

# EXCEPTION

OPEN MEETING AGENDA ITEM



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BEFORE THE ARIZONA CORPORATION COMMISSION

## COMMISSIONERS

9 SUSAN BITTER SMITH, Chairman  
10 BOB STUMP  
11 BOB BURNS  
12 DOUG LITTLE  
13 TOM FORESE

Arizona Corporation Commission

DOCKETED

AUG 12 2015

DOCKETED BY

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

DOCKET NO. E-01345A-13-0248

ARIZONA PUBLIC SERVICE  
COMPANY'S EXCEPTIONS TO  
RECOMMENDED ORDER

17 APS acknowledges the time and effort of all involved in the process that  
18 produced the Recommended Order. APS must, however, respectfully disagree with the  
19 Recommendation. Specifically, APS offers the following exceptions:

- 20 • **Ending discussion over disagreements about the anticipated final merits is not in the public interest.** The effect of the Recommendation would be to  
21 determine the Motion on procedure rather than substance. This would decide the  
22 merits without permitting the Commission to issue findings on those merits.
- 23 • **The cost-shift balance is growing and we need to take the interim action that we can.** In July, APS received 1,533 DG applications. At this pace, all prior cost-  
24 shift projections will significantly understate the urgency identified in the  
25 Motion.
- 26 • **That other cost shifts exist shouldn't preclude action on this cost shift.** The  
27 Commission can make progress now on a recognized cost shift. Taking no action  
28 because other cost shifts also exist is not in the public interest.
- **Resource concerns can be addressed by streamlining the hearing.** The  
hearing in this matter need not be duplicative or wasteful. It should be focused on  
the key findings in Decision No. 74202 to maximize efficiencies.

1 Postponing action until the rate effective date of APS's next rate case (possibly two  
2 years away), without a hearing and on the basis of procedure, is only in the interest of  
3 companies seeking to exploit unsustainable rate subsidies in the short term, not the long-  
4 term interests of APS's customers. Accordingly, APS files these exceptions and requests  
5 that the Commission amend the Recommendation to (i) clarify that Arizona law does not  
6 preclude the Commission from considering APS's Motion to Reset outside of a rate  
7 case; and (ii) order a hearing of limited scope and duration on whether resetting the Grid  
8 Access Charge is in the public interest.

9 **I. THE RECOMMENDATION'S CONCERNS ONLY EMPHASIZE THE**  
10 **NEED FOR A HEARING, NOT THE NEED TO END DEBATE.**

11 The underlying Procedural Order in this matter asked one question: whether any  
12 part of APS's Motion to Reset must be heard in a rate case. Although not explicit, the  
13 Recommendation appears to agree with Commission Staff, RUCO, APS, and others that  
14 it is within the Commission's discretion to hear APS's Motion outside of a rate case.  
15 The only remaining question is whether, as a matter of policy, discussion regarding  
16 APS's Motion should continue.

17 The Recommendation concludes that further discussion is not warranted, and that  
18 the merits of APS's Motion should be denied without a hearing. If the Commission  
19 adopts the Recommendation, it will dismiss the Motion to Reset without reaching any  
20 findings of fact or conclusions of law on the substantive issue—whether it is in the  
21 public interest to reset the Grid Access Charge at this time. APS respectfully disagrees  
22 with this recommendation and submits that the facts established to date do not support  
23 ending discussion.

24 In fact, the opposite is true. In Decision No. 74202, the Commission found all of  
25 the facts needed to grant APS's Motion, including that (i) the cost shift is real and  
26 unfair; (ii) addressing the cost shift is in the public interest; and, (iii) \$3/kW per month is  
27 a reasonable charge for new DG customers.<sup>1</sup> Based on these findings of fact alone, the

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<sup>1</sup> See, e.g., Decision No. 74202 at ¶¶ 49, 84, and 96.

1 Commission could adopt the \$3/kW charge today, without a hearing. In light of these  
2 established facts, the issues identified in the Recommendation should, at a minimum, be  
3 explored further.

