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BEFORE THE ARIZONA CORPORATION COMMISSION

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SUSAN BITTER SMITH, Chairman

BOB STUMP

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DOUG LITTLE

TOM FORESE

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OCT 5 2015

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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

**STAFF'S RESPONSE TO ARIZONA
PUBLIC SERVICE COMPANY'S MOTION
TO AMEND INTERLOCUTORY ORDER**

Arizona Corporation Commission Staff ("Staff") appreciates all of the parties' recent filings on the scope of these proceedings. Staff also appreciates APS's recent filing which suggests that this proceeding be reformulated to look more at policy related issues regarding the cost-of-service with respect to both distributed generation ("DG") customers and non-DG customers. Staff offers the following suggestions for the Commission's consideration in determining how best to move forward in light of the various comments filed since the issuance of Decision No. 75251.

Staff's comments put forth two options for the Commission's consideration. Staff's preferred option, Option One, is for the Commission to simply dismiss APS's current Motion to Reset and handle these issues in the Company's upcoming rate case. The whole basis for the existing proceeding is premised on APS's request to reset its grid access charge. Since the Company is willing to withdraw that request, attempting to reformulate that proceeding into something dramatically different would be extremely difficult and impracticable. Further, the need for further proceedings at this time appears to have been overtaken by other proceedings now before the Commission which are likely to be the focal point for much of this policy discussion. The policy issues related to both cost of service and value of solar are now the subject of other dockets which are likely to be resolved prior to APS's next rate case. Proceeding now runs the risk that the results of these dockets may be inconsistent with the results reached in any policy docket initiated as a result of these proceedings. And, virtually all, if not all of the parties to this docket, are or will likely be ...

Intervenors in these other dockets as well. Thus, the need to go forward at this time with the current proceedings is much less compelling.

Staff's second option would be to dismiss the current proceeding to reset the grid access charge, but to open a new docket which would include an evidentiary hearing to make policy findings on the cost of serving residential customers with DG and without DG. At the same time, Staff recommends that the Commission also direct the Hearing Division to hold a companion evidentiary hearing in Generic Docket No. E-00000J-14-0023¹ on policy related issues concerning the value of solar/DG.

Both of Staff's Options are discussed in more detail below.

I. INTRODUCTION AND RECOMMENDATIONS.

On August 31, 2015, the Commission issued Decision No. 75251, which directed the Hearing Division to conduct further proceedings in this docket. That decision also asked parties to comment on the potential scope of the proceedings. A number of parties have filed comments, and the range of suggested topics is quite broad. Several other parties filed applications for rehearing, which raise a variety of allegations.

On September 25, 2015, APS filed a Motion to Amend Decision No. 75251, also providing specific suggestions about the scope of further proceedings. APS indicated that it would withdraw its request to increase its grid access charge at this time, in exchange for moving forward with a more policy focused hearing on issues related to the costs of serving residential customers, both with and without solar, and how those costs are collected under APS's current rate design. APS views the current proceeding as transitioning into one with the goal of establishing important policy findings that could guide later proceedings before the Commission.

Staff acknowledges that this case has attracted a great deal of attention, and appreciates the parties' attempts to more clearly define the scope of this endeavor. It is clear that many parties, including APS, have thoughtfully considered how to move the discussion forward in a meaningful way. Staff has considered the various post-decision filings, and offers the following two Options and additional suggestions for moving forward:

¹ In the Matter of the Commission's Investigation of Value and Cost of Distributed Generation.

