

COMMISSIONERS  
SUSAN BITTER SMITH - Chairman  
BOB STUMP  
BOB BURNS  
DOUG LITTLE  
TOM FORESE

OPEN MEETING ITEM



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ARIZONA CORPORATION COMMISSION

AZ CORP COMMISSION  
DOCKET CONTROL

ORIGINAL

DATE: AUGUST 3, 2015 2015 AUG 3 PM 12 56  
DOCKET NO.: E-01345A-13-0248  
TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Jibilian. The recommendation has been filed in the form of an Order on:

ARIZONA PUBLIC SERVICE  
(LFCR RESET APPLICATION)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

AUGUST 12, 2015

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

AUGUST 18, 2015 and AUGUST 19, 2015

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

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JODI JERICH  
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701-1347  
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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail [SBernal@azcc.gov](mailto:SBernal@azcc.gov).

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 SUSAN BITTER SMITH - Chairman  
4 BOB STUMP  
5 BOB BURNS  
6 DOUG LITTLE  
7 TOM FORESE

8 IN THE MATTER OF THE APPLICATION OF  
9 ARIZONA PUBLIC SERVICE COMPANY FOR  
10 APPROVAL OF NET METERING COST SHIFT  
11 SOLUTION.

DOCKET NO. E-01345A-13-0248

DECISION NO. \_\_\_\_\_

**ORDER**

12 DATE OF HEARING: June 12, 2015 (Oral Argument)

13 PLACE OF HEARING: Phoenix, Arizona

14 ADMINISTRATIVE LAW JUDGE: Teena Jibilian

15 APPEARANCES: Mr. Thomas Loquvam, PINNACLE WEST CAPITAL  
16 CORPORATION, on behalf of Arizona Public Service  
17 Company;

18 Mr. Daniel Pozefsky, Chief Counsel, on behalf of the  
19 Residential Utility Consumer Office;

20 Mr. Greg Patterson, MUNGER CHADWICK, on behalf  
21 of Arizona Competitive Power Alliance;

22 Mr. Garry D. Hays, THE LAW OFFICES OF GARRY  
23 D. HAYS, PC, on behalf of Arizona Solar Deployment  
24 Alliance;

25 Mr. Giancarlo G. Estrada, ESTRADA-LEGAL, PC, on  
26 behalf of Solar Energy Industries Association;

27 Mr. Timothy M. Hogan, ARIZONA CENTER FOR  
28 LAW IN THE PUBLIC INTEREST, on behalf of  
Western Resource Advocates;

Mr. Court S. Rich, ROSE LAW GROUP, PC, on behalf  
of The Alliance for Solar Choice; and

Ms. Maureen Scott, Senior Staff Counsel, and Mr.  
Wesley Van Cleve, Staff Attorney, Legal Division, on  
behalf of the Utilities Division of the Arizona  
Corporation Commission.

...

1 **BY THE COMMISSION:**

2 \* \* \* \* \*

3 Having considered the entire record herein and being fully advised in the premises, the  
4 Arizona Corporation Commission (“Commission”) finds, concludes, and orders that:5 **FINDINGS OF FACT**6 1. On April 2, 2015, Arizona Public Service Company (“APS”) filed with the Commission  
7 in this docket a request that the Lost Fixed Cost Recovery (“LFCR”) mechanism adjustment  
8 authorized by Decision No. 74202 (December 3, 2013) be reset, from \$.70 per kW to \$3 per kW,  
9 effective August 1, 2015 (“Reset Application”).10 **Background**11 2. On July 12, 2013, APS filed with the Commission in this docket its Application for  
12 Approval of Net Metering Cost Shift Solution (“2013 Application”).13 3. Intervention has been granted to Lewis M. Levenson, Arizona Solar Deployment Alliance  
14 (“ASDA”), Arizona Competitive Power Alliance (“AzCPA”), Patty Ihle, Tucson Electric Power  
15 (“TEP”), UNS Electric, Inc. (“UNSE”), the Residential Utility Consumer Office (“RUCO”), The  
16 Alliance for Solar Choice (“TASC”), Solar Energy Industries Association (“SEIA”), Western  
17 Resource Advocates (“WRA”), the Interstate Renewable Energy Council, Inc. (“IREC”), Arizona  
18 Solar Energy Industries Association (“AriSEIA”), Sun City West Property Owners and Residents  
19 Association (“PORA”), and Albert E. Gervenak.20 4. On July 16, 2013, Commissioner Gary Pierce filed a letter to the docket requesting  
21 information and analysis on certain issues from the Commission’s Utilities Division (“Staff”).  
22 Commissioner Pierce’s request referenced studies filed in other Commission dockets on May 17,  
23 2013 and July 2, 2013.24 5. On August 12, 2013, Commissioner Bitter Smith filed a letter to the docket stating that no  
25 changes had been made to net metering policies and referring APS customers to APS’s website  
26 <http://azenergyfuture.com>.27 6. On August 20, 2013, SEIA filed its Protest and Motion to Dismiss.  
28

1           7.     On August 21, 2013, Commissioner Bitter Smith filed a letter to the docket requesting  
2 that the parties file all data requests and responses, including those submitted prior to August 21,  
3 2013, in the docket.

4           8.     On August 26, 2013, Staff filed a Notice of Filing Data Responses, and a Notice of  
5 Filing Data Requests and Responses.

6           9.     On August 29, 2013, APS filed a Notice of Filing Data Requests and Responses.

7           10.    On August 29, 2013, APS filed a letter to the docket stating that a public comment had  
8 been filed in the docket on August 26, 2013, which included an incorrect notice from APS describing  
9 APS's proposed deadlines for grandfathering, which notice did not make clear that the deadlines in  
10 the notice were proposals only. The letter stated that the notice had been sent in error by APS to a  
11 limited number of customers requesting residential distributed generation ("DG") incentives, and that  
12 APS had sent a follow-up notice to customers clarifying the guidelines.

13           11.    On August 29, 2013, IREC filed a Protest to the 2013 Application, supporting SEIA's  
14 August 20, 2013 Protest and Motion to Dismiss.

15           12.    On August 30, 2013, TASC filed a Joinder in SEIA's August 20, 2013 Protest and  
16 Motion to Dismiss.

17           13.    On August 30, 2013, RUCO filed a Notice of Filing Data Requests and Responses.

18           14.    On September 4, 2013, APS filed a Notice of Filing Data Requests and Responses.

19           15.    On September 9, 2013, APS filed its Response to SEIA's Motion to Dismiss.

20           16.    On September 12, 2013, Staff filed a Notice of Filing Data Requests and Responses.

21           17.    On September 16, 2013, SEIA filed its Reply to APS's Response to SEIA's Protest  
22 and Motion to Dismiss.

23           18.    On September 23, 2013, APS filed a Notice of Filing Data Requests and Responses.

24           19.    On September 23, 2013, TASC filed a Notice of Filing Documents of Interest.

25           20.    On September 25, 2013, WRA filed Comments.

26           21.    On September 27, 2013, TASC filed a Notice of Filing Comment Letter in Response  
27 to APS's August 1, 2013 Data Response.

28

1           22.     On September 27, 2013, TASC filed a Notice of Filing Study by Elliott D. Pollack &  
2 Company: “Deconstructing Government Support for Arizona Electric Utilities.”

3           23.     On September 30, 2013, Commissioner Pierce’s office docketed a study prepared by  
4 the California Public Utilities Commission titled “California Net Energy Metering ‘NEM’ Draft  
5 Cost-Effectiveness Evaluation.”

6           24.     On September 30, 2013, Staff filed a Memorandum and Proposed Order (“Staff’s  
7 Proposed Order”). Staff’s Proposed Order outlined proposals in the proceeding proffered by APS,  
8 TASC, RUCO, and IREC. Staff recommended that the Commission take no action on the Reset  
9 Application, and instead defer the matter for consideration during APS’s next rate case. Staff also  
10 recommended that the Commission open a generic docket on the net metering issue to investigate the  
11 currently non-monetized benefits of DG with the goal of developing a methodology for assigning  
12 solar DG values.

13           25.     On October 9, 2015, Staff filed a letter to the docket indicating that parties’ comments  
14 to Staff’s Proposed Order should be docketed by November 4, 2013.

15           26.     On October 9, 2013, Staff filed a Notice of Errata.

16           27.     On October 10, 2013, AriSEIA filed comments on Staff’s Proposed Order.

17           28.     On October 10, 2013, IREC filed Comments on Staff’s Proposed Order.

18           29.     On October 17, 2013, Commissioner Pierce filed a letter to the docket requesting that  
19 parties submit responses to his listed questions in regard to Staff’s Proposed Order.

20           30.     On October 23, 2013, Staff filed a Notice of Filing its notice to parties to Docket No.  
21 E-01345A-11-0224 of Staff’s Proposed Order in this docket.

22           31.     On October 23, 2013, SEIA filed a Letter to Docket in response to Commissioner  
23 Pierce’s September 30, 2013, filing of the “California Net Energy Metering ‘NEM’ Draft Cost-  
24 Effectiveness Evaluation.”

25           32.     On October 30, 2013, RUCO filed Comments on Staff’s Proposed Order.

26           33.     On October 30, 2013, Commissioner Bob Burns filed a letter to the docket requesting  
27 responses from the parties in regard to the amount of money and time spent to support lobbying  
28 efforts and contributions, the hours spent by salaried staff on public relations campaigns to support

1 their public relations campaigns, and for regulated utilities, a response regarding whether they would  
2 be seeking to recover expended funds.