4 **A. It is not Costs Shifted in the Short Term, But the Inescapable Long-**  
5 **Term Cost Shift, that must be Urgently Considered.**

6 It is contrary to the public interest to postpone remedial measures—even if  
7 interim in nature—until irreparable harm can be shown. Although the level of the cost  
8 shift may not have reached irreparable proportions yet, the pace of DG applications, and  
9 the acceleration of that pace, may very well change that reality before the Commission  
10 issues a decision at the end of APS's next rate case.

11 **1. The pace of DG applications is surging—1,533 in July alone—**  
12 **and will have profound implications for the total cost shift.**

13 Before May of this year, APS averaged 1000 DG applications per month. In May  
14 and June, APS received approximately 1,300 applications, respectively. In July, the  
15 number grew to 1,533. By comparison, APS received 7,800 applications in all of 2014.  
16 These 2015 application numbers dwarf any prior monthly application figures, and it is  
17 clear that their pace is accelerating.

18 As those systems come online, the pace of the cost shift will accelerate too. On  
19 average, each DG system results in approximately \$70 per month of unrecovered fixed  
20 costs, or \$840 per year. Even assuming that the application rate does not accelerate  
21 beyond July levels, APS could have an additional 16,000 DG systems installed as a  
22 result of 2015 applications.

23 Those 16,000 DG systems will result in \$13,440,000 of fixed costs being  
24 unrecovered *each year*. Based on current rate structures, those fixed costs will be paid  
25 by customers without DG. Over the 20-year life of these systems, the total price tag for  
26 these rate subsidies could exceed \$250,000,000.

27 And that is just for systems installed in 2015.  
28

1 Each year that DG systems are permitted to take advantage of rate subsidies, the  
2 credit card bill for non-DG customers will increase dramatically.

3 **2. With the rate that the cost shift is growing, APS believes that**  
4 **the best policy is to at least continue discussion.**

5 The Commission has already recognized the cost shift and found it to be unfair.  
6 Although the amount of costs currently being shifted through the LFCR appears small, it  
7 is because the LFCR only captures a portion of unrecovered fixed costs. In APS's next  
8 rate case, a typical revenue allocation will shift ongoing responsibility for all lost fixed  
9 costs to non-DG customers. More importantly, the total balance of these lost fixed costs  
10 is building rapidly.

11 With this rapid build-up, APS does not believe that the best policy is to wait. It is  
12 true that APS will file a rate case in less than a year. But rate cases take time, and as  
13 RUCO noted, the effective date of new rates could be two years from now. The effect of  
14 the Recommendation would be to end the discussion about adopting interim steps now,  
15 and permit the cost shift to grow unchecked for that entire period of time. APS does not  
16 believe that it is in the long-term interest of its customers to cease discussion of the Grid  
17 Access Charge and stand aside while the cost shift accumulates faster than ever.

18 **B. Grandfathering is Not Assured, But Action Now Would Increase the**  
19 **Chances that Grandfathering Remains an Option in the Rate Case.**

20 The Recommendation correctly notes that customers who installed DG after  
21 January 1, 2014 might not be permitted to continue taking service under legacy rate  
22 structures after the Commission issues APS's next rate case order. In other words, these  
23 customers might not be grandfathered. At this time, however, the issue of whether to  
24 grandfather current DG customers has not yet been decided. This may change, and the  
25 decision about grandfathering might be made for the Commission, if the Motion to Reset  
26 is denied and the cost shift is permitted to grow unchecked. The amount of the cost shift  
27 could grow to such an extent that balanced solutions in APS's next rate case are simply  
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1 not possible. At this stage, APS does not believe that we should cease all discussion and  
2 risk that DG cost shift growth precludes policy options in the future.