- 1 1. Option One would be to dismiss the current proceeding to reset the grid access
2 charge and address the cost of service and value of solar issues in APS's next rate
3 case.
- 4 2. Option Two would be to dismiss the current proceeding to reset the grid access
5 charge but to open a new docket to address the costs to serve residential
6 customers with and without solar/DG at this time. The Hearing Division could be
7 directed to schedule an evidentiary hearing in this new docket, to hear testimony
8 on these issues, and to prepare a recommended order with proposed findings
9 about the costs of serving DG and non-DG residential customers. Because many
10 parties want to offer input on these issues, Staff suggests a generic docket would
11 best accommodate an open and rigorous discussion of these issues.
- 12 3. Under Option Two, Staff also recommends that the Commission look at important
13 policy issues with regard to the value of solar/DG in the existing generic
14 proceeding on this subject. The Hearing Division should be directed to schedule
15 an evidentiary hearing in Docket No. E-00000J-14-0023, to hear testimony about
16 the value of solar/DG, and to prepare a recommended order with proposed
17 findings about the value of solar/DG.
- 18 4. Staff would support efforts to process the two generic dockets within roughly the
19 same time-frame, if possible. Staff does not object to establishing March, 2016 as
20 a tentative goal for concluding these dockets.
- 21 5. Under both of Staff's options, the Commission would dismiss APS's Motion to
22 Reset, rescind Decision No. 75251, and close Docket No. E-01345A-13-0248.
- 23 6. As part of its order, the Commission should require APS to file a rate case no later
24 than June 30, 2016.

25 These recommendations are discussed in more detail below.

26 **II. STAFF'S PREFERRED OPTION ONE WOULD BE DISMISSAL OF THE MOTION
27 TO RESET THE GRID ACCESS CHARGE AND RESOLVING THE ISSUES IN
28 APS'S NEXT RATE CASE.**

Staff's Option One is for the Commission to dismiss APS's current Motion to Reset its grid access charge; and to resolve these issues in the Company's next rate case. While Staff appreciates APS's willingness to withdraw its current request to increase its grid access charge at this time, it would not be useful to go forward in the current proceeding as APS requests because the existing application was set up to address the requested grid access charge increase.

Because APS has proposed to withdraw its request to increase the grid access charge, and instead focus on policy issues involving the costs of serving DG and non-DG residential customers, this completely shifts the focus of the proceeding and the threshold issues to those surrounding the basic costs of serving DG and non-DG residential customers.

...

1 In addition, the need for further proceedings at this time has been overtaken by subsequent
2 events. Cases are now pending before the Commission which have become the focal point for the
3 discussion on the important policy issues regarding the same cost-of-service and value of solar issues
4 raised in this case. Almost all, if not all, of the parties in this case are or will likely be parties in the
5 other cases. For instance, one of these cases is the rate case filed by UNS Electric.² That case will be
6 looking at many of the same issues involving the costs and benefits associated with serving DG
7 customers. Many of the participants in this case have now intervened in the UNS Electric rate case to
8 participate in the discussion and ultimate resolution of these issues.

9 While Staff is not suggesting that there are not company specific issues that would need to be
10 addressed with respect to each company, those company specific issues are the types of issues that
11 are best addressed in a rate case. Further, the vintage of APS's cost-of-service study is likely to be
12 different in the rate case, making the importation of specific findings from this earlier docket to the
13 rate case difficult. Parties may want to look at the more current cost-of-service numbers that the
14 Company provides in its upcoming rate case. Given this, it may be more beneficial to APS if parties
15 to this docket instead committed to use their best efforts to process and resolve the Company's
16 upcoming rate case in an expeditious and timely manner.

17 Finally, the expenditure of resources will be tremendous. And, all of this effort may
18 ultimately produce little value in the end since the findings may be subject to review based upon the
19 Company's updated cost-of-service study and the fact that certain underlying issues may be resolved
20 in existing rate cases which are well underway where these issues are being addressed. Further,
21 proceeding at this time also runs the risk that contradictory or inconsistent findings may result.

22 However, if the Commission elects to pursue further proceedings, Staff offers its Option Two
23 which is set forth below.

24 ...

25 ...

26 ...