3 34. On November 1, 2013, SEIA filed a response to Commissioner Bob Burns's October  
4 30, 2013 request.

5 35. On November 1, 2013, TASC docketed its First Data Request to APS.

6 36. On November 1, 2013, TASC filed a Comment in response to Commissioner Pierce's  
7 September 30, 2013 filing of the "California Net Energy Metering 'NEM' Draft Cost-Effectiveness  
8 Evaluation."

9 37. On November 4, 2013, APS, TEP, UNSE, AzCPA, ASDA, TASC, SEIA, and  
10 AriSEIA filed Comments on Staff's Proposed Order.

11 38. The November 4, 2013, filings by ASDA, TASC, SEIA, and AriSEIA recommended  
12 that the matter be decided in APS's next rate case.

13 39. In addition to Comments filed by the parties on Staff's Proposed Order, members of  
14 the public also filed public comments in response to Staff's Proposed Order.

15 40. On November 4, 2013, Commissioner Brenda Burns filed a letter to the docket  
16 requesting that the parties provide answers to her listed questions by November 8, 2013.

17 41. On November 5, 2013, TASC filed its response to the October 30, 2013 letter from  
18 Commissioner Robert Burns.

19 42. On November 6, 2013, APS filed its response to the October 30, 2013 letter from  
20 Commissioner Robert Burns.

21 43. On November 6, 2013, APS filed its response to the October 17, 2013 letter from  
22 Commissioner Pierce.

23 44. On November 6, 2013, AriSEIA filed its response to the October 30, 2013 letter from  
24 Commissioner Robert Burns.

25 45. On November 6, 2013, SEIA filed its response to the October 17, 2013 letter from  
26 Commissioner Pierce.

27 46. On November 6, 2013, ASDA filed its response to the October 17, 2013 letter from  
28 Commissioner Pierce and its response to the October 30, 2013 letter from Commissioner Bob Burns.

1           47.    On November 6, 2013, TEP and UNSE filed their response to the October 30, 2013  
2 letter from Commissioner Robert Burns.

3           48.    On November 6, 2013, IREC filed its response to the October 17, 2013 letter from  
4 Commissioner Pierce, and supplemental Comments to Staff's Proposed Order.

5           49.    On November 6, 2013, IREC filed a letter in response to Commissioner Pierce's  
6 September 30, 2013, filing of the "California Net Energy Metering 'NEM' Draft Cost-Effectiveness  
7 Evaluation."

8           50.    On November 6, 2013, WRA filed its response to the October 17, 2013 letter from  
9 Commissioner Pierce.

10          51.    On November 7, 2013, APS filed proposed amendments to Staff's Proposed Order.

11          52.    On November 7, 2013, Commissioner Stump filed a letter listing points and questions,  
12 and requested that the parties be prepared to engage in discussion on them at the Commission's  
13 November 13 and 14, 2013 Open Meeting.

14          53.    On November 8, 2013, APS filed its response to the November 4, 2013 letter from  
15 Commissioner Brenda Burns.

16          54.    On November 8, 2013, TEP and UNSE filed their response to the November 4, 2013  
17 letter from Commissioner Brenda Burns.

18          55.    On November 8, 2013, Staff filed its response to the November 4, 2013 letter from  
19 Commissioner Brenda Burns.

20          56.    On November 8, 2013, IREC filed its response to the November 4, 2013 letter from  
21 Commissioner Brenda Burns.

22          57.    On November 8, 2013, SEIA filed its response to the November 4, 2013 letter from  
23 Commissioner Brenda Burns.

24          58.    On November 8, 2013, TASC filed its response to the November 4, 2013 letter from  
25 Commissioner Brenda Burns.

26          59.    On November 8, 2013, TASC filed proposed amendments to Staff's Proposed Order.

27          60.    On November 8, 2013, RUCO filed its response to the November 4, 2013 letter from  
28 Commissioner Brenda Burns.

1           61.    On November 8, 2013, Commissioner Pierce filed a letter to the docket to which was  
2 attached a spreadsheet.

3           62.    On November 12, 2013, AriSEIA filed its response to the November 4, 2013 letter  
4 from Commissioner Brenda Burns.

5           63.    On November 12, 2013, APS filed a Notice of Filing Data Requests and Responses.

6           64.    On November 12, 2013, ASDA filed proposed amendments to Staff's Proposed Order.

7           65.    On November 12, 2013, TEP and UNSE filed supplemental Comments to Staff's  
8 Proposed Order.

9           66.    On November 12, 2013, Staff filed a proposed amendment to Staff's Proposed Order.

10          67.    On November 12, 2013, Commissioner-proposed amendments to Staff's Proposed  
11 Order were filed by Chairman Stump, Commissioner Pierce, Commissioner Brenda Burns,  
12 Commissioner Bitter Smith, and Commissioner Bob Burns.

13          68.    On November 12, 2013, former Commissioner Sandra Kennedy filed a letter to the  
14 docket formally requesting that Commissioner Pierce recuse himself from the vote on Staff's  
15 Proposed Order.

16          69.    On November 12, 2013, Commissioner Pierce filed a letter to the docket responding to  
17 former Commissioner Sandra Kennedy's letter.

18          70.    On November 12, 2014, TASC filed a Motion to Terminate LFCR and Order an  
19 Immediate General Rate Case.

20          71.    On November 12, 2013, RUCO filed its Response to TASC's Motion to Terminate  
21 LFCR and Order an Immediate General Rate Case, and its response to the October 30, 2013 letter  
22 from Commissioner Bob Burns.

23          72.    On November 13, 2013, IREC filed a proposed amendment to Staff's Proposed Order.

24          73.    On November 13, 2013, Commissioner Brenda Burns filed a proposed amendment to  
25 Staff's Proposed Order.

26          74.    On November 14, 2013, PORA filed its Comments to Staff's Proposed Order.

27          75.    In addition to filings in the docket by Commissioners and the parties, numerous public  
28 comments, petitions, and stakeholder filings were filed in the docket regarding the 2013 Application.





1 79. As recommended by Staff, Decision No. 74202 ordered the opening of a generic  
2 investigative docket on the net metering issue, and the holding of workshops in the generic docket, to  
3 help inform future Commission policy on the currently non-monetized benefits of solar DG  
4 installations to the grid, with the goal of developing a methodology for assigning DG values (“Value  
5 of DG” docket).<sup>4</sup>

6 80. Decision No. 74202 ordered APS to file its next general rate case in June 2015,  
7 consistent with the provisions of Decision No. 73183 (May 24, 2012).

8 81. On July 22, 2014, at a Staff Open Meeting of the Commission, the Commission voted  
9 to reopen Decision No. 74202 pursuant to A.R.S. § 40-252 in order to consider the possibility of  
10 removing the requirement that APS file its next general rate case in June 2015.

11 82. On July 25, 2014, Chairman Stump filed a letter in the docket indicating that the issue  
12 of removing the requirement that APS file its next general rate case in June 2015 would be brought to  
13

- 
- 14 1. *APS electricity rates, basic charges and service fees are subject to*  
15 *change. Future adjustments to these items may positively or negatively*  
16 *impact any potential savings or the value of your rooftop photovoltaic*  
17 *system.*
  - 18 2. *You will be responsible for paying any future increases to electricity*  
19 *rates, basic charges or service fees from APS.*
  - 20 3. *Your rooftop photovoltaic system is subject to the current rates, rules and*  
21 *regulations established by the Arizona Corporation Commission*  
22 *(“Commission”). The Commission may alter its rules and regulations*  
23 *and/or change rates in the future, and if this occurs, your system is*  
24 *subject to those changes.*
  - 25 4. *Any future electricity rate projections presented to you are not approved*  
26 *by APS or the Commission. They are based on projections formulated by*  
27 *external third parties not affiliated with APS or the Commission.*

28 *By signing below, you acknowledge that you have read and understand the above disclaimer.*

\_\_\_\_\_  
*Name*

\_\_\_\_\_  
*Date*

<sup>4</sup> Generic Docket No. E-00000J-14-0023 (*In the Matter of the Commission’s Investigation of Value and Cost of Distributed Generation*) was opened on January 24, 2014.

1 the Open Meeting scheduled for August 12-13, 2014, inviting written comments in the docket, and  
2 indicating that an opportunity to be heard would be provided.

3 83. On August 12, 2014, the Commission voted at an Open Meeting to remove the  
4 requirement that APS file its next general rate case in June 2015.

5 84. On August 21, 2014, the Commission issued Decision No. 74702 in this docket, which  
6 ordered that Decision No. 74202 is modified to delete the Ordering Paragraph requiring APS to file  
7 its next general rate case in June 2015. Decision No. 74702 ordered that all other aspects of Decision  
8 No. 74202 remain in effect.