3 **C. APS Agrees: the Grid Access Charge is an Incomplete Solution. But it**  
4 **is Interim, and the Only Solution Authorized by Decision No. 74202.**

5 APS agrees that the Grid Access Charge is not the long-term solution for  
6 structural rate design flaws. In APS's next rate case, APS will propose more  
7 comprehensive solutions for the Commission's consideration. But the effective date of a  
8 decision in the next rate case could be two years from now. The long-term buildup of the  
9 cost shift during that period, particularly given the (accelerating) pace of DG  
10 applications, could have significant consequences that might otherwise be avoided.

11 Moreover, taking action now will preserve more options in APS's next rate case.  
12 To solve the DG cost shift is to address an approximate \$70 per month subsidy in rate  
13 design. It will be easier to more fully address the cost shift if the starting point is \$21 per  
14 month (what APS seeks now), rather than the current Grid Access Charge of \$5 per  
15 month.

16 APS disagrees that resetting the Grid Access Charge should be rejected because it  
17 will not solve the entire problem in one step. It was always intended to be an interim  
18 measure. When the Commission authorized resetting the Grid Access Charge between  
19 rate cases,<sup>2</sup> it tacitly endorsed making incremental progress on the unfair cost shift until  
20 a permanent solution could be established in APS's next rate case. The question at this  
21 stage in the proceeding is only whether discussion regarding the Motion to Reset should  
22 continue. APS does not believe that debate should end because a Grid Access Charge  
23 reset is limited in scope.

24 **D. The Commission Can Streamline the Hearing to Address Resource**  
25 **Concerns.**

26 APS disagrees that it would be wasteful to adjudicate an interim solution now.  
27 Each incremental step builds on prior steps and makes long-term success more likely.

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<sup>2</sup> See Decision No. 74202 at ¶¶ 85-88.

1 Progress made in this proceeding could be the starting point for progress in APS's next  
2 rate case. In addition, by approving interim resets of the Grid Access Charge between  
3 rate cases, the Commission appears to have also endorsed the use of resources to  
4 accomplish these interim resets.

5 To the extent that resource concerns remain, the Commission could put  
6 parameters around the hearing in this matter. These parameters could focus on Finding  
7 of Fact No. 85 in Decision No. 74202, which concluded that it is reasonable to charge  
8 new DG customers \$3 per kW per month. A hearing limited to that issue would enable  
9 parties to fully express their views, but also permit resource conservation. APS attaches  
10 as Exhibit A an amendment to the Recommendation that reflects how the Commission  
11 could define the scope of the hearing in this matter.

12 **E. The Commission Should Make Progress on the Cost Shift When it**  
13 **Can, Even if Other Policies, Like Energy Efficiency, Also Shift Costs.**

14 APS must also respectfully disagree with the recommendation to end this  
15 proceeding because other cost shifts exist. That other policies might also shift costs does  
16 not mean that the Commission should terminate discussion on whether to make  
17 incremental progress on a problem that it has recognized as unfair and in the public  
18 interest to address. This proceeding has focused on the DG-related cost shift because  
19 Decision No. 74202 authorizes a reset of the Grid Access Charge to address DG. APS  
20 has also presented facts that demonstrate why it is more urgent to address the DG-related  
21 cost shift now. These facts include, among other items, that the physical differences  
22 between EE and DG make it more urgent to address DG-related cost shifts,<sup>3</sup> particularly  
23 in light of the much larger rate subsidies available for DG. The DG-caused cost shift is  
24 growing at an extraordinary rate now—far greater than what was anticipated when the  
25 Commission first addressed the issue in 2013. To reject further discussion because other  
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27 \_\_\_\_\_  
28 <sup>3</sup> See, e.g., Testimony of Charles Miessner at pp. 20-22, attached to APS's initial Application filed on  
July 12, 2013, Docket No. E-01345A-13-0248 ("In addition, unlike solar generation, APS does not have  
to provide infrastructure to back up the customer's load when they invest in energy efficiency.").

1 cost shifts also exist would only compound the consequences of the growing DG-cost  
2 shift, and risk making future solutions more difficult.

