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6 Attorney for Arizona Public Service Company

8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10 COMMISSIONERS

11 SUSAN BITTER SMITH, Chairman
 12 BOB STUMP
 13 BOB BURNS
 14 DOUG LITTLE
 15 TOM FORESE

Arizona Corporation Commission

DOCKETED

MAY 22 2015

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

DOCKET NO. E-01345A-13-0248

**ARIZONA PUBLIC SERVICE
COMPANY'S INITIAL BRIEF**

18 The April 28, 2015 Procedural Order asked one question: is there any portion of
 19 APS's April 2, 2015 Motion to Reset that must be considered in a rate case. The answer
 20 can only be no. Nothing in Arizona law requires a rate case to make a revenue-neutral
 21 change to rates. Moreover, Decision No. 74202 expressly contemplated APS's Motion
 22 before APS's next rate case. APS's proposal is also subject to true-up in APS's next rate
 23 case, and would only apply to a small class of customers who voluntarily decide to
 24 install DG after the Commission's decision in this matter. Accordingly, no part of APS's
 25 April 2, 2015 filing must be heard in a rate case.

26 The first part of this brief provides a legal analysis of the Commission's broad
 27 ratemaking discretion. It concludes that considering APS's Motion to Reset outside of a
 28

1 rate case falls well within that discretion. The second part of this brief addresses whether
2 APS's Motion should be heard in a rate case.

3 **I. ARIZONA LAW PROVIDES THE COMMISSION WITH**
4 **SIGNIFICANT RATEMAKING DISCRETION.**

5 Based on Arizona's Constitution, Arizona courts have articulated two
6 ratemaking-related requirements that are relevant to this proceeding:

- 7 1) When the Commission sets rates, it must determine the fair value of a utility's
8 property; and
- 9 2) When the Commission increases rates, it must consider the impact of that
10 increase on the utility's overall rate of return.¹

11 Technically, neither equate to requiring a rate case, per se. Instead, they involve the
12 Commission making and using specific findings in the process of setting rates.² With
13 Arizona Revised Statute § 40-250(A), the Arizona Legislature codified the requirement
14 that the Commission make certain findings before a rate increase.³ Within this statutory
15 and common law structure, the Commission has wide discretion in how it processes rate
16 changes.

17 The decision in *Scates* is widely viewed as the seminal Arizona decision on this
18 topic. In *Scates*, the Commission approved an increase to the amount that Mountain
19 States charged all of its customers for installing, moving, and changing telephones.⁴ As a
20 result, Mountain States' annual revenue rose by approximately \$5 million, or a 2%
21 increase to its Arizona revenue.⁵ In doing so, however, the Commission did not

22
23 ¹ See Ariz. Const. art. 15, §§ 3 and 14; see also *Scates v. Ariz. Corp. Comm'n*, 118 Ariz. 531, 537, 578
24 P.2d 612, 618 (1978). Setting rates based on the fair value of a public service corporation's rate base
25 involves finding, and meaningfully considering, a fair value rate of return. See, e.g., *Chaparral City*
Water Co. v. A.C.C., 2010 WL 2330268, *1 (Ariz. Ct. App.) (unpublished).

26 ² See *Simms v. Round Valley Light & Power Co.*, 80 Ariz. 145, 151, 294 P.2d 378, 382 ("the commission
27 is required to find the fair value of the company's property and use such finding as a rate base for the
28 purpose of calculating what are just and reasonable rates.").

³ Importantly the legislature also codified two statutes that permit rate changes with no hearings: A.R.S.
§ 40-250(B) and A.R.S. § 40-367.

⁴ *Scates*, 118 Ariz. at 533, 578 P.2d at 614.

⁵ *Scates*, 118 Ariz. at 533, 578 P.2d at 614.

1 determine the value of Mountain States' rate base, or make "any inquiry into the effect
2 of this substantial increase upon Mountain States' rate of return...."⁶

3 The Arizona Court of Appeals subsequently rejected the Commission's decision,
4 holding that:

5 the Commission was without authority to increase the rate without any
6 consideration of the overall impact of that rate increase upon the return of
7 Mountain States, and without, as specifically required by our law, a
8 determination of Mountain States' rate base.⁷

9 The court opined that the requirements to both assess a utility's overall rate of return,
10 and find the fair value of the utility's property, are rooted in the need to ensure just and
11 reasonable rates:

12 the rates established by the Commission should meet the overall operating
13 costs of the utility and produce a reasonable rate of return. It is equally
14 clear that the rates cannot be considered just and reasonable if they fail to
15 produce a reasonable rate of return⁸ or if they produce revenue which
16 exceeds a reasonable rate of return.

17 When the Commission did not consider the fair value of Mountain States' property, or
18 its overall rate of return, no basis existed to conclude that Mountain States' rates were
19 just and reasonable after the rate increase.

