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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONER	COMMISSIONER

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** **THE ALLIANCE FOR SOLAR CHOICE'S (TASC) REPLY BRIEF**

ORIGINAL

I. Introduction

Consider the contrast on this issue. On the one side, APS wants to raise fees on solar customers outside of a rate case for a second time. On the other, every party to this docket agrees the next rate case will ultimately resolve this rate design issue. Dealing with this issue outside of a rate case will cost ratepayers, taxpayers, and Intervenors collectively millions of dollars, an expenditure that will far eclipse any amounts derived from this new charge between now and the conclusion of the next rate case, while at the same time thousands of solar jobs will be at risk. In addition, outside a rate case, the Commission's and Intervenors's hands are bound against seeking alternatives to APS's request that legally cannot be implemented through this docket. As TASC explained in its Initial Brief and reiterates here, even were the Commission legally permitted to address APS's Motion and setting aside the illegality of acting outside a rate case, actually doing so would,

pragmatically, be a terrible idea. The Commission should insist on exploring this issue in a full rate case.

II. Scare Tactics Cannot Carry The Day

APS bases its entire Motion on the false premise that "the growing size of the [alleged] cost shift"[1] requires immediate action. APS intends for its frightening narrative of an alleged cost shift that is growing in real time to push the Commission to directly address the issue now, in this docket. But APS's scare tactics are just plain wrong. No matter how high APS sets its requested solar fee, the Commission voting that fee into existence will do *nothing* to change the relevant ratemaking equation in the next rate case. In other words: APS claims there is a growing cost shift, but its proposal will do nothing to avoid or minimize the alleged shift. All the proposal will do is penalize solar customers and companies.[2]

A. APS admits the cost shift does not work as it has alleged

Upon close examination, APS's cost shift scare tactics fall apart completely. APS trumpets an alleged $67/month cost shift and contends that leads to an additional $6.3 million per year being shifted to non-DG customers *now*.[3] However, when APS had to answer TASC's Data Requests, APS's false narrative was exposed: APS could not demonstrate how the alleged shift moves to non-DG customers in anything close to the way it has long alleged.[4]

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1 APS Brief at 15:17.

2 APS is so desperate to push the narrative of this imaginary cost-shift that it grossly misstates TASC's position, even suggesting that TASC admits the cost shift functions as APS has alleged. The obvious problem with APS's cherry-picked quote from TASC's brief is that the utility stops one line short of where TASC says, "[t]o be clear, as explained in greater detail in the Crossborder Energy Study, TASC again emphatically rejects the assumption that DG customers do not confer a benefit on APS and its system in excess of the fixed costs they avoid." So much for TASC's alleged concession.

3 APS Motion to Reset at 6:8-9, 7:9.

4 See, TASC Data Request 2.11.1 and 2.11.2 asking that APS:
2.11.1: Explain the rate mechanism(s) in place whereby the alleged $67/month shortfall is shifted from a DG customer to a non-DG customer and quantify the amount of money actually shifted through each identified mechanism(s) in 2014 and expected to be shifted in 2015.

In response to TASC 2.11.1 (Attached as **Exhibit A**), APS argues that costs are shifted using three methods; 1) in a rate case; 2) through adjuster mechanisms; and 3) through the LFCR. On the first method, APS admits that the alleged cost shift that occurs in a rate case simply does not happen in real time, but rather only on a going-forward basis. APS writes, "APS's last general rate case was implemented in July 2012 using a 2010 test year. So the costs shifted to date from [the rate case method] would be from the solar homes installed as of year-end 2010."[5] In other words, APS admits that none of the solar installed in the last five years is shifting costs to other ratepayers via the 2012 rate case. This admission is consistent with what TASC has been arguing all along and proves that any cost shift is not growing in real time as APS has alleged.

As to the second method, although APS alleges that adjusters, including the DSMAC, the RES, and the TCA, result in cost shifts on an annual basis, it cannot provide any amount for such cost shifts. Further, APS admits that the PSA adjuster does not result in a cost shift and fails to mention that DG customers pay the maximum RES charge. More importantly, APS fails to explain how DG solar has any unfair impact on adjusters at all, or the amount of such an impact.

Finally, on the third method, APS reiterates its claim that the LFCR creates an unfair cost shift by functioning in exactly the way that it was designed, which the Commission, Commission Staff, RUCO, the utility, and all intervenors in the last rate case all supported. On this point, APS admits in response to TASC 2.13 (attached as **Exhibit B)** that over 70% of the charges passed to ratepayers through the LFCR since its inception have been to compensate the utility for lost fixed costs caused by EE implementation, with only 29.37% of the costs attributable to DG. Put another way, APS is complaining mightily about an alleged cost shift from DG in the LFCR, yet the EE cost shift is more than *double* anything that is attributable to DG.