27 ² In the Matter of the Application of UNS Electric, Inc. For the Establishment of Just and Reasonable Rates and Charges
28 Designed to Realize a Reasonable Rate of Return on the Fair Value of the Properties of UNS Electric, Inc. Devoted to its
Operations Throughout the State of Arizona and For Related Approvals, Docket No. G-04204A-15-0142.

1 **III. STAFF'S OPTION TWO WOULD INVOLVE DISMISSAL OF THE CURRENT**
2 **PROCEEDING TO RESET THE GRID ACCESS CHARGE AND THE**
3 **COMMISSION MOVING FORWARD IN A NEW PROCEEDING TO STUDY THE**
4 **COSTS OF SERVING RESIDENTIAL CUSTOMERS, BOTH WITH AND WITHOUT**
5 **SOLAR.**

6 Staff's Option Two would be for the Commission to dismiss the current proceeding to reset
7 the grid access charge but to move forward in a new proceeding to study the costs-of-service with
8 respect to both customers with DG and customers without DG.

9 Because APS has proposed to withdraw its request to increase the grid access charge, and
10 instead focus on policy issues involving the costs of serving DG and non-DG residential customers,
11 the focus of the proceeding would shift to threshold issues surrounding the basic costs of serving DG
12 and non-DG residential customers. While Staff appreciates APS's willingness to withdraw its reset
13 request at this time, to proceed in the current docket may actually hinder the parties' efforts since the
14 focus of this docket is on the specific reset request made by APS. With APS's withdrawal of the
15 reset request, little remains that would provide a helpful framework for studying the myriad of issues
16 raised by the parties' comments.

17 Further, in comments filed after the issuance of Decision No. 75251, many parties supported
18 the inclusion and examination of a cost-of-service study. Some would like to use a cost-of-service
19 study to more precisely determine the costs of serving customers with DG. Others suggest that it
20 could be used to determine the magnitude of the various cost shifts that may be embedded in APS's
21 rate structure. Still others suggest that APS should perform a full cost-of-service study that will
22 include both embedded and marginal costs. Vote Solar believes that the Commission should require
23 APS to include both residential and commercial DG in its analysis, so that any cross-subsidization
24 from commercial customers to residential customers can be identified. RUCO, by contrast, believes
25 that the study may be limited to residential customers.

26 If the Commission wants to have a hearing on these issues at this time, Staff recommends that
27 the Commission initiate a new proceeding that will allow opportunities for broad public participation.
28 A generic proceeding could best accomplish this in Staff's opinion. It could specifically examine the
costs of serving residential customers, both with and without DG. APS could use this generic docket
to present its own cost-of-service study, and could ask the Commission to make appropriate findings.

1 The Commission could direct the Hearing Division to convene a procedural conference to
2 determine a procedural schedule for an evidentiary hearing in this new generic docket. Parties would
3 have an opportunity to offer testimony and to cross-examine witnesses. The Hearing Division could
4 also be directed to prepare a recommended order with proposed findings about the costs of serving
5 DG and non-DG residential customers, and about any other matters raised by stakeholders in this
6 generic docket.

7 **IV. UNDER OPTION TWO, STAFF ALSO RECOMMENDS THE COMMISSION USE**
8 **DOCKET NO. E-00000J-14-0023, THE EXISTING GENERIC PROCEEDING**
9 **REGARDING THE VALUE OF SOLAR, TO STUDY ISSUES RELATED TO**
10 **POTENTIAL METHODOLOGIES FOR QUANTIFYING THE VALUE OF SOLAR**
11 **AND THE VALUE OF DG.**

12 In comments filed after the issuance of Decision No. 75251, many parties suggested that the
13 Commission examine not only the costs of serving DG customers, but also the benefits and values of
14 DG and net-metered systems. These parties would like to explore factors such as avoided costs; rate
15 impacts, including credits; generation, transmission, and distribution capacity; costs of
16 administration; and environmental impacts. Many of these parties suggest that the analysis should
17 cover a twenty to thirty year time-frame, as this represents the life of a solar system.