### 9 **Reset Application**

10 85. On April 2, 2015, APS filed the Reset Application, requesting that the LFCR  
11 adjustment for solar DG customers authorized by Decision No. 74202 be reset, from \$.70 per kW to  
12 \$3 per kW, effective August 1, 2015. APS states that Findings of Fact No. 84 in Decision No. 74202  
13 found \$3 per kW reasonable, but initially set a lower amount, and that Findings of Fact No. 85 in  
14 Decision No. 74202 states that the Commission may periodically adjust the charge in any APS LFCR  
15 proceeding.<sup>5</sup> APS's filing states that resetting the LFCR would be revenue neutral, would apply only  
16 to customers who install rooftop solar after the effective date of a Commission Decision, and would  
17 make incremental progress in addressing "a looming \$800 million cost shift." The Reset Application  
18 states that adjusting the LFCR to \$3 per kW will not fully address the cost shift issue, and that  
19 resolving the issue for the long term requires updating its rate design in APS's rate case, in a manner  
20 that is fair for all customers.<sup>6</sup> The Reset Application asserts that making the LFCR adjustment prior  
21

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22 <sup>5</sup> Findings of Fact Nos. 84 and 85 of Decision No. 74202 state as follows:

23 84. We find that among the range of Staff's and RUCO's LFCR DG adjustments' proposals, a \$3.00  
24 per kW per month (which would be \$ 21.00 for a customer system of 7kW) is reasonable for new DG  
customers.

25 85. However, under the circumstances presented in this docket, we find, as suggested by RUCO, it  
26 appropriate to institute a fixed charge using the LFCR DG adjustment for new DG customers who signed  
27 a contract with a solar installer after December 31, 2013, by implementing the adjustment at \$.70 per  
kW per month, an amount that will be easy to use and understand by customers. The Commission may  
periodically adjust this charge in any APS LFCR reset proceeding.

28 <sup>6</sup> APS also states that solar DG customers have the option to avoid any LFCR adjustment and save money if they take  
service under APS's demand-based ECT-2 rate, control their consumption, and reduce their demand.

1 to its next rate case would reduce the overall amount of cost shifting to be addressed in its next rate  
2 case.

3 **Responses to the Reset Application and Staff's Request for Procedural Order**

4 86. On April 17, 2015, RUCO filed a Response to the Reset Application, recommending  
5 that a hearing be held. RUCO recommended that the inquiry into the value of DG in the Value of DG  
6 be concluded prior to such hearing, or prior to APS's next rate case, if the issue will be considered  
7 there instead. On the same date RUCO separately filed an "Exhibit 1," consisting of a copy of  
8 RUCO's November 8, 2013 filing in this docket in response to the November 4, 2013 letter from  
9 Commissioner Brenda Burns.

10 87. On April 17, 2015, in response to the Reset Application, Staff filed a Request for  
11 Procedural Order. Staff stated that the cross-subsidy issue raised by the Reset Application "has  
12 explicit public policy considerations, and therefore would be most appropriately addressed in the  
13 setting of a general rate case." Staff stated that Decision No. 74202 found that once the costs and  
14 benefits of DG have been adequately quantified and valued, their allocation is a matter of rate design,  
15 and that the development of equitable rate structures that address the disconnect between net  
16 metering and volumetric rates can best be accomplished in a general rate case. Contending that the  
17 Reset Application does not explain why Commission action on the issue could not wait until APS  
18 files its next rate case, and that the Reset Application acknowledges that any fix the Commission  
19 adopts in this proceeding will be a short term fix, Staff recommended that APS withdraw the Reset  
20 Application so that the Commission may consider the matters more holistically in a rate case. Staff  
21 pointed out that any determination in this docket is likely to be issued not long before the time APS  
22 files its next rate case, where the issues will all be examined again.

23 88. On April 21, 2015, WRA filed its Response to the Reset Application. Contending that  
24 any reallocation of fixed costs should occur in a rate case, WRA opposed APS's request to increase  
25 the LFCR adjustment in this docket. WRA asserted that it is time to address the issue of any cost  
26 shift in a comprehensive fashion, and that APS's filing does not do so. WRA stated that it is only in  
27 a full rate case that the Commission will have the opportunity to analyze all of APS's costs,  
28 alternative cost of service methodologies, and rate design issues. WRA pointed out that none of the

1 issues addressed in Decision No. 74202 were subject to an evidentiary hearing, including the question  
2 of whether a cost shift occurs between DG and non-DG customers, and the magnitude, if any, of that  
3 cost shift. WRA expressed concern that the relief requested in APS's filing is designed to bypass that  
4 process and rely on a disputed record that is now stale.

5 89. On April 21, 2015, TASC filed its Response to the Reset Application. Asserting that  
6 the issues the Reset Application raises are properly considered in a rate case, TASC requested that the  
7 filing be dismissed. TASC disputed APS's assertion in the Reset Application that there is a current  
8 and growing cost shift, and asserted that APS failed to prove its allegations. TASC further asserted  
9 that the relief requested by the Reset Application constitutes single issue ratemaking in violation of  
10 the Arizona Constitution, that the LFCR issues were raised and resolved in the Settlement Agreement  
11 approved by Decision No. 73183, and that APS therefore cannot be allowed to re-litigate those settled  
12 issues in this docket. TASC argued that even if the relief were otherwise permissible, the Reset  
13 Application is untimely, because the Settlement Agreement only permits a single annual adjustment  
14 to the LFCR, which had already occurred for 2015. TASC asserted that APS's filing requests action  
15 that contravenes the ratemaking principles of certainty and gradualism by surprising the solar  
16 industry and its customers with a large and unexpected fee increase, and that granting APS's  
17 requested relief would result in a waste of judicial resources, because the issues would be revisited in  
18 APS's next rate case. TASC further alleged that the relief requested in the filing raises issues  
19 regarding APS's commitments to cost parity set forth in Decision No. 74878 (December 23, 2014).

20 90. On April 23, 2015, APS filed its Response to Staff's Request for Procedural Order.  
21 APS stated that it opted not to withdraw its filing, asserting that "the decision to afford non-DG  
22 customers additional interim relief is one of policy," which APS asserted the Commission should  
23 make.

#### 24 **Briefing and Oral Argument on the Reset Application**

25 91. On April 28, 2015, a Procedural Order was issued setting a briefing schedule, and  
26 setting a procedural conference to follow the filing of briefs, for the purpose of taking oral argument  
27 on the threshold issue of whether any portion of the Reset Application must be considered in a rate  
28 case.

1 92. On May 15, 2015, a Notice of Substitution of Counsel was filed for SEIA.

2 93. On May 22, 2015, Initial Briefs were filed by APS, AzCPA, ASDA, WRA, TASC,  
3 SEIA and AriSEIA, RUCO, and Staff.

4 94. On May 27, 2015, Staff filed a Notice of Errata.

5 95. On June 2, 2015, AzCPA filed its Reply Brief.

6 96. On June 5, 2014, Reply Briefs were filed by APS, TASC, RUCO, and Staff.

7 97. Numerous public comments have been filed in this docket in regard to the Reset  
8 Application.

9 98. On June 12, 2015, a procedural conference convened as scheduled. APS, AzCPA,  
10 ASDA, WRA, TASC, SEIA, RUCO, and Staff appeared through counsel. The parties provided oral  
11 argument in support of their respective positions, and responded to questions. The matter was then  
12 taken under advisement pending the preparation of a Recommended Order.

### 13 **Positions of the Parties**

14 99. All parties agree that the issue of cost-shifting raised by the Reset Application should  
15 be addressed in the rate application that APS intends to file in the second quarter of 2016. The  
16 parties disagree, however, on whether the Commission should hold a separate hearing on the Reset  
17 Application prior to the hearing on rate case.<sup>7</sup> Some parties advocate scheduling a hearing on the  
18 relief requested in Reset Application now, while others advocate addressing the issues in a more  
19 comprehensive way in APS's upcoming rate case. The parties' arguments are summarized below.

#### 20 APS

21 100. In the Reset Application, APS requests that the LFCR Adjustment for solar DG  
22 customers authorized by Decision No. 74202 be reset, from \$.70 per kW to \$3 per kW.

23 101. APS asserts that the questions to be addressed in determining whether to take the  
24 action it requests in the Reset Application are (1) whether a cost basis exists that justifies the request;  
25 and (2) if a cost basis does exist, whether APS's proposal should be approved, as a matter of policy.<sup>8</sup>

26 <sup>7</sup> In briefing, TASC, SEIA, and AriSEIA argued that it would be unconstitutional for the Commission to grant the relief  
27 requested in the Reset Application outside a rate case. WRA took no position on the issue of whether the issues raised  
28 must be considered in a rate case. The remaining parties agreed that the Commission has the authority and discretion to  
determine the issues presented by the Reset Application outside a rate case.

<sup>8</sup> APS Br. at 15.

1           102. In the Reset Application, APS states that “[m]ore lost fixed costs accumulate each day  
2 - fixed costs that will be shouldered by customers without DG if APS’s rate design is not  
3 modernized.”<sup>9</sup> APS argues that there is a long-term cost shift that is not reflected in the LFCR, which  
4 APS believes will continue to grow rapidly and permanently increase rates for its customers after its  
5 upcoming rate case.<sup>10</sup> APS asserts that its solar DG customers are not receiving proper price signals  
6 because hidden rate subsidies are currently driving DG installations.<sup>11</sup>

7           103. APS argues that it is in the public interest for the Commission to make a determination  
8 on its Reset Application proposal prior to the upcoming rate case, because APS’s customers are  
9 “bearing the brunt of the unfair cost shift now and will continue to do so until a permanent solution is  
10 ordered in APS’s next rate case.”<sup>12</sup> APS asserts that there is no certainty as to when the Commission  
11 will issue a decision in APS’s upcoming rate case to provide APS’s customers with a permanent  
12 remedy to the cost shifting issue.<sup>13</sup>

13           104. APS clarified at the oral proceeding that there is no accumulation of lost fixed costs  
14 that need to be addressed on a deferral basis, and that there was a conscious decision in APS’s last  
15 rate case to not have the LFCR mechanism address all fixed costs.<sup>14</sup> APS also clarified that if its  
16 proposal is granted, its non-DG customers’ bills would be reduced by an amount of less than \$1 per  
17 month.<sup>15</sup>

18           105. APS states that granting its requested reset of the LFCR adjustor in this proceeding  
19 would not increase APS’s revenue, but would reallocate customer responsibility for annual LFCR  
20 revenue, on a prospective basis, to a limited group of customers who voluntarily elect to install solar  
21 DG after a Commission decision in this docket.<sup>16</sup>

22           106. APS contends that comprehensive rate design solutions to the cost shift issue which  
23 will be available in a rate case, such as the implementation of demand charges, are not needed now,<sup>17</sup>

24 <sup>9</sup> Reset Application at 8.

