests that the Commission approve AZ Sun DG as proposed.

1 RESPECTFULLY SUBMITTED this 10 day of November 2014.

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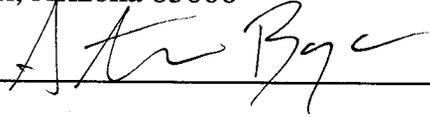
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