18 Staff suggests that the Commission use Docket No. E-00000J-14-0023, the existing generic
19 docket regarding the value of solar, to explore ways to quantify the value of solar/DG.³ The
20 Commission could direct the Hearing Division to convene a procedural conference to determine a
21 procedural schedule for an evidentiary hearing in Docket No. E-00000J-14-0023. Parties would have
22 an opportunity to offer testimony and to cross-examine witnesses. The Hearing Division could also
23 be directed to prepare a recommended order with proposed findings about the value of solar/DG and
24 any other matters raised by stakeholders in this generic docket.

25 **V. THE COMMISSION SHOULD CONTINUE TO REQUIRE APS TO FILE ITS NEXT**
26 **RATE CASE BY JUNE 30, 2016.**

27 Staff suggests that the Commission specifically address the timing for the filing of APS's next
28 rate case. In Decision No. 75721, the Commission included a requirement for APS to file a rate case

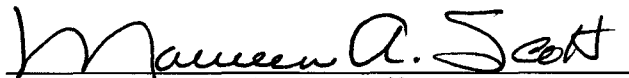
³ Separation of cost-of-service and value of solar into two proceedings recognizes that these are largely separate topic areas (with some overlap) but that any conclusions can be integrated for policy purposes as later deemed appropriate.

1 by June 30, 2016. If the Commission were to dismiss APS's Motion to Reset, as Staff has
2 recommended, it would also be appropriate to rescind Decision No. 75721. In those circumstances, it
3 would be necessary for the Commission to specifically restate the requirement for APS to file a rate
4 case by June 30, 2016.

5 **VI. CONCLUSION.**

6 Staff recommends that the Commission dismiss APS's Motion to Reset, rescind Decision No.
7 75721, and close Docket No. E-01345A-13-0248. Staff's preference would be to avoid further
8 proceedings at this time and to address these matters in rate cases. Staff offers additional procedural
9 suggestions regarding possible generic proceedings as a potential means to move forward through
10 these issues, if the Commission decides that it would be helpful to hold hearings at this time.

11 RESPECTFULLY SUBMITTED this 5th day of October, 2015.

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14 Maureen A. Scott, Senior Staff Counsel
15 Wesley C. Van Cleve, Attorney
16 Legal Division
17 Arizona Corporation Commission
18 1200 West Washington Street
19 Phoenix, Arizona 85007
20 (602) 542-3402

21 Original and thirteen (13) copies
22 of the foregoing filed this
23 5th day of October, 2015, with:

24 Docket Control
25 Arizona Corporation Commission
26 1200 West Washington Street
27 Phoenix, Arizona 85007

28 Copy of the foregoing emailed and/or mailed
This 5th day of October, 2015 to:

Thomas A. Loquvam
Pinnacle West Capital Corporation
400 North 5th Street, MS 8695
Phoenix, Arizona 85004
Attorney for Arizona Public Service Company
thomas.loquvam@pinnaclewest.com

1 Lewis M. Levenson
2 1308 East Cedar Lane
3 Payson, Arizona 85541
4 equality@centurylink.net

5 Garry D. Hays
6 Law Offices of Garry D. Hays, P.C.
7 1702 East Highland Avenue, Suite 204
8 Phoenix, Arizona 85016
9 Attorney for Arizona Solar Deployment Alliance
10 ghays@lawgdh.com

11 Greg Patterson
12 Water Utility of Arizona
13 916 West Adams, Suite 3
14 Phoenix, Arizona 85007
15 Attorney for Arizona Competitive Power Alliance
16 Gpatterson3@cox.net

17 Patty Ihle
18 304 East Cedar Mill Road
19 Star Valley, Arizona 85541
20 apattywack@yahoo.com

21 Michael W. Patten
22 Jason Gellman
23 Snell & Wilmer LP
24 One Arizona Center
25 400 East Van Buren, Suite 1900
26 Phoenix, Arizona 85004
27 Attorneys for Tucson Electric Power
28 Company and UNS Electric, Inc.
mpatten@swlaw.com
jgellman@swlaw.com