2.11.2: Explain and identify the rate mechanism(s) in place that permitted the alleged $6.3 million in cost shift growth to be shifted from DG customers to non-DG customers in 2014 and identify the portion(s) of the $6.3 million shifted through each identified mechanism(s).

5 See id. at response para 2.

APS's own description of the three methods that allocate the alleged cost shift leads to only one conclusion: The cost shift, even if true, does not happen in the manner APS presents in its panic-inducing descriptions of big money cost shifts.

Even more telling is APS's self-defeating admission that, despite years of alleging this urgent cost shift, it "has not delineated the dollar cost shift per year between the different methods."[6] In other words, *APS was given the opportunity to back up its claims, to finally show how the alleged cost shift works and to quantify the amount of the alleged shift passed on through each mechanism, and it was unable to do so*. This admission undermines all APS's scare tactics. The truth is that APS cannot prove the alleged cost shift because it does not work in the manner APS has led the Commission and the public to believe.

What does APS's description of the three methods of cost shifting and its admission that it cannot explain how the alleged cost shift manifests mean to the Commission? It all proves that no matter how much more or how much less APS collects from DG customers through the LFCR, between now and the conclusion of its next rate case, that amount will have no impact on the setting of rates for any customers in the next rate case. If APS believes that the presence of a certain number of DG customers on its grid creates a cost shift that must be dealt with in its next rate case, it will make no difference how much a DG customer pays today in the LFCR.

B. RUCO is pushing for a rate increase on its own constituents with no benefit

RUCO seems to have believed APS's scare tactics, repeating the false assertion that "as the number of solar sales continue to grow the cost shift to non-solar customers continues to increase."[7] Even if one took everything that APS alleges as true, there would still be no mechanism in place that would allow APS to recover, in its next rate case, for any unrecovered lost revenue it may incur

6 See id. at response para 6.
7 RUCO Brief at 4:6-8.

between rate cases as a result of the implementation of DG. Again, even if the cost shift allegations were true – and TASC denies that they are – the unrecovered lost revenue that the company would incur between rate cases would *never* be passed onto other ratepayers as increased costs; it would simply be lost. To contend otherwise is to ignore that utilities are not made whole for lost sales between rate cases, such as fewer kWhs sold because of a cooler summer or other changes in usage patterns. That is not how rates work.[8]

RUCO was a staunch supporter of the LFCR mechanism as it was adopted. In fact, RUCO supported the LFCR mechanism in the APS,[9] TEP,[10] and UNS[11] rate cases. The LFCR is working as it was proposed and designed, and is collecting revenue below the maximum amounts allowable while splitting the responsibility among all participating ratepayers. If RUCO understands that APS's next rate case certainly will not include an award for any unrecovered lost revenue attributed to DG installed between rate cases, then RUCO's current position is puzzling. RUCO is directly advocating for a dramatic increase in costs to one small and artificially-created sub-class of residential ratepayers with the only measurable benefit (no matter how small) coming in the form of an alteration of the LFCR mechanism that RUCO had previously and consistently found to be in the public interest.

Has RUCO announced the adoption of a new and blunt utilitarian policy view where it will pit residential ratepayer against residential ratepayer, and abandon long-held support for policies to advocate for massive increases on the few if it facilitates nearly immeasurable decreases to the many? If so, how does RUCO justify ignoring that 70% of the LFCR is made up of costs related

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8 Evan TEP agrees with this and offered testimony in its last rate case confirming that any lost revenue resulting from DG implementation between rate cases is "lost forever" and not recouped in a rate case. See July 2, 2012 Testimony of Craig A. Jones, TEP Manager of Pricing, at 61:2-7.

9 See Testimony of Jodi A. Jerich in support of the Proposed Settlement Agreement, January 8, 2012 at 11:12-17 ("RUCO believes that providing the Company a narrowly tailored mechanism to recover lost revenue directly and solely associated with Commission-mandated EE and DG programs while providing the ratepayer the ability to opt out of the LFCR with a slightly higher base rate is a reasonable solution to what is undoubtedly the most contentious issue in this case").

10 See Testimony of Patrick J. Quinn in support of the Settlement Agreement, February 15, 2013.

11 Direct Testimony of Patrick J. Quinn in support of the Settlement Agreement, September 20, 2013 4:6-15 ("The Agreement reflects an outcome that is fair to both the consumer and UNSE and is in the public interest").

to EE, while calling the significantly smaller portion attributable to DG unfair? RUCO's logic can lead to dangerous departures from precedent and make it hard for residential ratepayers to rely on RUCO as a steady advocate. If RUCO is so quickly willing to abandon policies it has long supported, what does that mean for other issues residential ratepayers care about?