20 Notably, the phrase "single-issue ratemaking" never appears in *Scates*. In fact,
21 Arizona law does not proscribe so-called "single-issue ratemaking." Instead, Arizona
22 law prohibits increasing a utility's rates without "any determination of whether the
23 increase would affect the utility's rate of return."⁹ Indeed, the court in *Scates* went
24 further, leaving the door open for several different procedural paths that might otherwise
25 be called "single-issue ratemaking" in other contexts, including:

- 26 ● the setting of an interim rate "to be charged by the utility for products or services
27 pending the establishment of a permanent rate";¹⁰

28 ⁶ *Scates*, 118 Ariz. at 533, 578 P.2d at 614.

⁷ *Scates*, 118 Ariz. at 537, 578 P.2d at 618.

⁸ *Scates*, 118 Ariz. at 534, 578 P.2d at 615.

⁹ *Scates*, 118 Ariz. at 537, 578 P.2d at 618.

¹⁰ *Scates*, 118 Ariz. at 535, 578 P.2d at 616.

- 1 • a rate increase that applied to “a very small class of customers,” as opposed to
2 “all customers who as of and after the date of the increase had phones installed,
3 moved or changed”;¹¹
- 4 • a new rate schedule that “was a modernization designed to produce the same
5 revenue as had been earned under the old schedule”;¹²
- 6 • a waiver of the procedural requirements for rate cases in appropriate
7 circumstances;¹³
- 8 • the existence of “exceptional circumstances in which the Commission may
9 authorize partial rate increases without requiring entirely new submissions” of a
10 utility’s relevant financial information;¹⁴ and
- 11 • referring to “previous submissions with some updating” or accepting “summary
12 financial information.”¹⁵

13 The point is not that these procedural avenues were in fact available in the *Scates* matter
14 (although some of them might have been), or that they are available to APS now
15 (although APS believes that some of them are). The point is that Arizona law does not
16 prohibit the Commission from changing a single rate outside of a rate case. Instead, the
17 Commission possesses wide latitude when it sets just and reasonable rates. When it sets
18 rates, it need only consider a utility’s rate base. And when it increases rates, it need only
19 consider the impact on a utility’s overall rate of return. Neither of these requirements
20 necessitates a hearing (much less a rate case), and neither prompts a requirement that
21 APS’s Motion to Reset be heard in a rate case.

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24
25 ¹¹ *Scates*, 118 Ariz. at 536, 578 P.2d at 617.
26 ¹² *Scates*, 118 Ariz. at 536, 578 P.2d at 617.
27 ¹³ *Scates*, 118 Ariz. at 537, 578 P.2d at 618; see Ariz. Administrative Code R14-2-103(B)(6) (permitting
28 the Commission to waive the compliance with any or all of the requirements in R14-2-103 after
“determining the existence of reasonable cause....”).
¹⁴ *Scates*, 118 Ariz. at 537, 578 P.2d at 618.
¹⁵ *Scates*, 118 Ariz. at 537, 578 P.2d at 618.

1 **II. NO PART OF APS'S PROPOSAL MUST BE HEARD IN A RATE**
2 **CASE.**

3 APS's request to reset the LFCR through means of the Grid Access Charge
4 outside of and before its next rate case is entirely consistent with Arizona law. Unlike
5 what happened in *Scates*, resetting the Grid Access Charge would not increase APS's
6 revenue. It would only reallocate customer responsibility for annual LFCR revenue as
7 shown by the following illustration of an annualized Grid Access Charge:

	\$0.70 per kW Grid Access Charge (\$M)	\$3.00 per kW Grid Access Charge (\$M)
LFCR from DG Customers	\$0.9	\$3.9
LFCR from non-DG Customers	\$37.6	\$34.6
Total LFCR Revenue	\$38.5	\$38.5

13 Whether the Grid Access Charge remains at \$0.70/kW, or increases to \$3/kW, APS will
14 collect the same amount of annual LFCR revenue. As a result, the requirement in *Scates*
15 that the Commission consider the effect of an increase in revenue on a utility's overall
16 rate of return does not apply—there is no increase in revenue in the first instance.

17 That resetting the Grid Access Charge does not increase APS's revenue similarly
18 resolves any need to recalculate the fair value of APS's rate base. In APS's last rate
19 case, the Commission found that the fair value of APS's jurisdictional rate base was
20 \$8,167,126,000, and that a fair value of rate return of 6.09% on APS's fair value rate
21 base would produce just and reasonable rates.¹⁶ In issuing Decision No. 74202, the
22 Commission invoked and relied on these fair-value findings.¹⁷ These findings are
23 effective today and remain the basis for APS's current rates.

24 Resetting the Grid Access Charge will not collect more revenue than is called for
25 by these currently-effective fair-value findings. As a result, resetting the Grid Access
26 Charge does not require new Commission findings regarding the fair value of APS's

27 _____
¹⁶ See Decision No. 73183 at ¶¶ 35 & 39, respectively.

28 ¹⁷ See Decision No. 74202 at Conclusion of Law ¶ 5.