Bradley S. Carroll
Tucson Electric Power Company
88 East Broadway Boulevard, MS HQE910
Post Office Box 711
Tucson, Arizona 85702
bcarroll@tep.com

Daniel W. Pozefsky, Chief Counsel
Residential Utility Consumer Office
1110 West Washington, Suite 220
Phoenix, Arizona 85007
dpozefsky@azruco.gov

John Wallace
Grand Canyon State Electric Cooperative
Association, Inc.
2210 South Priest Drive
Tempe, Arizona 85282
jwallace@gcseca.coop

1 Court S. Rich
2 Rose Law Group PC
3 7144 East Stetson Drive, Suite 300
4 Scottsdale, Arizona 85251
5 Attorney for Solar Energy Industries Association
6 crich@roselawgroup.com

7 Todd G. Glass
8 Keene M. O'Connor
9 Wilson Sonsini Goodrich & Rosati, PC
10 701 Fifth Avenue, Suite 5100
11 Seattle, Washington 98104
12 Attorneys for Solar Energy Industries
13 tglass@wsgr.com

14 Hugh L. Hallman
15 Hallman & Affiliates, PC
16 2011 North Campo Alegre Road, Suite 100
17 Tempe, Arizona 85281
18 Attorney for Sunrun, Inc., William Mundell and Renz Jennings
19 hallmanlaw@pobox.com

20 Timothy M. Hogan
21 Arizona Center for Law in the Public Interest
22 514 West Roosevelt
23 Phoenix, Arizona 85003
24 Attorney for Western Resource Advocates
25 thogan@aclpi.org

26 David Berry
27 Western Resource Advocates
28 Post Office Box 1064
Scottsdale, Arizona 85252-1064
David.berry@westernresources.org

Kristin Mayes
3030 North 3rd Street, Suite 200
Phoenix, Arizona 85012
Attorney for Solar Energy Industries Association
kmayes@krismayeslaw.com

Giancarlo G. Estrada
Kamper, Estrada and Simmons, LLP
3030 North 3rd Street, Suite 770
Phoenix, Arizona 85012
Attorney for Solar Energy Industries Association
Gestrada@lawphx.com

Kevin Fox
Tim Lindl
Keyes, Fox & Wiedman, LLP
436 14th Street, Suite 1305
Oakland, California 94612
kfox@kfwlaw.com
tlindl@kfwlaw.com

1 Mark Holohan, Chairman
2 Arizona Solar Energy Industries Association
3 2122 West Lone Cactus Drive, Suite 2
4 Phoenix, Arizona 85027
5 info@ariseia.org

6 W.R. Hansen, President
7 Sun City West Property Owners and
8 Residents Association
9 13815 Camino Del Sol
10 Sun City West, Arizona 85375
11 president@porascw.org

12 Albert E. Gervenack
13 14751 West Buttonwood Drive
14 Sun City West, Arizona 85373
15 agervenack@bmi.net

16 Meghan H. Grabel
17 Osborn Maledon, PA
18 2929 N. Central Avenue
19 Phoenix, Arizona 85012
20 mgrabel@omlaw.com

21 Gary Yaquinto, President & CEO
22 Arizona Investment Council
23 2100 N. Central Avenue
24 Phoenix, Arizona 85004
25 gyaquinto@arizonaaic.org

26 Anne Smart
27 Alliance for Solar Choice
28 45 Fremont Street, 32nd Floor
San Francisco, CA 94105
anne@allianceforsolarchoice.com

M. Ryan Hurley
Rose Law Group, P.C.
7144 E. Stetson Dr., Suite 300
Scottsdale, AZ 85251
Attorneys for Sunrun, Inc.
rhurley@roslawgroup.com

Monica A. Matthey