C. RUCO and APS are both flip flopping on prior positions that a broad discussion should be had prior to changes being made in a rate case

In August of 2014, both RUCO and APS were steadfast in insisting that broad ratemaking discussions be undertaken prior to any additional changes or solar charges being implemented. In support of its request to push its rate case filing out, APS assured the public and the Commission it had no plans to seek an additional solar charge outside a rate case.[12] At the time, APS's Barbara Lockwood wrote the Commission a letter advocating that, "[i]t is APS's opinion that rate design issues are broader than net metering and rooftop solar" and that "APS believes that a Commission-led discussion and workshop process on rate design will be beneficial to the Commission, utilities, and other stakeholders as a means of developing updated utility rate structures."[13] No such broad discussion has been held. After APS achieved its goal of pushing its rate case filing out, it seems to have abandoned this position in favor of the shortsighted proposal in its Motion.

RUCO was even more specific in saying that it was not in favor of permitting the lifting of the 2015 rate case filing requirement unless a broad discussion of utility ratemaking were to ensue. RUCO's then-Director wrote, "[a]ssuming a broad statewide discussion that **covers all major issues** facing utilities and their ratepayers is set up, it seems appropriate to remove the APS requirement of filing a rate case by June 2015. If a limited discussion is pursued, RUCO sees little

12 See TASC Brief at 22:19-22.
13 Letter from Barbara Lockwood to Commission dated August 7, 2014, in Docket No. E-01345A-13-0248 at 2.

reason to push out the APS case."[14] Just like APS, RUCO has apparently abandoned this position in favor of a limited scope proceeding specifically designed not to deal with broad issues.

The Commission made its decision to extend the rate case filing requirement based on these submissions from APS and RUCO. With APS saying it has no intent of seeking a raise in the solar charge outside a rate case and pushing for a broad investigation of rate design the Commission relented and extended its rate case filing requirement. APS should not be permitted to get away with this regulatory bait and switch that is proposed in its Motion. The Commission should hold APS accountable for its commitments.

III. APS Admits It Expects Its Proposal To Have A Substantial Negative Impact On Solar Installations Yet Continues To Mislead On Impact Of Solar Charge

In its Initial Brief, APS argues that its new solar charge will provide substantial cost savings to non-DG customers while using absurd assumptions. In fact, as explained in TASC's Initial Brief, for the savings to non-DG customers that APS predicts in the chart on page 5 of its Brief to come to pass, the new $21/month average charge would need to not only not slow the solar market, but to skyrocket it to unprecedented heights. In its Brief, APS predicts that its new charge will take the solar industry from its current annual installation rate of roughly 7,800 systems to a startling 12,500 systems after the charge goes into effect.

This is obviously nonsense and APS knows it. In fact, in an email to RUCO Director David Tenny, dated May 7, 2015, Barbara Lockwood, APS's Director of Regulatory Affairs and Compliance (attached hereto as **Exhibit C**), admitted that APS actually expects the market for rooftop solar to decline significantly after the new solar charge is implemented. After noting that an APS generated chart alleges that APS's value to solar customers will be just slightly higher than SRP's historic

14 Letter from Patrick J. Quinn to Commission dated August 1, 2014 in Docket No. E-01345A-13-0248 at 2-3. (Emphasis in original).

value, Ms. Lockwood uses SRP's 2014 solar installation velocity of 4,100 installs as an example of what it might look like in APS service territory after the new charge. Ms. Lockwood writes that "considering SRP has over 4,100 solar installations in 2014, it's safe to say the solar industry [in APS service territory] will continue with a $21/month charge."

Ms. Lockwood's admission is startling on two fronts; 1) this indicates APS believes an acceptable outcome of this docket is to cut solar installations nearly in half; and 2) APS filed with the Commission a Brief including unsupportable assumptions showing solar installations growing by roughly 50% with the new charge in place, but is simultaneously telling policy-makers that it expects installations could shrink by nearly 50%.

TASC disagrees with APS's contention that the solar charge would even support a solar industry comparable to pre-solar-charge SRP levels. In fact, TASC believes the proposed solar charge will wipe out the industry altogether.