1 property, or what fair value rate of return would result in just and reasonable rates.
2 Moreover, resetting the Grid Access Charge is consistent with certain suggestions in
3 *Scates* on how the Commission can proceed without making separate findings.
4 Specifically, resetting the Grid Access Charge:

- 5 • would essentially be a new rate schedule designed to collect the same amount of
6 revenue;
- 7 • will only apply prospectively, to a limited group of customers, who voluntarily
8 elect to install DG after the Commission issues its decision on the Grid Access
9 Charge;
- 10 • is subject to true-up in APS's next rate case; and
- 11 • can be accomplished on the basis of previous submissions, particularly because
12 the fair value rate base and fair value rate of return findings from APS's last rate
13 case continue to be effective today.

14 A relevant example of the Commission's ratemaking discretion occurred in
15 Decision No. 71635. There, the Commission set the customer charge for net metering
16 customers in Navopache Electric Co-op's territory at \$25.25, higher than the standard
17 customer charge of \$18.30.¹⁸ In assessing the fair value implications of its decision, the
18 Commission noted that "the proposed equipment charge on Schedule NM would have
19 no significant impact on the Company's revenue, fair value rate base, or rate of return,
20 because the charge is cost-based and relatively limited in scope."¹⁹ The Commission
21 also concluded as a matter of law that "[a]pproval of Schedule NMS does not constitute
22 a rate increase as contemplated by A.R.S. Section 40-250."²⁰

23 With its Motion, APS seeks less than Navopache did in 2009. Navopache sought
24 to increase the customer charge for net metering customers in a way that increased its
25 revenue. APS, on the other hand, only seeks a revenue-neutral reset of an adjustment
26

27 ¹⁸ See Decision No. 71635 (April 14, 2010).

28 ¹⁹ See Decision No. 71635 at ¶ 11.

²⁰ See Decision No. 71635 at Conclusion of Law ¶ 3.

1 that is subject to true-up in APS's next rate case. And APS's Motion seeks relief that
2 was expressly contemplated by Decision No. 74202. Approving APS's Motion to Reset
3 outside of a rate case is within the Commission's discretion.

4 **III. ARGUMENTS BY OTHERS ONLY ADVOCATE THAT APS'S**
5 **MOTION SHOULD (NOT MUST) BE IN A RATE CASE.**

6 The question of whether APS's Motion to Reset *should* be heard in a rate case is
7 only one of policy, not law. Although the April 28 Procedural Order did not request
8 briefing on policy questions, APS nonetheless responds to these arguments to complete
9 the record on this topic.

10 **A. Sufficient Evidence is in the Docket Establishing a Cost Basis for APS's**
11 **Motion.**

12 With its original application in 2013, APS submitted sworn expert testimony
13 providing a detailed cost basis for the \$67 per month cost shift.²¹ APS also filed
14 extensive discovery responses into the docket, which became part of the record. Both
15 Commission Staff and RUCO conducted their own analysis. No party sought an
16 evidentiary hearing in the docket. As TASC correctly notes, certain parties requested
17 that APS's filing be dismissed and considered in a rate case. But this is not the same
18 thing as requesting a formal evidentiary hearing, or asserting that a hearing in and of
19 itself was necessary. The current procedural posture of APS's Motion to Reset
20 demonstrates the difference. If the intervenors in 2013 had wanted a hearing, rather than
21 the perceived tactical advantage of a rate case, they could have sought one.

22 **B. TASC's Concession Regarding the Cost Shift Narrows the Range of**
23 **Issues that Might Require a Hearing.**

24 In its Response to APS's Motion, TASC—for the first time—admitted the factual
25 basis of the cost shift. In its Response to APS's Motion to Reset, TASC acknowledges
26 that with volumetric rate design, customers with DG contribute less to fixed costs
27 because they purchase fewer kilowatt hours:

28 ²¹ This figure was based on an average residential solar system size of 6.4 kW. APS notes that the average system size has increased and, therefore, the average cost shift has also increased since this calculation.

1 The Settlement Agreement starts from the premise of a potential rate
2 design issue: a significant portion of APS's fixed costs are recovered
3 through volumetric charges (as part of energy rates). This has the potential
4 to cause a rate recovery mismatch. Distributed Generation customers
5 (including NEM customers) purchase fewer kWh from APS, and to the
6 extent that their rooftop solar systems do not confer benefits in proportion
7 to or in excess of the fixed costs they avoid paying, **there is a possibility**
8 **that an under-recovery of such fixed costs from DG customers may**
9 **occur.**²²

6 Although TASC uses the label "revenue recovery mismatch," this is only semantics.
7 Fixed costs are collected through kWh charges. When customers install DG, they
8 purchase fewer kWh. Thus, less revenue is collected to pay for fixed costs. As a result,
9 the rates of non-DG customers will increase to account for the difference. This is the
10 cost shift.