3 **F. Resetting the Grid Access Charge is Not Equivalent to Adjusting the**  
4 **Entire LFCR Adjustor.**

5 A final concern raised in the Recommendation is that APS's LFCR Adjustor has  
6 already been adjusted in 2015.<sup>4</sup> Although the Recommendation does not go any further,  
7 other parties have suggested that resetting the Grid Access Charge would constitute an  
8 improper second adjustment of the LFCR Adjustor. Resetting the Grid Access Charge,  
9 however, is not the same thing as the annual adjustment of the LFCR contemplated in  
10 the LFCR's Plan of Administration.<sup>5</sup>

11 Adjusting the LFCR Adjustor involves recalculating the overall LFCR  
12 Adjustment charge for all customers based on the amount of unrecovered fixed costs  
13 during the applicable time period.<sup>6</sup> The Grid Access Charge, on the other hand, only  
14 reallocates responsibility for LFCR revenue within the LFCR Adjustor itself. Money  
15 received through the Grid Access Charge is deducted from the overall LFCR revenue to  
16 be collected before the LFCR Adjustor is set each year. (In fact, this is how the Grid  
17 Access Charge is revenue neutral.) The two procedures—adjusting the LFCR Adjustor  
18 and resetting the Grid Access Charge—are complementary, not duplicative.

19 Moreover, Decision No. 74202 never contemplated that resetting the Grid Access  
20 Charge would preclude APS from adjusting the entire LFCR Adjustor. Indeed, if that  
21 were the case, Decision No. 74202 itself would have constituted an improper second  
22 adjustment of the LFCR Adjustor. The only fair way to read Decision No. 74202, and  
23 the only way to read it consistently with the LFCR Adjustor Plan of Administration, is  
24 for the two procedures to be distinct and permissible in the same year.

25 <sup>4</sup> Recommended Order at ¶ 160.

26 <sup>5</sup> See Lost Fixed Cost Recovery Plan of Administration, Attachment F to Settlement Agreement attached  
27 to Decision No. 73183, Docket No. E-01345A-11-0224 (May 2012). The LFCR Plan of Administration  
28 was subsequently amended by Decision No. 74202 to permit the removal of Grid Access Charge  
revenue before the annual LFCR Adjustor is recalculated. See Compliance Filing in Docket No. E-  
01345A-13-0248 (December 5, 2013).

<sup>6</sup> See *id.*

1 **II. CONCLUSION**

2 Customers with DG use the grid as much as they did before installing DG, and  
3 perhaps even more. At the same time, rate subsidies cause them to avoid paying  
4 approximately \$70 each month in fixed infrastructure costs. Under current rate  
5 structures, these avoided infrastructure costs will ultimately be shifted to customers  
6 without DG.

7 The issue before the Commission currently is not whether to take final action and  
8 reset the Grid Access Charge. Instead, the only issue is whether a hearing should be  
9 scheduled, and discussion should continue, on whether it is in the public interest to reset  
10 the Grid Access Charge as an interim measure before APS's next rate case. Given the  
11 nature of the problem before the Commission, and in particular, the rapidly accelerating  
12 cost shift, APS urges the Commission to permit this discussion to proceed. In the interest  
13 of expediency, and to address parties' concerns about wasting resources, APS also  
14 requests that the Commission streamline this proceeding by ordering that the hearing  
15 focus on the findings in Decision No. 74202, and whether it is in the public interest to  
16 reset the Grid Access Charge, as described in the attached amendment.

17 RESPECTFULLY SUBMITTED this 12th day of August, 2015.

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19  
20 By: 

Thomas A. Loquvam

Attorney for Arizona Public Service Company

22 ORIGINAL and thirteen (13) copies  
23 of the foregoing filed this 12th day of  
24 August, 2015, with:

25 Docket Control  
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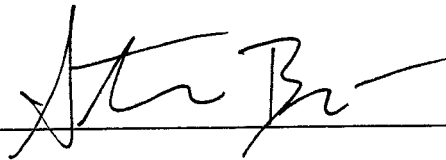
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EXHIBIT A

ARIZONA PUBLIC SERVICE COMPANY  
PROPOSED AMENDMENT NO. 1

DOCKET NO. E-01345A-13-0248

DELETE Paragraphs 160 through 168 and REPLACE with:

160. It is within the Commission's discretion to hear APS's Motion to Reset. In Decision No. 74202, the Commission specifically authorized a reset of the LFCR DG adjustment before APS's next rate case. For the same reasons that the Commission had the authority to create the initial \$0.70 per kW charge, the Commission has the authority to grant APS's Motion.