IV. Rate Of Return Absolutely Is Impacted By Giving APS The Nation's Most Aggressive Revenue Mitigation Tool And Must Be Dealt With In A Rate Case

APS argues both that it should be granted perhaps the most aggressive cost-mitigation mechanism in the country, and that its fair value rate of return should not be re-evaluated in light of such a monumental grant.[15] This underscores the problem with APS's notion that this Motion can be appropriately reviewed outside of a rate case. Return on equity ("ROE") will be dramatically impacted by revenue mitigation devices that differentiate a utility from a proxy group of similar utilities, and such impacts must be considered in evaluating this issue.

For example, when the LFCR was proposed in TEP's last rate case, it triggered an investigation into the impact the LFCR mechanism would have on TEP's proposed return on equity. According

15 See APS Brief at 5:17-23.

to TEP's ROE expert, mechanisms that lower the investment risk of a company relative to a proxy group of similar companies have a direct impact on the ROE.[16] TASC is unaware of any company in the country that has a mechanism like that proposed in the Motion. As a result, such a mechanism will undoubtedly lower the investment risk of those investing in APS relative to other proxy groups, and will no doubt impact the company's ROE.

In fact, Staff's ROE expert suggested that further investigation of mechanisms like full decoupling "could lead to a host of contentious questions of how much and when to make adjustments to the return on equity."[17] In this instance, APS is proposing something akin to full decoupling for DG customers, which would, according to TEP and Staff, be likely to impact the company's ROE. This *requires* examination in a general rate case to fully evaluate this impact.

V. This Fundamental Transformation Of The LFCR Clearly Is Not What Was Contemplated In The Settlement Agreement

APS argues that the Commission is free to fundamentally transform the LFCR into something other than what it was designed to be, and that such abandonment of the LFCR is consistent with the Settlement Agreement resolving its last rate case. APS is wrong.

APS points to two provisions of the Settlement Agreement that it argues support its position that the Commission can substantially alter the LFCR to the disadvantage of a certain artificially-created sub-class of customers with DG solar. First, APS points to Section 19.1, arguing that the Commission would be legally free to justify its decision by finding that there is an "extraordinary event" requiring departure from the Settlement Agreement.[18] As explained in TASC's Initial

16 See July 2, 2012, Testimony of John R. Reed at 36:12-14 ("the issue is not whether the Company's revenues would be less volatile with the LFCR than without it; rather the relevant question is whether the Company would be more or less risky with its LFCR as compared to the proxy group.").
17 Decision 73912 at 41:4-6.
18 See APS Brief at 14:8-17.

Brief, the notion that the LFCR functioning exactly as designed and well below the recovery cap is an "extraordinary event" is legally unsupportable.[19]

Next, APS argues that Section 9.11 grants the Commission the unfettered right to do anything it wants to the LFCR at any time.[20] Section 9.11 provides:

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

APS's conclusion that this provision permits the Commission to change anything at any time ignores the context of this Docket and the Settlement Agreement itself. First, there is a difference between the Commission commencing a review, on its own accord, into whether or not the LFCR should be altered, and what APS is doing here, which is to affirmatively ask the Commission to abandon key provisions of the Agreement that APS executed to avoid litigation and settle *its own rate case*. In this case, the Commission is not affirmatively seeking to make changes to the LFCR. Instead, APS is violating the terms of the Settlement and acting in bad faith by asking the Commission to dismantle the negotiated functioning of the LFCR. Section 9.11 is protection for the Commission, not a free pass to the utility to repeatedly ask the Commission to alter the Settlement Agreement. APS, a party to the Agreement, is asking the Commission to blow up the agreed methodology upon which the LFCR is based. This is clear bad faith under the contract.

19 See TASC Brief at 19:1-25.
20 See APS Brief at 14:18-26.

Next, the context of the Settlement Agreement itself makes it clear that this provision was designed to protect APS and ratepayers from changes that would no longer permit it to recover for fixed cost erosion. Section 9.11 was not included to empower the Commission to strengthen APS's fixed cost recovery mechanism at the expense of other parties that relied upon the Settlement Agreement. Note the only remedy for a Commission change under 9.11 is one that grants APS relief. There is no remedy granted to other parties, because the type of changes considered protected by this Section were changes that the Commission would make that would limit APS's fixed cost recovery. There is no evidence to suggest that the Commission intended to use this provision to do anything other than to increase or decrease the permitted recovery.

The concern was always that the LFCR would not be an adequate alternative to the decoupling mechanism that APS sought.[21] That is why APS reserved the right to have its rate case moratorium lifted if the LFCR was altered to no longer provide APS what it deemed an adequate recovery for lost fixed costs.