11 TASC appears to suggest that DG provides other, long-term benefits, and that
12 those future, hypothetical benefits should be reflected in rates today. Although many
13 rooftop solar companies have urged this position in the past, it has been increasingly
14 shown to be a red herring. A growing number of respected academic institutions are
15 publishing studies that more accurately characterize the costs and benefits of DG, and
16 also confirm many of the facts that APS advanced in 2013 when it initiated this docket.

17 Most recently, the Massachusetts Institute of Technology issued an exhaustive,
18 cross-disciplinary study of solar.²³ MIT concluded, among other items, that installing
19 DG (i) does not reduce fixed grid costs; (ii) might actually increase fixed grid costs; and
20 (iii) shifts responsibility for paying fixed costs onto non-DG customers:

21
22 As the penetration of DG goes up, customers who have installed PV
23 systems (thereby becoming prosumers) **will consume a lower volume of**
24 **electricity from the grid.** Since network costs do not decrease with
25 greater PV penetration — on the contrary, they may even increase, as we
26 have seen — **the tariff that has to be applied to each kWh consumed to**
27 **recover network costs has to increase.** The prosumers with PV systems,
28 who are responsible for both the reduction in overall kWh sales and for the
increase in network costs, avoid a big portion of the cost, as Figure 7.13b

22 TASC's Response to APS's Motion to Reset at 10 (underlined in original, bold added).

23 See The Future of Solar Energy (Massachusetts Institute of Technology eds., 2015), available at
https://mitei.mit.edu/system/files/MIT%20Future%20of%20Solar%20Energy%20Study_compressed.pdf

1 shows. On the other end, **customers without distributed generation**
2 **systems fully absorb the impact of higher tariffs** — an outcome that is
3 likely to be perceived as unfair.²⁴

4 MIT's study establishes that rooftop solar does not reduce, and in fact could
5 increase, fixed grid costs. Resolving this factual dispute, however, is unnecessary. Using
6 hypothetical, long-term benefits of DG to offset historical, cost-based rates as a
7 ratemaking methodology is fundamentally flawed and does not merit serious
8 consideration. The record in this docket has already examined this issue. APS explored
9 these flaws on pages 16-20 of Charles Miessner's testimony, which APS filed with its
10 2013 Application and attaches to this filing as Exhibit A. APS also discussed various
11 related details in its responses to Staff data requests, which were filed in this docket in
12 2013. In the interest of time and space, APS will not repeat itself here.

13 TASC recently made this same claim before the Public Utilities Commission of
14 Nevada to no avail. There, TASC, as part of a Joint Solar Group, asserted that separately
15 studying the cost to serve net metering customers was unnecessary because of existing
16 studies about the long-term benefit of rooftop solar. The Nevada Commission Staff and
17 Nevada's Bureau of Consumer Protection disagreed with TASC. And in its final
18 decision, the Nevada Commission firmly rejected TASC's position, ordering that NV
19 Energy conduct a cost of service study for NV Energy's net metering customers and
20 rejecting the concept of developing rates based on DG's long-term benefits:

21 Both the Joint Solar Group and IREC state that a cost of service study is
22 unnecessary at this time. Both reference the results of the E3 Study
23 calculating the long-term costs for generation, transmission, and
24 distribution, concluding that the benefits of NEM solar generation for non-
25 participating ratepayers will equal or exceed the costs.

26 The E3 Study was a cost/benefit analysis of NEM, not a cost of service
27 study. These are not the same analyses. The former is appropriate for
28 certain resource planning issues, the latter is appropriate for allocating a
revenue requirement among customers on the basis of cost causation. The
analyses are complementary, not identical.²⁵

²⁴ *Id.* at 170 (citations omitted) (emphasis added).

²⁵ Investigation regarding whether separate customer classes of service for net metering customers should be established at p. 24 (Public Utilities Commission of Nevada, Docket No. 14-06009), available at http://pucweb1.state.nv.us/PDF/AxImages/DOCKETS_2010_THRU_PRESENT/2014-6/44816.pdf.

1 The Nevada Commission also ordered that a workshop be held on the fundamentals of
2 cost of service studies to address apparent “confusion about cost of service studies for
3 the purposes of ratemaking in Nevada” that emerged during the proceeding.²⁶

4 APS agrees with the Nevada Commission. Studies evaluating the long-term
5 benefits of DG are appropriate for resource planning. But they do not provide the type of
6 cost-causation information needed to determine just and reasonable rates. TASC’s only
7 reason why the cost shift might not exist—the long term benefits of DG—is irrelevant
8 for the purposes of setting rates and the evidentiary hearing in this matter should not
9 include evidence regarding the long-term benefits of DG.

10 Solar plays an important, valuable role in APS’s generation portfolio. The point is
11 not about solar, but about cost. As a general matter, APS believes that a preference
12 should be placed on acquiring the value of solar at the lowest price. This means
13 including more utility-scale solar, which is available at a fraction of what APS
14 customers pay for DG. Ultimately, questions about how and when to add more
15 renewable energy are policy questions best considered in policy-related dockets, like the
16 Integrated Resource Planning and Renewable Energy Standard dockets. The “value”
17 supplied by a particular generation resource does not equate with its cost, and rates are
18 set on costs.