25 <sup>10</sup> APS Reply Br. at 6.

26 <sup>11</sup> Tr. at 10.

27 <sup>12</sup> APS Reply Br. at 6.

28 <sup>13</sup> *Id.*

<sup>14</sup> Tr. at 52, 53.

<sup>15</sup> Tr. at 54.

<sup>16</sup> APS Br. at 6.

<sup>17</sup> *Id.* at 11-12.

1 but that “[t]aking action now is an incremental step towards fairness in the interest of gradualism.”<sup>18</sup>  
 2 APS describes the Reset Application as a revenue neutral proposal that would constitute a gradual  
 3 step toward a permanent remedy to the issue of cost shifting.<sup>19</sup> APS contends that evidence would  
 4 support a \$67 per month charge for solar DG customers,<sup>20</sup> and that moving from the current \$5 per  
 5 month LFCR DG charge to a \$70 per month charge in the rate case might be too much.<sup>21</sup> APS  
 6 believes it would be best, and most appropriate, to move from \$5 per month to a \$21 per month  
 7 charge for its DG customers in this proceeding, prior to the rate case, and then to move to a charge  
 8 that “more fairly reflects fixed costs” following the rate case.<sup>22</sup>

9 107. APS argues that that waiting for a rate case to implement rate design solutions is not  
 10 in the public interest, because APS believes waiting might hinder comprehensive and balanced  
 11 solutions.<sup>23</sup> APS states that a critical issue to be resolved is whether and how to grandfather existing  
 12 DG customers.<sup>24</sup> APS asserts that while it is strongly inclined to support grandfathering, the cost  
 13 shift might grow to such an extent that grandfathering all existing DG customers would significantly  
 14 increase rates for all other non-DG customers.<sup>25</sup>

15 108. APS contends that “sufficient evidence” is in the docket establishing a cost basis for  
 16 the Reset Application.<sup>26</sup> APS contends that while certain parties requested that the 2013 Application  
 17 be dismissed and considered in a rate case, those requests were “not the same thing as requesting a  
 18 formal evidentiary hearing, or asserting that a hearing in and of itself was necessary.”<sup>27</sup> APS asserts  
 19 that its requested LFCR reset can be accomplished on the basis of previous submissions; that it  
 20 submitted sworn expert testimony demonstrating the existence of a cost shift,<sup>28</sup> that “substantial

21 \_\_\_\_\_  
 18 APS Br. at 13, APS Reply Br. at 6.

22 19 APS Reply Br. at 6.

23 20 APS Br. at 7. APS states that this figure is based on an average residential solar system size of 6.4 kW, and notes that  
 the average system size has increased since it produced this calculation in 2013.

24 21 Transcript of June 12, 2015 Oral Argument Proceeding (“Tr.”) at 9.

25 22 *Id.*

26 23 APS Br. at 12, Reply Br. at 8.

27 24 APS Br. at 12, APS Reply Br. at 6.

28 25 APS Br. at 12, APS Reply Br. at 5, 6, 8.

26 26 APS Br. at 7. No filings in this docket have been either offered or admitted as evidence by APS or any party to this  
 docket. While parties docketed numerous filings leading up to the Commission’s determination on the 2013 Application,  
 27 none of the filings made in this docket to date have been sponsored by witnesses who were subject to cross-examination  
 by other parties.

28 27 APS Br. at 7.

28 28 *Id.*



1 evidence has already been submitted”<sup>29</sup> on the issue of shifting of fixed costs by DG customers; and  
 2 that “[t]o the extent further refinement is needed, an evidentiary hearing outside a rate case is more  
 3 than sufficient.”<sup>30</sup>

4 109. APS contends that because TASC stated in its April 21, 2015 Response to the Reset  
 5 Application that the possibility that an under-recovery of fixed costs from DG customers exists, the  
 6 range of issues requiring a hearing is narrowed, and there is an opportunity to “have a streamlined  
 7 hearing on key facts and get this resolved before the end of the year.”<sup>31</sup> APS asserts that in regard to  
 8 resetting the LFCR for DG customers prior to the rate case, there are no factual issues to be resolved  
 9 which would require resolution again in the rate case.<sup>32</sup> APS argues that the interested parties are  
 10 already joined in this proceeding, and that findings and conclusions that would result from a hearing  
 11 on the Reset Application could help streamline APS’s next rate case.<sup>33</sup>

12 110. APS contends that the terms of the Settlement Agreement do not preclude a reset of  
 13 the LFCR; that no other party disagreed with the Commission’s interpretation of the Settlement  
 14 Agreement when the LFCR was adjusted in Decision No. 74202;<sup>34</sup> that the Commission already  
 15 addressed the issue of taking interim action in Decision No. 74202;<sup>35</sup> and that the Commission  
 16 anticipated additional LFCR adjustments following Decision No. 74202.<sup>36</sup>

17 111. In response to parties who criticized APS for not filing a rate application earlier in  
 18 order to deal with the cost shift issue, APS states that it does not believe it is in the public interest for  
 19 a utility to file a rate case application solely to advance a single rate design issue prior to when it  
 20 would otherwise need to file a rate case.<sup>37</sup>

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22 <sup>29</sup> APS Br. at 10.

23 <sup>30</sup> *Id.*

24 <sup>31</sup> APS Br. at 9, Tr. at 57.

25 <sup>32</sup> APS Br. at 13.

26 <sup>33</sup> *Id.* at 6-7.

27 <sup>34</sup> APS Br. at 14-15. Section 9.11 of the Settlement Agreement provides as follows:

28 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.

29 <sup>35</sup> APS Reply Br. at 9.

30 <sup>36</sup> *Id.* at 6.

31 <sup>37</sup> *Id.* at 7.

1           112.    APS disagrees with parties who advocate that the generic Value of DG proceeding  
2 should be concluded prior to the Commission determining a solution to the cost shifting issues raised  
3 by the Reset Application, claiming that such arguments are “delay-motivated” and not in the public  
4 interest.<sup>38</sup> APS takes the position that the Value of DG proceeding is important only for resource  
5 planning purposes, and that issues determined in the Value of DG proceeding should not impact  
6 ratesetting either in the rate case or in this proceeding.<sup>39</sup>

7 AzCPA

8           113.    AzCPA believes the Commission would be well within its authority to make the  
9 LFCR adjustment as requested by APS. AzCPA contends that the Commission considered  
10 substantial evidence when it found that the adjustment APS proposes is reasonable. AzCPA contends  
11 that the LFCR should be adjusted in this proceeding, and possibly again in the summer of 2016, to  
12 provide price signals while a comprehensive solution is being developed that can be implemented at  
13 the end of APS’s rate case in 2017.

14           114.    At the oral proceeding, AzCPA contended that a rate case would probably be required  
15 to get into the rate design issues of fixed costs versus variable costs, price signals, and structural  
16 issues.<sup>40</sup> AzCPA argued that a hearing should be held, but that the hearing should not “be expanded  
17 into a discussion of a lot of the surrounding issues that are either rate case issues or generic docket  
18 issues.”<sup>41</sup> AzCPA asserted that arguments of judicial economy should not override what AzCPA  
19 contends is a need to expeditiously reset the LFCR DG adjustor as APS requests.<sup>42</sup> AzCPA believes  
20 that the cost shift can be determined “within a broad range, a policy range without a cost of service  
21 study.”<sup>43</sup>

22           115.    AzCPA believes that the Value of DG docket is too broad and generic to be useful in  
23 APS’s rate case, and that instead, judicial economy would be served by determining the specific cost  
24 of service and value of solar DG in APS’s rate case instead.<sup>44</sup>

25 \_\_\_\_\_  
<sup>38</sup> *Id.* at 8.

26 <sup>39</sup> Tr. at 62-64.

27 <sup>40</sup> *Id.* at 12, 91.

<sup>41</sup> Tr. at 90.

<sup>42</sup> *Id.*

<sup>43</sup> Tr. at 91.

28 <sup>44</sup> *Id.*

1 ASDA

2 116. ASDA stated on brief that the Reset Application could be heard and acted on outside  
3 of a rate case.