VI. APS Reliance On The Navopache Cooperative Decision Is Misplaced

APS wrongly argues that this Commission's decision to permit Navopache Electric Cooperative to charge its net metering (NEM) customers a higher fixed charge is precedent weighing in APS's favor.[22] In Decision 71635, the Commission approved Navopache's Net Metering Tariff for the first time as required by R14-2-2307. Unlike APS's legally deficient Motion, Navopache's Application was *required by Rule* to be brought within 120 days of the effective date of the Commission Net Metering Rules.[23]

As part of the creation of the cooperative's Net Metering Tariff for the first time, the Commission permitted Navopache to charge NEM customers a fixed charge slightly higher than the standard

21 See Direct Settlement Testimony of Jeffery B. Guldner, January 18, 2012 at 16:8-24.
22 APS Brief at 6:14-25.
23 See Decision 71635 at para. 2.

fixed charge to compensate the utility for higher costs of providing "non-standard metering, billing, and pricing" to NEM customers.[24] The charge was specifically found to be "cost based" and merely permitted the co-op to recoup its actual costs for these increased provided services.

APS's Motion asks for nothing like what Navopache was awarded. APS's Motion is not only not required by rule, it is legally prohibited. APS is arguing that the Commission should alter a settlement agreed upon in its last rate case and restructure the LFCR to charge an artificially-created subclass of customers an additional charge while Navopache was merely implementing a tariff and setting cost based fees as required by rule. In fact, the only real parallel between APS's Motion and Navopache's tariff filing is that they both deal with solar customers. Beyond that APS's comparison falls flat.

VII. There Is No Evidence In This Docket Establishing Support For The Motion

Despite APS's claims to the contrary, there quite simply is not a sufficient record to support its request. As TASC fully explains in Section II of its Initial Brief, the record in this Docket is devoid of any balance and the parties have been denied any opportunity to introduce formal evidence, provide any testimony, or even cross-examine witnesses.

APS misleadingly alleges that no party sought an evidentiary hearing in the earlier matter and therefore, somehow, "sufficient evidence is in the Docket establishing a cost basis for APS's motion."[25] APS suggests that rather than seeking to have the earlier matter heard in the legally correct forum (*i.e.*, a rate case), TASC and the numerous other parties who filed Motions to Dismiss should have instead sought a hearing.[26] APS fails to appreciate that the parties it believes should have "requested a hearing" had filed pending and still unresolved Motions to Dismiss.[27]

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24 Decision 71635 at 2:19-23.
25 APS Brief at 7:9-11.
26 Id. at 7:15-18.
27 See TASC Brief at 4:4-19.

Filing a request for a hearing would have been an acknowledgement that the forum was proper, when numerous parties believe (and TASC has shown) that the only legal forum to address this matter is in a rate case.

It is telling that APS would even try to convince this Commission that the record is sufficient in a Docket where APS was the only party permitted to introduce witness testimony, no party was permitted to cross-examine APS's witnesses, and no formal evidence was accepted at all. It shows the utility is desperately trying to avoid full scrutiny of this issue in a rate case, and seeks to stop the growth of rooftop solar as quickly as possible.

All of the "evidence" APS points to is not only self-serving, but is also outdated with studies that were undertaken in 2012 and 2013 serving as the basis for APS's claims. In addition, TASC notes that unlike in other states that have wrestled with these issues including, among others, Nevada, Louisiana and California, the Commission is yet to undertake any neutral third party study of the costs and benefits of DG solar. The bottom line is that there is certainly not sufficient evidence in this docket establishing APS's claims.

VIII. Judicial Economy Strongly Favors Dealing With Issue In A Rate Case

APS's arguments urging resolution in this docket torture the notion of judicial economy. APS would have the Commission believe that it is most efficient for the Intervenors, the Commission, utility ratepayers, the utility, and Arizona taxpayers to expend substantially more resources than the new solar charge will ever recoup between now and the resolution of the next rate case to fully litigate this matter in this docket and then turn around and do it all over again in a rate case. APS even urges this while admitting that the request in this docket will not even solve the problem that APS alleges and can be better solved in a rate case.[28]

28 See APS Brief at 11:26-28.

As TASC illustrated in its Initial Brief, APS has wildly exaggerated the amount of money the solar charge will raise in any likely scenario.[29] When the small amount of money to be raised by the solar charge is compared with the multimillion dollars in taxpayer, ratepayer, and intervenor resources that will be expended on this litigation, the scales of judicial economy crash toward waiting until a rate case. This does not even count the time and resources expended on likely litigation in court on appeal from the Commission's final Order, which would take the resolution of this matter well beyond the date that the 2016 rate case itself concludes.