19 **C. Any Additional Evidence Needed to Assess APS’s Motion Can Be**
20 **Obtained in an Evidentiary Hearing in this Docket.**

21 The primary factual issue that must be resolved in this matter is this: what amount
22 of fixed costs do DG customers not pay each month after accounting for the immediate
23 benefits provided by DG (like avoided fuel costs)? Substantial evidence has already
24 been submitted on this issue. To the extent that further refinement is needed, an
25 evidentiary hearing outside of a rate case is more than sufficient.

26 TASC disagrees, identifying three categories of information it claims are needed
27 to assess APS’s Motion: a cost of service study, “revenue requirement information,” and

28 ²⁶ *Id.* at p. 26.

1 a full cost benefit study. TASC further asserts that these categories of information are
2 only available in a rate case. TASC's assertions are incorrect. The categories of
3 information that TASC identifies are either already available, irrelevant, or can be
4 obtained in an evidentiary hearing on the Motion to Reset in this docket.

5 The cost of service information relevant to the Grid Access Charge has been filed
6 in this docket. This includes the cost to serve customers with DG and the costs they
7 permit APS to save. As the previously-referenced Nevada decision makes clear, an
8 entirely new cost of service study is not needed to accurately determine the relevant
9 facts.

10 It is not clear what is meant by revenue requirement "information," but APS's
11 revenue requirement is irrelevant for purposes of APS's Motion. Not only is the Grid
12 Access Charge revenue neutral, but APS's revenue requirement remains unchanged
13 from its last rate case for purposes of current rates and the Grid Access Charge. It is
14 unnecessary to find additional facts regarding APS's revenue requirement. And even if it
15 were necessary to do so, an evidentiary hearing would suffice.

16 The final category of information that TASC identifies is a "full cost benefit
17 study." As discussed above, however, the filed cost-of-service information already
18 incorporates the tangible short term benefits of DG. To the extent that long-term benefits
19 of DG exist, they are appropriate to consider in the resource planning context. But they
20 are irrelevant for the purpose of setting rates and should not be considered in connection
21 with the Grid Access Charge or in a rate case.

22 In any event, this issue may be moot. TASC has now sought much of this
23 information from APS through data requests it propounded on May 12, 2015. This
24 appears to be a tacit admission that a rate case is not needed to resolve APS's Motion.

25 **D. Although Rate Design Options Exist in a Rate Case, They Are Not**
26 **Needed Now and Waiting For Them is Against the Public Interest.**

27 APS agrees with Staff that more comprehensive and permanent solutions are
28 available to address the cost shift in a rate case. These solutions include demand-based

1 charges, a type of charge that Staff has described as ideal for equitably distributing the
2 costs and benefits of DG. But waiting until all solutions are available is not necessary. In
3 Decision No. 74202, the Commission made clear that the Grid Access Charge could be
4 reset before APS's next rate case. The Commission need not hold off taking action on
5 the cost shift until it can take action on the entire cost shift. Incremental progress can be
6 made now. The additional options available in a rate case will still be available if the
7 Grid Access Charge is reset now.

8 The inverse, however, is not necessarily true. Waiting to take any additional
9 action might hinder comprehensive and balanced solutions to the cost shift. A significant
10 issue to be resolved in connection with the cost shift is whether and how to grandfather
11 existing DG customers. APS is strongly inclined to prefer grandfathering. But the cost
12 shift continues to grow at a rapid pace. At some point, the cost shift might grow to such
13 an extent that grandfathering all existing DG customers will significantly increase rates
14 for all other non-DG customers. In that circumstance, it might not be feasible for the
15 Commission to grandfather current DG customers. Resetting the Grid Access Charge
16 now affords a greater opportunity to protect current DG customers. Although, delay
17 might permit third-party solar providers to install more DG in the short term, it would
18 also increase the likelihood of not being able to grandfather current DG customers in
19 APS's next rate case.

20 In addition to posing a risk to current DG customers, waiting is unfair to non-DG
21 customers. In Decision No. 74202, the Commission found that the revenue allocation
22 between DG and non-DG customers was unfair, and that it was in the public interest to
23 take action.²⁷ The original \$0.70/kW Grid Access Charge did not resolve this unfair
24 revenue allocation; it was only a small initial step. And the public interest that drove
25 Decision No. 74202 continues today. It is in the public interest to continue addressing
26 the inequitable revenue allocation by making additional incremental progress. Costs are

27
28 ²⁷ Decision No. 74202 at ¶ 106.

1 being unfairly shifted to non-DG customers now in the form of monthly responsibility
2 for LFCR revenue. It would simply be unfair to wait until the effective date of new rates
3 following APS's next rate case to provide relief to non-DG customers.

