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June 5, 2015

Chairman Susan Bitter Smith  
Commissioner Bob Stump  
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Arizona Corporation Commission

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Arizona Corporation Commission  
Commissioners Wing  
1200 W. Washington  
Phoenix, Arizona 85007

**Re: 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 ARIZONA INVESTMENT COUNCIL IN SUPPORT OF APPLICATION**

Dear Commissioners:

On behalf of Arizona Investment Council's 6,000 individual members who are debt and/or equity investors in Arizona utility companies, I offer these comments in strong support of moving forward with APS's application to address further the cost shift caused by net metering.

1. *The Commission has previously recognized that cost shifting occurs due to the proliferation of customers on volumetric energy rates who self-generate, and has implemented a modest grid access charge for new DG customers to partially address the cost shift in APS's service territory.*
2. *Delaying action on APS's current application until consideration in the company's next rate case is not required and will exacerbate the continuing cost shift, thus imposing additional cost burden on customers without distributed generation. Taking action now not only mitigates the cost shift but takes advantage of the opportunity to treat the underlying problem in a gradual next step.*
3. *Recommendations by TASC, SEIA and others to delay action until APS's next rate case are unreasonable under the circumstances presented in the Company's filing.*

## **I. THE COMMISSION HAS PREVIOUSLY RECOGNIZED THAT COST SHIFTING OCCURS**

In Decision No. 74202, the Commission acknowledged for Arizona Public Service Company that cost shifts from self-generating customers to other customers occur as a result of net metering. In Decision No. 74202, the Commission stated “. . . we find that the proliferation of DG installations results in a cost shift from APS’s DG customers to APS’s non DG residential customers absent significant changes to APS’s rate design.”

In support of its original 2013 application to address this problem, APS provided testimony that the cost shift was \$67 for each DG customer per month. Decision 74202 authorized an initial grid access charge of only \$5 per month on average for new DG installation – less than 10 percent of the actual cost shift identified by the company. APS is now requesting a grid access charge for new DG customers of \$21 per month on average – still only one-third of the actual amount shifted onto other customers as presented by the company, and precisely equal to an amount already found to be reasonable in Decision 74202. .

Further, APS’s application is revenue neutral in that it does not increase revenues to the company, nor change its rate base or fair value return. Rather, it simply recovers a fairer share of fixed grid-related costs from new DG customers and reduces cost recovery from non-DG customers by the same amount through the company’s Lost Fixed Cost Recovery (LFCR) mechanism. Although I am not a lawyer, I understand that the revenue neutrality of this proposal is a major reason that allows it to be heard outside a formal rate case proceeding (as it was in the initial net metering proceedings in 2013, when the charge was first established).

Moreover, in Decision No. 74202, the Commission clearly contemplated further future adjustments to the grid access charge. In Finding of Fact 85, p. 24, the Commission stated, “[t]he Commission may periodically adjust this charge in any APS LFCR reset proceeding.”

The APS proposal provides another step in a gradual glide path for addressing the increasing inequities that exists between DG and non-DG customers through the LFCR as a result of current net metering arrangements.

## **II. DELAYING ACTION ON APS’S APPLICATION UNTIL CONSIDERATION IN THE COMPANY’S NEXT RATE CASE WILL EXACERBATE THE ONGOING COST SHIFT**

As the price of solar panels has fallen substantially in recent years and new, zero/low down-payment rooftop solar leasing arrangements have been instituted by solar installers, the number of self-generating solar customers has continued its dramatic rise in APS’ service territory, notwithstanding implementation of the \$5 average grid access charge authorized in Decision No. 74202. As a result, the level of fixed costs shifted onto non-DG customers has also grown dramatically and will continue to increase.

In light of the surprising rapid growth in rooftop solar installations, the Commission has taken measures to gradually reduce the cross subsidies instituted to jump start this nascent industry. For example, the Commission has reduced and eliminated up-front subsidies for solar installations and acted on the previous request by APS to implement an additional fee to partially recover grid-related costs from new solar installations. This application by APS to further address the growing cost shift issue is another example in this gradual approach toward lowering subsidies and reflecting appropriate cost recovery<sup>1</sup>.

While the APS proposal does not fully eliminate the cross-subsidy burden transferred onto non-DG customers, it provides an appropriate additional step and is a reasonable and understandable approach for the company and the Commission.

Timely action on APS's application is not only good for customers, but will reinforce the view of an improved regulatory environment at the ACC in the eyes of investors. Moving forward with the application in an expeditious manner will further demonstrate that the Commission is willing to tackle important issues without unnecessary regulatory delay.

**III. RECOMMENDATIONS BY TASC, SEIA AND OTHERS TO DELAY ACTION UNTIL THE NEXT RATE CASE ARE UNREASONABLE UNDER THE CIRCUMSTANCES PRESENTED HERE AND WOULD BOTH RESULT IN UNNECESSARY HARM TO NON-DG CUSTOMERS AND SEND THE WRONG SIGNAL TO INVESTORS.**

APS has not suggested that it will file a rate case this year. Assuming hypothetically that the company filed a rate case next year using a 2015 test year, a decision from the Commission addressing its proposed grid access charge and other rate issues would likely not be rendered until at least mid-2017. Therefore, relief for non-DG customers from the net-metering related cost shifts would not occur for at least two years from now, at the earliest. Waiting until the Commission issues a decision in a future rate case will mean the amount of cost shifts will continue to build, the bill impact on residential customers caused by the cost-shift will be greater than it otherwise would be, and the issue will be an even larger and more difficult matter for the Commission to resolve.

Put another way, further delaying the matter to APS's next rate case will place the Commission in an awkward position by allowing the inequities between DG and non-DG customers to build for a minimum of two more years.

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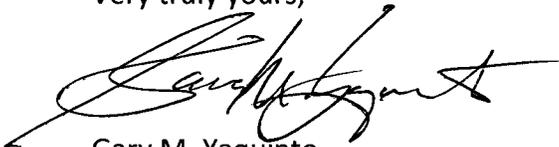
<sup>1</sup> The cost shift issues associated with current net metering practices are also of concern to Tucson Electric Power Company and Arizona's electric cooperatives also experiencing rapid growth in rooftop solar installations. Trico Electric Cooperative and Sulphur Springs Valley Electric Cooperative have also filed applications with the ACC to alter net metering tariffs. TEP's application to address the cost shift resulting from net metering is also pending.

Additionally, delaying this next step in addressing subsidies for rooftop solar installations and providing some level of additional relief from the related burden on non-DG customers is a step backward from the noteworthy progress the Commission has recently made to reduce regulatory lag in processing cases that come before it. Investors watch for such trends, and the Commission should consider the signal that it will send to the investment community as it makes a decision on what process should be used with this application.

## **CONCLUSION**

Given the mounting risks associated with current net metering arrangements on non-DG customers and investors, AIC requests the Commission set aside pleas to further delay the matter to a rate case and instead proceed expeditiously to address the application as filed.

Very truly yours,

A handwritten signature in black ink, appearing to read "Gary M. Yaquinto", written in a cursive style.

Gary M. Yaquinto  
President & CEO

ORIGINAL and thirteen (13) copies  
filed this 5<sup>th</sup> day of June with:  
Docket Control