When that cost-benefit mismatch is coupled with the fact that the rate case will commence just months after this docket is resolved, and that APS will then be seeking a different or additional solution to this same issue, the problem with dealing with an incomplete solution now becomes obvious. Are the taxpayers, ratepayers, and Intervenors supposed to turn around and expend the same millions of dollars on this issue in the rate case all over again?

In the backdrop of all this is the certainty that APS's new solar charge will be devastating to the solar industry. This issue is explored more in Section III. Combined, judicial economy tilts heavily in favor of a single rate case adjudication.

IX. APS Misconstrues The Recent Nevada PUC Decision

In its Initial Brief, APS argues "[u]sing hypothetical, long-term benefits of DG to offset historical, cost-based rates as a ratemaking methodology is fundamentally flawed and does not merit serious consideration." In support of this argument, APS cites to a recent decision from the Public Utilities Commission of Nevada and asserts that the Nevada commission "firmly rejected TASC's position" to develop rates based on DG's long-term benefits. However, APS misconstrues the Nevada Commission's decision.

29 See TASC Brief at 26:4-28:3.

The Nevada Commission did not say that long-term benefits of DG should be ignored in rate-making. It merely stated that a cost of service study was also required for rate setting purposes. As cited by APS, the decision clearly states that a COSS and a cost–benefit study "are complementary, not identical." It is important to note that the Nevada commission did not challenge the E3 study's finding that NEM provides benefits to all ratepayers. It merely disputed the notion that rates could be set only on a cost benefit study.

At a May 1, 2015 workshop held in the same Nevada proceeding referenced above, parties discussed the fact that if a separate class were developed for NEM customers, it would be quite unusual. This is because, unlike most customer groups who merely consume energy, NEM customers also produce clean renewable energy and provide benefits to other customers and the grid. While NV Energy is conducting a cost of service study to determine the cost to provide the energy it delivers to NEM customers, its action in doing so does not mean that the benefit of the energy NEM customers send to the utility will be ignored. At the workshop, NV Energy indicated that it had not yet figured out how to account for the benefits NEM provides in the COSS, but it did not indicate that such benefits should or would be ignored, and the Nevada commission certainly did not instruct them to do so.

X. ASDA Is A Financial Partner With APS And Its Position Should Be Discounted

After arguing that this and numerous other solar charge dockets should be heard in a rate case, ASDA does an about-face and now supports *this* docket being heard outside a rate case.[30] The reason, however, is clear: ASDA is a major financial partner with APS, and as such, its support for APS's position should be neither surprising nor meaningful to the Commission. On several occasions, officials from APS have publicly described ASDA as partners with the utility with the utility's CEO repeatedly making the claim.[31] More telling however, is that before it had a financial

30 See ASDA Brief at 2:13-14.

31 See August 29, 2015 Arizona Republic op-ed of APS CEO Don Brandt referring to the APS-ASDA relationship as an "innovative partnership." http://www.azcentral.com/story/opinion/op-ed/2014/08/29/what-if-aps-rooftop-

relationship with APS, ASDA firmly believed this matter should be handled in a rate case.[32] Clearly, ASDA's has reversed its positon in light of its financial arrangement with the Applicant.

XI. Conclusion

APS has not identified a legal basis on which the Commission can throw out key provisions of APS's Settlement Agreement outside of a rate case. There is no doubt that the relief sought will have substantial impact on the utility's ROE and such impacts can only be fully vetted within a rate case. APS assured the Commission it was pushing for a broad ratemaking discussion a year ago when it wanted the Commission to support removing its rate case filing requirement but now is doing the opposite in seeking a narrow solar charge that is not even designed to address the utility's true global rate design issues. APS should be held accountable for its stated positions on which the public and Commission rely.

Perhaps most importantly, APS's scare tactics have been exposed. The utility is quick to throw out allegations of big number cost shifts but, when the veil is lifted, we find things do not work as APS has alleged. In fact, APS admitted to never having quantified how or if costs are actually shifted through the only cost shifting mechanisms it has alleged. Rate making facts make it obvious that no matter what amount is charged to solar customers between now and the conclusion of the next rate case, it will do nothing to change the amount of any cost shift to be dealt with in the next rate case. All we know is that the LFCR is functioning exactly as it was designed at a level well below its cap; this is hardly the makings of an unfair cost shift.