161. Because the Commission can take the action requested, it should continue to a hearing so that it can determine whether to take the action requested. In Decision No. 74202, we found that the proliferation of DG installations results in a cost shift from APS's DG residential customers to APS's non-DG residential customers. We also found that the revenue allocated to DG customers was not consistent with cost causation principles. We concluded that this revenue allocation was unfair and defective, and that it was in the public interest to create the initial \$0.70/kW charge.

162. APS alleges that the factual bases for this public interest finding have only become more urgent since 2013. Although we take no position on APS's allegations at this time, it is in the public interest to continue investigating the merits of APS's allegations. Accordingly, we will permit APS's Motion to proceed to a hearing on the merits.

163. Certain parties have expressed concerns about expending resources on a hearing in this matter with APS having announced that it intends to file a rate case in 2016. Although we understand these concerns, it is the effective date of new rates ordered by the Commission, and not the rate case filing date, that is the operative date. In light of our prior findings about fairness and the public interest, and APS's allegations that the current situation is more urgent, we do not believe it is in the public interest to delay consideration of this issue because of resource concerns.

164. To address resource concerns, we will streamline the hearing in this matter. In Decision No. 74202, we issued the following: (i) Finding of Fact 49 that DG installations result in a cost shift from APS's DG customers to APS's non-DG customers absent significant changes to APS's rate design; (ii) Finding of Fact No. 95 that DG customers contribute less to APS's recovery of annual LFCR revenue than do non-DG customers, even though DG customers are responsible for creating more lost fixed costs per customer than non-DG customers; and (iii) Finding of Fact No. 96 that it is simply unfair for DG customers to contribute less to the recovery of APS's annual LFCR revenue than non-DG customers. Because it would be wasteful for the parties to relitigate these conclusions, these findings of fact shall be accepted into the record of the hearing by means of official notice under Arizona Administrative Code R14-3-109(T)(2).

165. The hearing in this matter will focus on whether the Commission should confirm Finding of Fact 84 from Decision No. 74202, and specifically, whether it remains reasonable to charge new DG customers \$3 per kW per month in light of the circumstances that exist now, as compared to the circumstances that existed in 2013.

166. The parameters described in the preceding paragraphs establish the subject matter scope for all aspects of the hearing, including discovery, testimony, and cross examination.

167. We therefore order that APS's Motion to Reset be set for a limited hearing as discussed in this Decision. We further direct the Hearing Division to schedule a procedural conference as soon as practicable for the purpose of setting hearing dates that will allow for a resolution of this matter before the end of 2015.

Under CONCLUSION OF LAW, DELETE Paragraphs 3 and 4 and REPLACE with:

3. The relief sought in APS's Motion is within the Commission's discretion.
4. Although the rate design issues implicated by the Motion to Reset will be more fully addressed in APS's next rate case, delays in addressing the cost shift are not in the public interest, and a limited evidentiary hearing would provide the Commission with more information on the merits of the Company's request.

Under ORDER, DELETE both ordering paragraphs and REPLACE with:

IT IS THEREFORE ORDERED that the Hearing Division shall schedule a hearing on APS's Motion to Reset in accordance with the findings and conclusions above.

IT IS FURTHER ORDERED that a procedural conference shall be scheduled as soon as practicable for the purposes of setting hearing dates that will allow for the Commission to determine the Motion to Reset before the end of 2015.

MAKE ALL CONFORMING CHANGES