4 The reasons to take modest incremental action now outweigh any reason to wait.
5 Taking action now is an incremental step towards fairness in the interest of gradualism.
6 Although TASC has leveled claims of "abruptism," the opposite is true. The
7 Commission found that \$3/kW per month was reasonable and that the Grid Access
8 Charge could be reset before the next rate case. The Commission's decision was filed in
9 the public docket. And because it reflected a settlement negotiated by TASC, the
10 decision's language should not be a surprise. Moreover, the move from \$5 per month to
11 \$21 per month is a gradual step towards addressing the actual \$70 per month cost shift in
12 APS's next rate case.

13 TASC also points to generic concerns about judicial economy as a reason to
14 delay action. Once again, the opposite is true. Taking action now will facilitate the
15 efficient resolution of the cost shift. APS's Motion to Reset raises a narrow issue of
16 allocating LFCR revenue responsibility between DG and non-DG customers. It is based
17 on the fact of the cost shift—a reality that TASC now acknowledges—and the quantity
18 of shifted costs. There are no factual issues to be resolved now that would need to be
19 resolved again in APS's next rate case. In fact, resolving factual issues now, and
20 consequently resetting the Grid Access Charge, would facilitate balanced solutions in
21 APS's next rate case.

22 Ultimately, however, whether a small amount of judicial economy accrues by
23 acting now, or by delaying, is irrelevant. Fairness to non-DG customers and the public
24 interest weigh heavily against claims of judicial economy. The Commission should reset
25 the Grid Access Charge now in the interest of fairness, and to improve the chances of a
26 balanced solution in APS's next rate case.

27
28

1 **E. The LFCR Has Been and Can Be Changed Upon Appropriate Findings**
2 **by the Commission.**

3 Resetting the LFCR by increasing the Grid Access Charge to \$3/kW would not
4 violate the settlement agreement from APS's last rate case. Nor would doing so violate
5 Decision No. 73183 that implemented the agreement, or the resulting LFCR Plan of
6 Administration. The Commission approved the settlement agreement in 2012 because it
7 found the agreement to be in the public interest at that time. If the Commission were to
8 grant APS's Motion to Reset, it would again do so in the public interest at this time.

9 The Commission faced whether it could change the LFCR outside of a rate case
10 when it implemented the initial \$0.70/kW Grid Access Charge with Decision No. 74202
11 in 2013. In doing so, the Commission noted that paragraph 19.1 of the settlement
12 agreement authorized the Commission to take action in the public interest. The
13 Commission concluded that because of the LFCR's defective revenue allocation, it was
14 in the public interest to take action:

15 "We find that the presence of a defect in the method for allocating the
16 revenue spread in the LFCR is such an 'extraordinary event,' and we
17 believe that is it in the public interest for us to address it now. To conclude
18 that our decision in APS's last rate case (Decision No. 73183) forecloses
19 interim action would be unreasonable, especially in light of paragraph
20 19.1."²⁸

21 The Commission also considered Paragraph 9.11 of the settlement agreement, which
22 expressly contemplates changes to the LFCR before APS's next rate case:

23 "The LFCR shall be subject to Commission review at any time, the first to
24 occur no later than APS's next general rate case. If the Commission
25 decides to **suspend, terminate, or materially modify the LFCR**
26 **mechanism prior to the Company's next general rate case**, and does
27 not provide alternative relief that adequately addresses fixed cost revenue
28 erosion, the moratorium for filing general rate case applications shall
terminate."²⁹

29 In discussing the effect of this paragraph 9.11 in creating the initial \$0.70/kW Grid
30 Access Charge, the Commission left no ambiguity that its action in Decision No. 74202
31 was permitted:

32 _____
33 ²⁸ Decision No. 74202 at ¶ 106.

34 ²⁹ Settlement Agreement at ¶ 9.11, Attachment to Decision No. 73183, Docket No. E-01345A-11-0224
(emphasis added).

1 “Our order in Decision No. 73183 adopted the LFCR as proposed, and our
2 adoption thereof was based on our understanding that the LFCR is an
3 adjustor mechanism, subject to adjustments and mid-course corrections
4 between rate cases. Our adjustments as adopted herein fall within the type
5 of adjustments contemplated by Decision No. 73183 and the settlement
6 agreement in that proceeding.”³⁰

7 The Commission has already found that resetting the Grid Access Charge in the
8 manner contemplated in Decision No. 74202 is consistent with the LFCR, its Plan of
9 Administration, the settlement in APS’s last rate case, and the Decision implementing
10 that settlement. APS agreed with the Commission in 2013, and no other party disagreed
11 with the Commission’s understanding of the relevant language. For the same reasons
12 articulated by the Commission in Decision No. 74202, the Commission can permissibly
13 reset the Grid Access Charge now.

14 **IV. CONCLUSION**

15 APS’s proposal is revenue neutral. Consequently, no legal barrier exists to taking
16 action now. There are only two remaining questions. The first is factual: does a cost
17 basis exist that justifies APS’s request? The second is a policy question: if a cost basis
18 exists, should, as a matter of policy, APS’s proposal be approved? A rate case is not
19 needed to answer either question. And given the information in the docket, the findings
20 and conclusions in Decision No. 74202, and the growing size of the cost shift, the
21 answer to both questions can only be yes.