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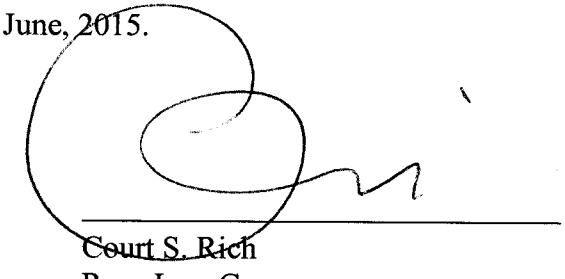
solar/14809005/; see also, *Remarks from the Thirtieth Annual Meeting of Shareholder Wednesday, May 20, 2015,* by Don Brandt at p. 2. ("In collaboration with the Arizona Solar Deployment Alliance, we will recruit 200 rooftop solar customers...")http://www.pinnaclewest.com/files/doc_presentations/2015/PNWRemarksFromThirtiethAnnualMeetingofShareholders_v001_j99022.pdf; see also, April 2, 2015 APS press release ("The company is working with the Arizona Solar Deployment Alliance, a group representing local solar installers, to develop pilot projects that offer both new opportunities for customers to go solar and for APS and industry to partner on important research.") https://www.aps.com/en/ourcompany/news/latestnews/Pages/aps-asks-to-reset-grid-access-charge-for-future-solar-customers.aspx.

32 See ASDA Notice of Filing November 12, 2013 at 1:12.

Finally, the costs of processing this Motion, the ensuing litigation, and risks to thousands of solar jobs so substantially outweighs the small amount of money that could reasonably be expected to be returned through the LFCR to non-DG customers between now and the conclusion of the next rate case that any reasonable evaluation would conclude this matter should be heard once in its proper forum: APS's next rate case.

Respectfully submitted this 5th day of June, 2015.



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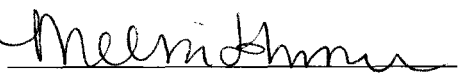
By: 

EXHIBIT A

ARIZONA CORPORATION COMMISSION
TASC'S SECOND SET OF DATA REQUESTS
REGARDING THE APPLICATION OF ARIZONA PUBLIC SERVICE
COMPANY FOR APPROVAL OF NET METERING COST SHIFT SOLUTION
DOCKET NO. E-01345A-13-0248
MAY 12, 2015

TASC 2.11: APS alleges a cost shift resulting from the use of distributed generation of $67/month. On this point, in its Motion to Reset, APS alleges that, "the $67 of fixed costs not paid each month by customers with DG are unfairly shifted to, and ultimately paid by, customers without DG." Further, in the Motion to Reset, APS writes that, "the cost shift grew by $6.3 million [in 2014]."

2.11.1: Explain the rate mechanism(s) in place whereby the alleged $67/month shortfall is shifted from a DG customer to a non-DG customer and quantify the amount of money actually shifted through each identified mechanism(s) in 2014 and expected to be shifted in 2015.

2.11.2: Explain and identify the rate mechanism(s) in place that permitted the alleged $6.3 million in cost shift growth to be shifted from DG customers to non-DG customers in 2014 and identify the portion(s) of the $6.3 million shifted through each identified mechanism(s).

Response: 2.11.1

The $67 per month cost shift from rooftop solar gets shifted to other customers in the form of higher rates. This is true whether the higher rates are reflected currently or in the future. Higher rates happen in several ways – general rate cases, annual adjustor rates, and the Lost Fixed Cost Recovery rate (LFCR).

First, the shift occurs in a general rate case as rates are increased to recover the infrastructure costs not paid by DG customers. The method is as follows: the infrastructure costs for the solar home will be allocated to the appropriate residential rate class along with the costs for all other homes. The test year revenue will be compared to the cost of service. Because the DG customer does not pay for most of their infrastructure cost, it will result in a revenue deficiency and higher rates for the class. APS's last general rate case was implemented in July 2012 using a 2010 test year. So the costs shifted to date from this method would be from the solar homes installed as of year-end 2010.

The second method for the cost shift are certain of the annual adjustor rates, such as the DSMAC (energy efficiency programs), RES (renewable programs), and the TCA (transmission costs). These rates are reset each year based on annual costs that deviate from those approved in the general rate case. All of these adjustor rates recover a specified number of dollars through kWh charges. To the extent that a DG customer consumes less kWh, they contribute less to the required annual adjustor revenue. As a result

Response to TASC 2.11 Continued:

the adjustor rates for all other customers who pay that adjustor go up. The only adjustor for which this is not true is APS's PSA. The PSA would not necessarily be a cost shift if a solar customer reduces the fuel cost of service ti the same degree as fuel-related revenue.

The third method for the solar cost shift is the LFCR rate, which recovers some, but not all, of the unpaid infrastructure costs from rooftop solar and energy efficiency, between rate cases, through a higher rate for everyone else.

APS has not delineated the dollar cost shift per year between the different methods. However, adjustor rates are typically 10% to 14% of residential retail rates and the LFCR information is provided in response to question 2.13.