4 117. At the oral proceeding, ASDA stated that it believes the Reset Application is in  
5 keeping with the Commission's direction in Decision No. 74202, that APS is doing the right thing as  
6 it relates to how solar will be deployed long term, and ASDA is satisfied with the certainty that it  
7 believes it will get if the Reset Application is approved.<sup>45</sup>

8 118. In response to criticism from TASC that ASDA agrees with APS in this proceeding  
9 due to contracts its members have entered into with APS under its Solar Partner Program, ASDA  
10 stated that ten solar installers were awarded APS contracts under the program, three of which are  
11 ASDA members, and that five systems had been installed by ASDA members.<sup>46</sup>

12 RUCO

13 119. RUCO argued that the Commission has the legal authority to act on the Reset  
14 Application outside of a rate case, because APS's LFCR DG proposal is a rate design proposal and is  
15 revenue neutral; because the proposal only shifts costs within the residential rate class; and because  
16 the proposal would have no effect on APS's rate base or rate of return. RUCO believes granting  
17 APS's request would not violate constitutional fair value requirements, and would not constitute  
18 single issue ratemaking. RUCO argued that the Settlement Agreement approved by Decision No.  
19 73871 allows the Commission to modify the LFCR as APS requests. RUCO cites to Paragraph 9.2 of  
20 the Settlement Agreement, which states that the LFCR was designed for the purpose of "preserving  
21 maximum flexibility for the Commission to adjust EE and DG requirements, either upward or  
22 downward . . . and [n]othing in [the] Agreement is intended to bind the Commission to any specific  
23 EE [Energy Efficiency] or DG policy or standard." RUCO also argued that Decision No. 74202  
24 clearly contemplated the possibility of another LFCR DG adjustment prior to APS's next full rate  
25 case.

26  
27  
28 <sup>45</sup> Tr. at 13-15.

<sup>46</sup> *Id.* at 71-72.

1           20. RUCO stated a concern that as the number of solar DG customers continues to grow,  
2 the size of the cost shift to non-solar customers will continue to increase. RUCO believes an interim  
3 solution prior to the rate case may be necessary. RUCO stated that one of its concerns is rate  
4 certainty for solar DG customers.

5           21. At the oral proceeding, RUCO argued that the record in this docket supports further  
6 examination, prior to APS's rate case, to determine whether a cost shift is as serious as alleged; and if  
7 it is, for the Commission to find an interim solution in this docket prior to implementing a more  
8 permanent solution in APS's upcoming rate case.

9           22. RUCO explained that its concern over a cost shift stems from the rate design effects of  
10 grandfathering solar DG customers, which RUCO supports.<sup>47</sup>

11           23. According to RUCO, raising the LFCR for DG solar customers in this proceeding will  
12 result in rate gradualism for those customers, because it would divide any necessary increase in rates  
13 to solar DG customers into two steps, instead of one larger increase in the upcoming rate case.<sup>48</sup>  
14 RUCO stated that the \$21 requested by APS is not necessarily the answer, and that the hearing should  
15 be held to determine whether a cost shift exists, and if so, what amount of the cost shift should be  
16 addressed prior to the upcoming rate case.<sup>49</sup>

17           24. RUCO clarified at the oral proceeding that it no longer believes, as it did when filing  
18 its Response to the Reset Application, that the generic Value of DG proceeding must be concluded  
19 prior to Commission action on the APS Application. RUCO stated that it now would prefer that the  
20 Commission hear the Reset Application prior to a Commission determination in the Value of DG  
21 proceeding. RUCO believes, however, that if the Commission decides not to hold a hearing in this  
22 docket prior to APS's rate case, the Value of DG docket should proceed prior to the rate case. RUCO

23 \_\_\_\_\_  
24 <sup>47</sup> RUCO explained its concern as follows:

25           RUCO is a proponent of the grandfathering provisions. We think people should get what they've  
26 bargained for in the past and we intend to support grandfathering both in the past for past customers as  
27 well as customers if we do something - - the Commission does something up to the next rate case. And,  
28 therein, these leases that these customers from here on until the next case will be involved in 20-year  
leases. So from the time of the next rate case, the folks after that will be paying the fixed cost  
associated with these leases that are going on between now and then.

<sup>48</sup> Tr. at 25.

<sup>49</sup> Tr. at 86.

<sup>49</sup> *Id.*

1 believes that a generic methodology for determining the value of DG should be developed in the  
2 Value of DG docket, which methodology can then be used in the rate case proceeding to address the  
3 cost shift issue.<sup>50</sup>

4 WRA

5 125. WRA argued on brief that the issues raised in the Reset Application are best  
6 considered in a full rate case.

7 126. At the oral proceeding, WRA expressed procedural efficiency concerns with holding a  
8 hearing in this docket prior to the APS rate case due to be filed in the second quarter of 2016. WRA  
9 stated that the issue of unrecovered fixed costs will certainly be addressed in the upcoming rate case,  
10 and questioned the necessity of litigating the issue in both this and the rate case docket in such a short  
11 span of time.<sup>51</sup>

12 127. WRA argued that a very small number of solar DG customers would be affected by  
13 the outcome of a hearing in this docket prior to the rate case,<sup>52</sup> such that a hearing would not make  
14 much difference in terms of APS's stated objective of protecting solar DG customers from the  
15 dramatic rate increases that APS has asserted they might experience following the upcoming rate  
16 proceeding.<sup>53</sup> WRA contended that if the Commission were to hold a hearing in this docket, and  
17 were to determine that a changed LFCR DG rate is appropriate, the process of holding a hearing in  
18 this docket prior to the upcoming rate case would ultimately result in the grandfathering of only  
19 approximately one year of new solar DG installations.<sup>54</sup>

20 128. WRA asserted that APS's proposal to raise the LFCR for solar DG customers in this  
21 docket would single out a very small segment of customers who contribute to unrecovered fixed  
22 costs, while providing no means for the Commission to address the broader issue of other low-use  
23  
24

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25 <sup>50</sup> Tr. at 85-86.

26 <sup>51</sup> *Id.* at 16-22.

27 <sup>52</sup> In Decision No. 74202, we stated, in Findings of Fact No. 87, that "[i]f the Commission subsequently adjusts the  
LFCR DG adjustment, the new adjustment shall only apply to new DG customers who sign a contract with a solar  
installer after the LFCR DG adjustment is adopted."

28 <sup>53</sup> Tr. at 18.

<sup>54</sup> *Id.*

1 customers who have the same attributes, in terms of contributing to the problem of unrecovered fixed  
2 costs.<sup>55</sup>

3 129. WRA also took issue with APS's position that raising rates for solar DG customers  
4 would be a given following a hearing in this proceeding, or following a hearing in the upcoming rate  
5 case. WRA stated there is a possibility that the Commission may reconsider its determination in  
6 Decision No. 74202 on the issue of unrecovered fixed costs following a hearing and the presentation  
7 of evidence on the issue.<sup>56</sup>

8 SEIA and AriSEIA

9 130. SEIA and AriSEIA argued that while APS's claim that the cost shift issue is an  
10 urgent problem that cannot wait to be addressed in APS's rate case may have been valid in 2013,  
11 because APS was subject to the stay-out provision of the 2012 Rate Case Settlement Agreement,  
12 APS's claim of urgency is no longer a valid reason to address the issue separately from a rate case.<sup>57</sup>

13 131. SEIA and AriSEIA asserted on brief that the true urgency of any cost shift problem is  
14 directly tied to the veracity of APS's disputed claim regarding the magnitude of the cost shift, and  
15 that APS's claims can only be adequately resolved through a rate case in which costs are clearly  
16 identified and allocated.<sup>58</sup> SEIA argued that there has been no opportunity to confront the veracity of  
17 APS's cost shift numbers through cross-examination.<sup>59</sup>

18 132. SEIA argued that APS's proposal does not truly address cost causation, because it fails  
19 to address the cost shift impacts of non-DG lower usage customers, Energy Efficiency ("EE"), and  
20 customer conservation.<sup>60</sup> SEIA is also critical of APS's proposal because DG solar customers who  
21 might take action to moderate their demand on the system would see no commensurate reduction in  
22 their LFCR DG charge.<sup>61</sup>

23 133. SEIA asserted that APS's proposed rate increase for DG solar customers is not rate  
24 gradualism, and that even assuming APS's advocated \$67 cost shift is accurate, APS's proposed

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25 <sup>55</sup> Tr. at 19-20.

26 <sup>56</sup> *Id.* at 20-22.

27 <sup>57</sup> SEIA and AriSEIA Br. at 2.

28 <sup>58</sup> *Id.* at 3.

<sup>59</sup> Tr. at 41.

<sup>60</sup> *Id.* at 40-41, 83.

<sup>61</sup> Tr. at 83-84.

1 LFCR change would result in an increase for solar DG customers of \$21 per month, but only a  
2 minimal rate reduction of \$0.23 per month for APS's non-DG customers.<sup>62</sup>

3 134. SEIA and AriSEIA urged the Commission to consider APS's proposal in its upcoming  
4 rate case in order to allow submission of more complete evidence, including "a more complete  
5 toolbox of solutions" to the cost shift issue.<sup>63</sup> SEIA argued that a rate case is the appropriate venue to  
6 address the unanswered questions that SEIA and other stakeholders have; to address rate design  
7 issues; and to examine all the factors that go into the cost shift issue, instead of narrowly focusing on  
8 only solar DG customers.<sup>64</sup>

9 135. SEIA argued that the issue of cost shifting is a genuine issue of market risk, and that  
10 while APS's proposal would make APS a less risky company, it includes no commensurate  
11 adjustment to APS's authorized rate of return.

12 136. SEIA and AriSEIA contend that it is premature to consider the Reset Application until  
13 the Value of DG proceeding has concluded.<sup>65</sup> SEIA argued that the Value of DG docket was  
14 established to specifically look at what cost shifts exist, and to come up with a reliable framework for  
15 addressing cost shift issues, and that it is difficult to comprehend how the outcome of that docket  
16 would have zero impact on APS's proposal, as APS claims.<sup>66</sup> SEIA and AriSEIA asserted that the  
17 conclusions of that proceeding will furnish a critical input to any Commission decision that reflects  
18 the Commission's perspective on the value of distributed generation.<sup>67</sup> SEIA argued that it would be  
19 inappropriate for the Commission to take action without concluding the Value of DG proceeding  
20 first.