22 APS requests that an evidentiary hearing be scheduled in this matter, and that it
23 be afforded the opportunity to have its Motion to Reset heard on the merits.

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28 ³⁰ Decision No. 74202 at ¶ 107.

1 RESPECTFULLY SUBMITTED this 22nd day of May 2015.

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7 of the foregoing filed this 22nd day of
8 May 2015, with:

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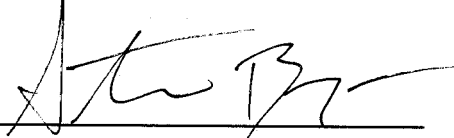


EXHIBIT A

1 **Q. WHAT ROLE DOES THE NETTING OF EXCESS GENERATION PLAY**
2 **IN THE COST SHIFT?**

3 A. The netting of excess solar generation against the customer's bill exacerbates the
4 cost shift because it provides full retail bill savings for the 20% (on average)
5 excess solar generation that is exported to the grid. Thus, it extends the cost
6 shifting issue to this portion of rooftop solar generation as well.

7 **VII. PERSPECTIVES OF ROOFTOP SOLAR COMPANIES ON COST SHIFTING**

8 **Q. WHAT ARE THE PERSPECTIVES OF ROOFTOP SOLAR COMPANIES**
9 **ON THE COST SHIFTING ISSUE?**

10 A. Rooftop solar companies offered their viewpoints regarding rooftop solar and Net
11 Metering in the recent technical workshops and elsewhere. They typically assert,
12 among other things, that: (1) rooftop solar does not shift costs to other customers;
13 (2) rooftop solar is similar to energy efficiency; and (3) if there is a cost shift, it's
14 just one of many cost allocation issues in rates.

15 **Q. DO YOU AGREE WITH THESE ASSERTIONS?**

16 A. No. Although APS appreciated and learned from the frank and spirited
17 discussions in the technical workshops, the Company does not believe that these
18 conclusions are valid, factually correct or compelling from a policy perspective.

19 **Q. PLEASE ELABORATE.**

20 A. Concerning the claim that rooftop solar does not shift costs, rooftop solar
21 companies typically claim that solar customers use less of the utility
22 infrastructure, and that by using less, utilities don't need to make as many
23 investments in the future. According to rooftop solar companies, this will result in
24 long term cost reductions that justify solar customers not paying for any
25 infrastructure costs today. This claim lacks merit. As discussed above,
26 customers with solar rely on and use the grid and APS power plants twenty-four
27 hours a day. This use includes, but is not limited to, (1) supplying the customer's
28 electricity needs when their solar unit is not running—both at night and

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intermittently during the day; (2) supplying the customer's peak power requirements between 6 p.m. to 8 p.m., right when the solar system's production drops off significantly; (3) maintaining backup generation at all times so that if the rooftop solar system fails, a cloud passes over or the production drops off for other reasons, the customer can continue taking power without even a momentary interruption; and (4) providing the voltage and VAR support required for the rooftop solar unit to function properly.

To the extent that customers with solar use the grid, they should pay for that use. Although rooftop solar customers do self-provide their own fuel and a portion of their utility power plant services, their use of the grid still requires utilities to make substantial infrastructure investments in power plants, transmission lines and distribution equipment.

Q. ROOFTOP SOLAR COMPANIES CLAIM THAT ALTHOUGH SOLAR CUSTOMERS USE THE GRID TODAY, THEY WILL NONETHELESS ELIMINATE FUTURE COST SHIFTS THROUGH A REDUCED NEED FOR INVESTMENTS. DO YOU AGREE?

A. No. Based on current projections, the cost shifting problem will persist into future years if left unresolved. In its 2013 Distributed Energy Technical Conference, both APS and rooftop solar companies presented studies that assessed the potential impact of rooftop solar on cost shifting and rates. APS presented two studies. The first study was conducted by Navigant Consulting and assessed the cost shifting issue under current costs and rates. The second study was conducted by SAIC and developed a long-run evaluation of the benefits of rooftop solar in terms of saving future utility fuel and infrastructure costs. Rooftop solar companies presented a study by Cross Border Energy that assessed the long-run impact of rooftop solar on APS's costs and rates.

1 **Q. WHAT WERE THE RESULTS?**

2 A. The results are vastly different. The APS-sponsored studies reported utility
3 marginal cost savings from rooftop solar for fuel and infrastructure that ranged
4 from \$0.034 per kWh today to \$0.08 in 2025. These studies demonstrated that
5 residential rooftop solar shifts costs to other customers both today and in the
6 future. The Cross Border study, on the other hand, found that rooftop solar will
7 save APS between \$0.22 and \$0.24 per kWh levelized over the next twenty years.
8 Based on this range, Cross Border concluded that residential rooftop solar does
9 not shift costs to other customers when assessed over a twenty year period.