The growth in DG customers since 2010 represents a growing pool of fixed costs for which non-DG customers will be responsible when new rates are implemented. And this increased fixed cost responsibility will likely persist for the life of the solar unit or roughly 20 years, unless future rate structures that correct this issue are applied to all solar customers and none are grandfathered to current structures. The referenced $6.3 million of cost shift represents the growth in cost shift responsibility per year for one year's growth in customer participation in net metering. Some of this is shifted each year before the next rate case through the other mechanisms, and some will be reflected in higher rates in a few years. However, the responsibility for the cost shift that will ultimately cause higher rates will continue to grow significantly each year.

2.11.2
Please refer to 2.11.1

EXHIBIT B

ARIZONA CORPORATION COMMISSION
TASC'S SECOND SET OF DATA REQUESTS
REGARDING THE APPLICATION OF ARIZONA PUBLIC SERVICE
COMPANY FOR APPROVAL OF NET METERING COST SHIFT SOLUTION
DOCKET NO. E-01345A-13-0248
MAY 12, 2015

TASC 2.13: Since the creation of the LFCR mechanism, how much money has APS collected from customers through the LFCR and how much of that money has been attributed to lost kWh sales caused by distributed generation?

Response: APS has billed $33,829,210 to customers under the Company's LFCR mechanism for the period March 2013 through April 2015. Based on LFCR rate development parameters, it is estimated that 29.37% ($9.9 million) of the billed LFCR dollars are attributable to lost kWh sales caused by distributed generation for this period. Please note that the $33,829,210 in LFCR revenues does not include approximately $192,050 in LFCR-DG (Grid Access Charge) revenues which are credited to the mechanism and thus do not affect the total recovered from APS customers.

EXHIBIT C

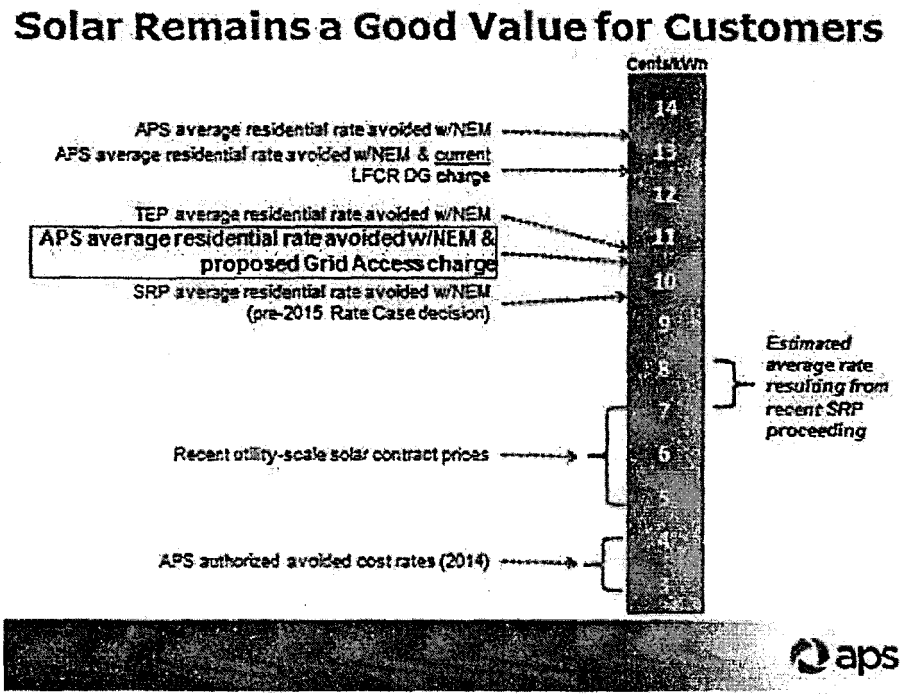
David Tenney

From: Barbara.Lockwood@aps.com
Sent: Thursday, May 07, 2015 8:02 AM
To: David Tenney
Cc: Gregory.Bernosky@aps.com; Buchanan Davis; Dan Pozefsky
Subject: Solar Charge/Value Comparison

Director Tenney,

Per our discussion yesterday about the impact of a $21/month charge on solar activity, I realized that we have a very good comparison demonstrating that $21/month will not "kill the solar industry." Per the chart below (that I believe we shared with you early in the discussion), you can see that the average value of a solar project – with the $21/month – is still a better value for customers than the SRP value prior to their February rate case decision.

It's a little complicated to compare so we'd like to come in to discuss with you how we derived the numbers. But considering SRP had over 4100 solar installations in 2014, it's safe to say the solar industry will continue with a $21/month charge.



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