21 137. SEIA and AriSEIA contended that after the issuance of Decision No. 74702, which  
22 lifted the requirement that APS file a rate case using a 2014 test year, the record is unclear whether  
23 the Commission anticipated considering any further LFCR adjustments beyond the point in time  
24 when a rate case could be filed. They point out that Decision No. 74702 did not indicate that the

25 \_\_\_\_\_  
26 <sup>62</sup> *Id.* at 40-41, 83.

27 <sup>63</sup> SEIA and AriSEIA Br. at 5.

28 <sup>64</sup> Tr. at 42.

<sup>65</sup> SEIA and AriSEIA Br. at 4-5.

<sup>66</sup> Tr. at 41-42, 84.

<sup>67</sup> SEIA and AriSEIA Br. at 4-5.

1 Commission would consider subsequent LFCR DG proposals in lieu of rate cases indefinitely, and  
2 that Decision No. 74202 stated in Conclusion of Law No. 3 that it is in the public interest to consider  
3 the matters considered in that proceeding in APS's next general rate case.<sup>68</sup>

4 TASC

5 138. TASC asserts that the issues raised by the Reset Application are systemic rate design  
6 issues that can only be resolved in a rate case,<sup>69</sup> and that judicial economy requires that they be  
7 addressed in a rate case.<sup>70</sup> TASC argues that the time and resources spent on a hearing on the Reset  
8 Application and the likely litigation on appeal would far outweigh the small amount of money that  
9 would be returned through the LFCR to non-DG customers in the short time prior to APS's upcoming  
10 rate case filing.<sup>71</sup>

11 139. TASC contends that outside a rate case, the Commission cannot address rate design  
12 issues in a broad context by reallocating costs across different customer classes, and will not have  
13 cost of service studies, test year revenue requirement, and a full cost benefit analysis, all items that  
14 TASC argues is necessary to fully examine the issues presented by the Reset Application.<sup>72</sup> TASC  
15 also argues that APS's proposal constitutes a "cost-mitigation mechanism" which would result in a  
16 lower investment risk, which would impact APS's return on equity, and that these impacts on APS's  
17 fair value rate of return require examination in a rate case.<sup>73</sup>

18 140. TASC asserts that APS's estimate that \$3,060,000 that would be collected from solar  
19 DG customers through the LFCR at APS's proposed rate of \$21 per customer per month and returned  
20 to non-DG customers through the LFCR, at a rate of \$0.23 per customer per month until the  
21 conclusion of its next rate case, is highly inflated.<sup>74</sup> TASC states that APS's estimate assumes an  
22

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23 <sup>68</sup> *Id.* at 4.

24 <sup>69</sup> TASC Br. at 10. TASC contends that it would be unconstitutional for the Commission to move forward with the Reset  
25 Application outside APS's next general rate case, because APS's requested determination in this docket would constitute  
26 single-issue ratemaking in contravention of *Scates v. Arizona Corp. Comm'n*, 578 P.2d 612, 615 (Ariz. Ct. App. 1978).  
TASC claims that granting the relief requested in the Reset Application would violate the Arizona Constitution because  
the request asks for consideration of alleged costs associated with lost revenues due to DG without consideration of any  
counterbalancing savings resulting from the deployment of DG. TASC Br. at 6-7.

27 <sup>70</sup> TASC Br. at 10-11, TASC Reply Br. at 13-14.

28 <sup>71</sup> TASC Br. at 27, TASC Reply Br. at 14, 17.

<sup>72</sup> TASC Br. at 8.

<sup>73</sup> *Id.* at 8-9.

<sup>74</sup> *Id.* at 23-28.



1 increase in the number of solar DG systems installed in the year following APS's proposed increase  
 2 of the LFCR DG charge from \$5 to \$21 per month, at a rate of more than 50 percent over the highest  
 3 yearly rate of installations thus far.<sup>75</sup> TASC asserts that APS expects the market for rooftop solar to  
 4 decline after any imposition of a new charge on solar DG customers.<sup>76</sup> TASC believes it would be  
 5 more accurate to base the estimate of additional collected revenues from DG customers on the  
 6 adoption rate of DG solar systems in Salt River Project's ("SRP") service territory following SRP's  
 7 imposition of its new charge on solar DG customers.<sup>77</sup> TASC provides its range of estimates of the  
 8 amount that would be returned to non-DG customers under APS's proposal under four different  
 9 alternative scenarios in a chart on page 27 of its Initial Brief. Those estimates range from a high of  
 10 \$0.15 per customer per month (based on an APS data response) down to \$0.003 per customer per  
 11 month.<sup>78</sup>

12 141. TASC argues that APS's contention that the Reset Application is an example of  
 13 gradualism is unsupportable.<sup>79</sup> TASC believes that the reason behind APS's request for a rushed  
 14 determination on the Reset Application prior to its upcoming rate case is a desire to stop customer  
 15 implementation of non-utility owned rooftop solar.<sup>80</sup> TASC argues that the fact that APS will be  
 16 seeking a different or additional solution to fixed cost recovery issues in APS's upcoming rate case  
 17 weighs heavily against the Commission spending time and resources on an incomplete solution to  
 18 recovery of fixed costs in this docket, instead of investigating the issue and solutions fully in the  
 19 upcoming rate case.<sup>81</sup>

20 142. TASC argues that statements in Decision No. 74202 that fixed cost recovery issues  
 21 should be heard in a full rate case, coupled with the speed with which Decision No. 74202 required  
 22 APS to file a rate case, indicate that the increase in the LFCR for DG customers was intended to  
 23 remain at \$5 per customer per month until the issues could be vetted in APS's next rate case.<sup>82</sup>

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25 <sup>75</sup> *Id.* at 25-27.

26 <sup>76</sup> TASC Reply Br. at 7-8.

27 <sup>77</sup> TASC Br. at 25-27.

28 <sup>78</sup> *Id.* at 27.

<sup>79</sup> *Id.* at 24-25.

<sup>80</sup> *Id.* at 11.

<sup>81</sup> TASC Br. at 21, TASC Reply Br. at 14.

<sup>82</sup> TASC Br. at 22.

1 143. TASC contends that the Reset Application should be dismissed because APS led  
 2 observers to believe no such request would be forthcoming prior to APS's rate case filing.<sup>83</sup> TASC  
 3 states that following Decision No. 74702, which subsequently removed the requirement that APS file  
 4 its rate case by June 2015, APS reassured the public that it would not seek an increase of the LFCR  
 5 DG solar charge outside the delayed rate case, making public statements that it planned any change to  
 6 the \$5 LFCR DG charge to occur in the context of APS's next rate case.<sup>84</sup>

7 144. TASC maintains that the process that led to the adoption of Decision No. 74202 was  
 8 not legally sufficient, and resulted in a Decision that is not sufficient to support the granting of the  
 9 relief APS requests in the Reset Application.<sup>85</sup>

10 145. TASC filed a Protest and Motion to Dismiss the 2013 Application on August 20,  
 11 2013, and a Joinder in SEIA's August 30, 2013 Protest and Motion to Dismiss on August 30, 2013,  
 12 requesting that the fixed cost recovery issue raised by the 2013 Application be dealt with in a full rate  
 13 case proceeding. TASC did not request a hearing in this docket in the process leading to Decision  
 14 No. 74202 because it believed filing a request for hearing would have constituted an  
 15 acknowledgement that the forum was proper, when TASC believed, and continues to believe, that the  
 16 only legal forum to address the matters raised is in a rate case.<sup>86</sup>

17 146. TASC asserts that APS's proposal focuses solely on DG customers, which is a small  
 18 sub-class of APS's customers, in response to an alleged cost shift which is likely caused not by the  
 19 individual DG sub-class of customers, but is caused instead by the nature of APS's rate design.<sup>87</sup>  
 20 Citing to an APS data response, TASC states that over 70 percent of charges passed to ratepayers  
 21 through the LFCR since its inception have been to compensate APS for lost fixed costs caused by EE  
 22 implementation, and only 29.73 percent of those lost fixed costs are attributable to DG  
 23  
 24

25 <sup>83</sup> *Id.* at 23.

26 <sup>84</sup> *Id.* at 5, 22-23, citing to statements made following the issuance of Decision No. 74702, by APS spokesman Jim  
 27 McDonald to the Arizona Republic, and by APS CEO Don Brandt during APS parent Pinnacle West's 2014 second  
 28 earnings call.

<sup>85</sup> TASC Br. at 3.

<sup>86</sup> TASC Reply Br. at 13.

<sup>87</sup> TASC Br. at 8.