10 **Q. WHAT ARE YOUR COMMENTS ON THE ROOFTOP SOLAR
11 COMPANIES' RESULTS?**

12 A. APS strongly disagrees with the Cross Border results and conclusions. Without
13 getting into too many technical details, the rooftop solar companies have
14 provided a grossly inflated depiction of the benefits of rooftop solar in terms of
15 the timing and magnitude of utility infrastructure cost savings, as well as other
16 purported benefits. Additional benefits claimed from rooftop solar, such as long
17 term fuel hedging, impacts on national and regional commodity prices,
18 employment benefits from solar jobs and compliance costs for the renewable
19 portfolio standard are either double counting, spurious, unproven or all three.
20 These flaws are so fundamental in nature that APS believes the Cross Border
21 study does not merit serious consideration.

22 **Q. ARE THERE ANY WAYS TO PROVIDE A THRESHOLD
23 REASONABLENESS CHECK FOR THE STUDY RESULTS?**

24 A. Yes. I believe that there are a couple of ways to assess whether the Cross Border
25 study results fall within a reasonable range. The first indication that the rooftop
26 solar companies' estimates of utility cost savings from rooftop solar appear to be
27 beyond the realm of reason is that they are roughly twice the current level of
28 retail rates for residential customers. In other words, Cross Border concludes that

1 the solar savings of rooftop solar will grow so much over the next 20 years that
2 the levelized annual savings will be 200% of APS's total costs, costs that include
3 all of APS's power plants, transmission lines, substations, distribution lines,
4 meters, service trucks, operating buildings, computer systems, furniture and
5 everything else. This result just does not seem plausible.

6 Second, as discussed below, APS could currently purchase solar energy
7 for a twenty year period from large solar power plants (called utility scale solar),
8 at a cost that is far below the value of rooftop solar cited in the Cross Border
9 study. Importantly, this utility scale solar could be located at or near a load
10 center, and thus provide most, if not all, of the rooftop solar benefits claimed by
11 rooftop solar companies. Why should customers effectively pay a rooftop solar
12 customer \$0.24 per kWh when they could obtain the same benefits from utility
13 scale solar for \$0.08 to \$0.09 cents per kWh? The answer is they shouldn't. This
14 comparison further suggests that the Cross Border study results are beyond what
15 any reasonable study could possibly conclude. Compensation for rooftop solar
16 should never be higher (much less three times higher) than the price to purchase
17 an equivalent, or near equivalent, alternative.

18 **Q. DOES APS BASE ITS RATES AND BILLING POLICIES ON LONG RUN**
19 **PROJECTED COST STUDIES?**

20 A. No. APS performs rate impact studies and other long-range cost studies as part
21 of our financial and rate planning. They are used for strategic planning and for
22 setting direction and policy. However, they are not used to determine overall rate
23 levels, rate design, or otherwise influence a customer's monthly bills. APS's
24 rates are set to recover historic test year costs as determined by the Commission.
25 Therefore, even if residential rooftop solar passes a long run rate impact test
26 (which it doesn't), it isn't appropriate to design rates or otherwise justify that a
27
28

1 customer not pay for utility services that they still receive based on this
2 information.

3 **Q. WHY NOT?**

4 A. APS believes that a customer should pay for the services they are receiving from
5 the utility. If, however, they can self-provide some of these services, then their
6 bill savings should be based on the current prices for the services they self-
7 provide, not a prediction of what those services might be worth over the next
8 twenty years. To the extent that the services provided by rooftop solar actually do
9 become more valuable over time, the bill savings will grow to reflect this
10 increased value. But it is not appropriate or fair to base a higher level of
11 compensation for rooftop solar today based on hypothetical marginal costs in the
12 future. What happens if the events upon which the future savings are based never
13 occur? In that case, non-solar customers would have been paying all along for a
14 predicted benefit, only to have that benefit never materialize.

15 **Q. DO ANY UTILITIES SET RATES OR BILLING POLICIES BASED ON**
16 **THESE TYPES OF LONG-RUN MARGINAL COST STUDIES?**

17 A. No. None at all to my knowledge. Some utilities have forward test years where
18 rates are set to recover projected average costs one or two years in the future.
19 Other utilities perform near term marginal cost studies as part of their rate
20 analysis. However, even in these cases, the utility sets rates to recover near term
21 average costs, not long term projected marginal costs.

22 **Q. ROOFTOP SOLAR COMPANIES CLAIM THAT IF SOLAR IS A**
23 **SUBSIDY IT'S JUST ONE OF MANY SUBSIDIES THAT OCCUR IN THE**
24 **RATE MAKING PROCESS. DO YOU AGREE?**

25 A. No. Not at all. Their assertion seems to be twofold—there are numerous
26 subsidies built into current rates, and that because there are many subsidies, it's
27 unfair to try to solve any of them. Neither assertion is valid.
28