1 implementation.<sup>88</sup> TASC asserts that APS is asking the Commission to ignore EE users and only  
 2 increase charges on DG users.<sup>89</sup>

3 147. TASC characterizes the Reset Application as a request for the Commission to use a  
 4 prior “decision that was made without the benefit of any formal evidence, testimony, or cross  
 5 examination, in a forum where repeated requests for due process went unanswered . . . as the basis to  
 6 justify the further relief APS now seeks[.]”<sup>90</sup> TASC contends that “the ‘evidence’ APS points to is  
 7 not only self-serving, but is also outdated with studies that were undertaken in 2012 and 2013 serving  
 8 as the basis for APS’s claims.”<sup>91</sup>

9 148. TASC points out that even assuming the accuracy of APS’s allegations regarding a  
 10 cost shift, any cost shifting that may be occurring is occurring only inside the confines of the LFCR,<sup>92</sup>  
 11 and the amount collected in the LFCR prior to the next rate case will do nothing to change the  
 12 relevant ratemaking equation in dealing with any cost shifting that must be dealt with in that rate  
 13 case.<sup>93</sup> TASC explains that the amount APS collects through the LFCR from DG customers between  
 14 now and the conclusion of the next rate case will have no impact on the amount of any cost shift to be  
 15 dealt with in the next rate case.<sup>94</sup> No cost shifting from DG ratepayers that may exist today will be  
 16 charged to non-DG ratepayers in the next rate case, because there is no mechanism in place that  
 17 would allow APS to recover lost revenues due to the implementation of DG between rate cases.<sup>95</sup>

18 149. TASC argues that even if it were otherwise legal to modify the LFCR as APS  
 19 requests, the Reset Application is untimely and must be dismissed, because the Settlement Agreement  
 20 prohibits LFCR adjustments from being made more than once each year, and the LFCR charge was  
 21 already modified by Decision No. 74994 (March 16, 2015).<sup>96</sup>

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22  
 23  
 24 <sup>88</sup> TASC Reply Br. at 3.

25 <sup>89</sup> TASC Br. at 18.

26 <sup>90</sup> *Id.* at 5.

27 <sup>91</sup> TASC Reply Br. at 13.

28 <sup>92</sup> TASC Br. at 9.

<sup>93</sup> TASC Reply Br. at 2, 4.

<sup>94</sup> *Id.* at 4, 16.

<sup>95</sup> TASC Br. at 4-5.

<sup>96</sup> *Id.* at 20-21.

1           150. TASC also argues that by the Reset Application, APS impermissibly asks the  
 2 Commission to overturn the Settlement Agreement.<sup>97</sup> TASC asserts that the cost shift issue in the  
 3 2013 Application and now in the Reset Application is the same issue the Commission addressed by  
 4 approving the LFCR proposed by the Settlement Agreement: customers not paying, and APS not  
 5 recovering, fixed costs of service embedded in energy rates based on energy usage measured in  
 6 kWh.<sup>98</sup> TASC argues that the Settlement Agreement signatories, including APS, chose the LFCR  
 7 adjustor as a tailored mechanism to address unrecovered fixed costs associated with EE and DG, and  
 8 that APS is asking for a fundamental change to the LFCR, which TASC believes cannot be approved  
 9 outside another rate case.<sup>99</sup>

10           151. TASC disagrees with assertions that Section 9.11 of the Settlement Agreement<sup>100</sup>  
 11 allows APS's requested adjustment to the LFCR.<sup>101</sup> TASC argues that Section 9.11 was not included  
 12 in the Settlement Agreement to allow changes to the LFCR to the detriment of settling parties who  
 13 relied upon it.<sup>102</sup> In support of its position, TASC points out that the only remedy under Section 9.11  
 14 grants relief not to the other parties, but only to APS, because the type of changes the parties  
 15 considered protected by Section 9.11 were changes the Commission might make that would limit  
 16 APS's recovery of fixed costs prior to its next rate case.<sup>103</sup> TASC states that in this proceeding, it is  
 17 not the Commission affirmatively seeking to make changes to the LFCR, but APS, and that APS is  
 18 thereby violating the terms of the Settlement Agreement by asking the Commission to fundamentally  
 19 change the functioning of the LFCR.<sup>104</sup>

22 <sup>97</sup> *Id.* at 11-19.

23 <sup>98</sup> *Id.* at 13, citing to Settlement Agreement Sec. 9.1, attached to Decision No. 73183 as Exhibit A, at 10, and Reset  
 Application at 8-9.

24 <sup>99</sup> TASC Br. at 14, 16-17.

<sup>100</sup> Section 9.11 of the Settlement Agreement is provided again here for ease of reference:

25           The LFCR shall be subject to Commission review at any time, the first to occur no later than APS's  
 26           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.

27 <sup>101</sup> TASC Reply Br. at 10.

<sup>102</sup> *Id.* at 11.

28 <sup>103</sup> *Id.*

<sup>104</sup> TASC Reply Br. at 10.

1 152. TASC contends that the LFCR as set forth in the LFCR Plan of Administration  
 2 approved in Decision No. 73183 does not permit charging customers with DG, or with EE, an amount  
 3 different than customers without DG.<sup>105</sup> TASC contends that if the Settlement Agreement parties had  
 4 intended the LFCR to be used to charge DG or EE customers a greater amount than other customers,  
 5 the intent would have been expressly stated.<sup>106</sup>

6 153. TASC also makes assertions regarding the effect of the filing of the Reset Application  
 7 on Decision No. 74878.<sup>107</sup>

8 Staff

9 154. Staff believes that under the circumstances presented by the Reset Application, the  
 10 Commission may lawfully process the Reset Application outside a rate case,<sup>108</sup> but states that doing  
 11 so would do little to further the solution to the difficult rate design issues surrounding the cross-  
 12 subsidization of solar DG customers.<sup>109</sup> Decision No. 74202 suggests that the issues raised by the  
 13 Reset Application are better addressed in a rate case, and Staff agrees, because continued resets to the  
 14 LFCR will not fix the underlying rate design issues.<sup>110</sup> Staff does not believe that APS's or any other  
 15 party's stated reasons in support of taking action on the Reset Application prior to the rate case are  
 16 compelling, and believes this matter should be addressed when APS files its upcoming rate case,  
 17 where the issues related to the under-recovery of fixed costs can be addressed in a more holistic and  
 18 comprehensive fashion.<sup>111</sup>

19 155. Staff states that in an environment of declining kWh sales, APS will very likely  
 20 experience an under-recovery of fixed costs, and that the Reset Application identifies the need for  
 21 fundamental changes to APS's rate design.<sup>112</sup> Staff believes, however, that it is unlikely that the cost  
 22

23 <sup>105</sup> TASC Br. at 14.

24 <sup>106</sup> *Id.* at 15.

25 <sup>107</sup> TASC asserts that the filing of the Reset Application raises the issue of whether the cost parity with current net  
 26 metering rates to which APS committed, in conjunction with the 8-10 MW APS-owned, rooftop DG solar pilot project,  
 approved in Decision No. 74878 in Docket No. E-01345A-14-0250, remains possible. TASC makes suggestions in  
 regard to that docket. TASC Br. at 31, citing to Decision No. 74878 at 6. If TASC wishes to raise issues in regard to  
 Decision No. 74878, it should address those issues in Docket No. E-01345A-14-0250.

27 <sup>108</sup> Staff Br. at 3-4; Staff Reply Br. at 2-5.

28 <sup>109</sup> Staff Br. at 1, 5.

<sup>110</sup> *Id.* at 1.

<sup>111</sup> Staff Br. at 1, 6-7; Staff Reply Br. at 1-2, 7.

<sup>112</sup> Staff Br. at 4.

1 shift APS alleges is of such a magnitude that it must be addressed prior to the rate case APS intends  
 2 to file in the second quarter of 2016.<sup>113</sup> Staff states that as noted in Decision No. 74202, the cost shift  
 3 has not yet occurred for rooftop solar systems installed after APS's last test year in 2010, except for  
 4 that within the LFCR.<sup>114</sup> Staff states that another LFCR reset will have minimal impact on any cost  
 5 shift that APS is experiencing.<sup>115</sup>

6 156. Noting that APS acknowledges that updating rate design in a manner that is fair for all  
 7 customers is required to resolve the cost shift, and that Decision No. 74202 acknowledged that a rate  
 8 case would be necessary to finally resolve the cost shift issue, Staff states that the issues associated  
 9 with the under-recovery of fixed costs are best handled in a rate case.<sup>116</sup> Staff states that while the  
 10 Reset Application proposal addresses only DG customers, there are many possible rate design  
 11 solutions, all available in a rate proceeding, to address the issue of under-recovery of fixed costs from  
 12 not only solar DG customers, but also from EE customers.<sup>117</sup> Staff states that of the total lost fixed  
 13 cost revenue for the period covered by APS's recent reset application filed in Docket No. E-01345A-  
 14 11-0224, recoverable EE lost fixed costs constitute a much greater proportion than recoverable DG  
 15 lost fixed costs.<sup>118</sup> Among the many possible solutions available in a rate case to address the  
 16 recovery of lost fixed costs, according to Staff, are instituting a higher monthly minimum charge,  
 17 applying a demand charge, and introducing new rate schedules.<sup>119</sup>

18 157. Staff states that APS has already received its annual LFCR reset for 2015, and that  
 19 APS has offered no compelling reason for the Commission to grant an additional reset for the same  
 20 year.<sup>120</sup> Responding to APS's allegations that DG systems are proliferating and non-DG customers  
 21 are subsidizing DG customers at an alarming rate, Staff states that even if another 7,800 systems were  
 22 installed in 2015, the yearly cost shift associated with those systems, according to APS, would be  
 23

24 <sup>113</sup> *Id.* at 6-7.

25 <sup>114</sup> *Id.* at 6, citing to Decision No. 74202 at 6.

26 <sup>115</sup> Staff Reply Br. at 2.

27 <sup>116</sup> Staff Br. at 5; Staff Reply Br. at 1-2, 7.

28 <sup>117</sup> Staff Br. at 5; Staff Reply Br. at 7.

<sup>118</sup> Staff Reply Br. at 7, citing to Attachment C to the application filed in Docket No. E-01345A-11-0224 on January 15, 2015.

<sup>119</sup> Staff Br. at 5.

<sup>120</sup> *Id.* at 6, citing to Decision No. 74994 in Docket No. E-01345A-11-0224.

1 \$6.3 million.<sup>121</sup> Staff does not believe that this cost shift within the LFCR merits addressing in this  
 2 proceeding prior to APS's upcoming rate proceeding.

3 158. In response to APS's assertions that the concept of gradualism supports a resetting of  
 4 the LFCR, and that fairly allocating fixed costs within the LFCR now will provide more flexibility in  
 5 the upcoming rate case, Staff states that APS's arguments assume that adopting APS's proposed  
 6 increased charges for solar DG customers would be a correct first step.<sup>122</sup> Staff believes that it may  
 7 not be the right first step, because in a rate case, there may well be a way to achieve two goals: fairly  
 8 apportioning fixed costs, and retaining economic incentives for customers to install solar DG.<sup>123</sup>  
 9 Staff states that a rate case would provide the Commission with many more options as it seeks to  
 10 resolve the difficult issues raised in the Reset Application.<sup>124</sup> Staff states that handling the recovery  
 11 of lost fixed costs in APS's upcoming rate case will promote efficiency and conserve Staff and  
 12 Commission resources, and that cost savings and other benefits associated with DG could be  
 13 considered in a rate case.<sup>125</sup>

14 159. Staff responds to arguments that the Reset Application should be decided prior to the  
 15 rate case because the cost shift might otherwise grow to such an extent that grandfathering all  
 16 existing DG customers will result in significantly increasing rates for all other non-DG customers,  
 17 and make grandfathering less tenable in the end. Staff states that such arguments presume the  
 18 Commission will want to continue grandfathering tranches of DG customers under different rates.<sup>126</sup>  
 19 Staff notes that Decision No. 74202 was clear that the rates of all customers, including grandfathered  
 20 customers, would be subject to review in APS's next rate case, and states that there is good reason for  
 21 that, because it is likely that a rate design solution will be available in the rate case that will resolve  
 22 fixed cost recovery issues, and that it may be a more attractive option for all customers than  
 23 grandfathering.<sup>127</sup>

24 . . .

25 <sup>121</sup> Staff Br. at 6. APS reported intrastate gross operating revenues of \$3,534,784,769 for 2014.

26 <sup>122</sup> Staff Br. at 7.

27 <sup>123</sup> *Id.*

<sup>124</sup> *Id.*

<sup>125</sup> Staff Br. at 5, Staff Reply Br. at 7.

<sup>126</sup> Staff Reply Br. at 6.

28 <sup>127</sup> *Id.* at 6-7.

1 **RESOLUTION**

2 160. As we explained in Decision No. 73183, the LFCR mechanism agreed to by the  
3 parties in APS's last rate case in the Settlement Agreement, and subsequently adopted by the  
4 Commission, "gives APS the opportunity to recover a portion of the distribution and transmission  
5 costs associated with those residential, commercial and industrial customers' verified lost kWh sales  
6 attributed to EE and DG requirements[.]"<sup>128</sup> The LFCR, as adopted by Decision No. 73183, was  
7 designed to be adjusted annually until its re-examination in APS's next full rate case proceeding. In  
8 March of this year, we approved a reset of the LFCR following APS's application filed on January  
9 15, 2015. In our Decision today, we are called upon to determine whether it is in the public interest  
10 to commence a proceeding to reset the LFCR established in APS's rate case for a second time this  
11 year, following APS's filing of the Reset Application on April 2, 2015.

12 161. In Decision No. 74202, we recognized a shifting of fixed costs to non-DG customers,  
13 and implemented the LFCR DG charge, resetting the LFCR on an interim basis to assess an  
14 additional \$5 per month on DG customers. Decision No. 74202 was issued in contemplation of a full  
15 rate case vetting of the fixed cost recovery issues raised in the 2013 Application. For that reason, we  
16 ordered APS to file a full rate case in June 2015. Our subsequent determination in Decision No.  
17 74702 to remove the requirement for APS to file a rate case in June 2015 did not alter the need for  
18 examination of the fixed cost recovery issues in a manner that will allow all interested parties to  
19 provide evidence to support their positions on the issue and to cross examine expert witnesses.

20 162. There is no dispute that any cost shift currently occurring in the LFCR adjustor  
21 mechanism is minimal at this time. Even under APS's most optimistic projections of the number of  
22 new DG installations, APS's proposal in the Reset Application would reduce the bills of APS's non-  
23 DG customers by only \$0.23 per month per customer, while increasing the bills of DG customers by  
24 \$21 per month per customer. Importantly, while APS's January 2015 LFCR filing showed that EE  
25 accounted for a greater percentage of the cost shift than DG, the Reset Application proposal fails to  
26 address any cost shifting to non-DG customers by EE customers.

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<sup>128</sup> Decision No. 73183 at 12-13.



1           163. Without a pre-authorized deferral mechanism, any lost utility revenues due to  
2 decreased customer usage between one rate case and the next simply cannot be “made up for” in the  
3 next rate case through retroactive ratemaking. We recently authorized a reset of the LFCR, on March  
4 16, 2015, in Decision No. 74994. As APS clarified in this proceeding, there is currently no  
5 accumulation of lost fixed costs that must be addressed on a deferral basis in its next rate case  
6 through the LFCR deferral mechanism. In addition, when the LFCR mechanism was approved in  
7 APS’s last rate case it included a 1 percent cap on deferrals, for the purpose of protecting ratepayers  
8 in the next rate case. There has been no concern expressed that the 1 percent cap will be reached  
9 prior to a determination in APS’s next rate case.

10           164. APS and other parties have argued that taking action prior to the rate case increasing  
11 charges on solar DG customers is necessary in order to protect DG customers from a steep rate  
12 increase in APS’s next rate case. APS has stated it believes evidence will support an increase in  
13 charges to solar DG customers of up to \$70 per month in order for APS to recover fixed costs that  
14 APS states will be lost due to existing and future DG customers’ reduced kWh usage. Other parties  
15 have disagreed with this contention, and have asserted that evidence will show it is not solely the  
16 reduced usage of DG customers that will contribute to APS’s lost recovery of fixed costs, but that EE  
17 and other conservation measures will also be shown to contribute to the rate design problem.

18           165. APS and other parties have also asserted that action is needed on the Reset  
19 Application prior to APS’s upcoming rate case in order to protect non-DG customers from steep  
20 increases in charges that would be necessary due to continued grandfathering of DG customer rates.  
21 These assertions are premised on an assumption that future Commission action will extend  
22 “grandfathering” of DG customers beyond the action taken in Decision No. 74202. Such an  
23 assumption cannot reasonably be presumed. This is because any determination on whether there is a  
24 need to continue any grandfathering beyond that ordered in Decision No. 74202 cannot reasonably be  
25 made without a full and diligent examination of all elements of APS’s rate design, in the context of a  
26 full rate case. Decision No. 74202 made it clear that in APS’s next rate case, the LFCR DG charge  
27 may be increased, decreased, left as is, or eliminated. In order to ensure that APS customers  
28 choosing to install rooftop DG following Decision No. 74202 understood that the issue would be

1 examined in APS's next rate case, we ordered APS to require residential customers owning or leasing  
2 an interconnecting rooftop solar system to sign a new disclaimer to that effect, as part of their rooftop  
3 photovoltaic system interconnection process.<sup>129</sup>

4 166. APS intends to file a full rate case in less than one year. In that rate proceeding, the  
5 issues surrounding the appropriate means for APS to recover its fixed costs in the face of reduced  
6 kWh usage will be fully examined. APS's cost of service will be determined, and an appropriate rate  
7 design will be developed that will allow APS to recover its costs.

8 167. The arguments have not established an urgent need for commencing a proceeding on  
9 the Reset Application at this time. Any proposal presented outside a rate case to address the recovery  
10 of fixed costs on an interim basis would be severely limited in scope, to changes in the LFCR  
11 adjustor mechanism established in the settlement of APS's last rate case. The LFCR mechanism may  
12 well be inadequate in the long term to address the issue of APS's ability to recover its fixed costs in  
13 the face of a reduction in kWh usage under APS's current rate design.

14 168. There is little regulatory wisdom in undertaking a proceeding that is severely  
15 handicapped from the beginning in the way of possible solutions to a problem that can be readily  
16 addressed in a rate case which will be filed in less than one year. Any need to grandfather new DG  
17 customers cannot be presumed absent a full and diligent examination of all elements of APS's rate  
18 design in the context of a full rate case. Commencing the evidentiary proceeding prior to the rate  
19 case as urged by APS would be duplicative and expensive for all affected entities, and is not  
20 necessary to make APS whole. We find that it is more reasonable, appropriate, and in keeping with  
21 proper ratemaking principles to address the issue of lost fixed cost recovery due to reduced kWh  
22 usage in the rate design phase of APS's upcoming rate case, which it has stated it intends to file in the  
23 second quarter of 2016.

#### 24 CONCLUSIONS OF LAW

25 1. APS is a public service corporation within the meaning of Article XV of the Arizona  
26 Constitution and A.R.S. Title 40.

27  
28 <sup>129</sup> See Decision No. 74202 at 22. The disclaimer language is set forth in footnote 3, *supra*.



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