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COMMISSIONER

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ARIZONA CORPORATION
COMMISSION

May 10, 2016

Re: Docket No. E-04204A-15-0142

To the Parties in the Docket:

Despite the Maine Legislature's recent failure to override a veto of L.D. 1649 — following its passage just two votes shy of a supermajority — the solar incentive bill provides this Commission with an innovative template for examining more sustainable market-based alternatives to Arizona's net metering policy.

Had it been adopted, Maine's proposed alternative would have supplanted the current full retail-rate net metering policy with a market-based aggregation model. Under this approach, state utilities would purchase and aggregate distributed generation from residential customers and utility-scale developers via long-term, fixed-price contracts.

The program would capitalize on the use of various market-based mechanisms to ensure that utilities procure the lowest price long-term contracts available. For instance, the Commission's employment of a reverse auction mechanism within the commercial-industrial and community-solar sectors would generate a competitive bidding process between utility-scale developers, resulting in a selection of the lowest-priced offer to the benefit of ratepayers. Likewise, the execution of a capacity-based declining block program would afford residential and small business customers greater security in terms of establishing pre-determined solar pricing for a fixed, long-term period. As part of the declining block program, the price paid for exported residential solar would be pre-designated by the Commission in the form of a set 20-year contract price. Furthermore, as a pre-established block of capacity is reached, the amount which new DG customers are compensated for their exported excess generation would decrease to a lower level. The declining block structure is based on the assumption that as DG adoption and capacity increases, the need for once-paramount incentives correspondingly decreases, providing economies of scale and greater flexibility to make unsubsidized solar more affordable.

Within the context of the instant UNSE rate case application, RUCO's proposed "RPS Bill Credit Option" arguably mirrors the novel design characteristics that encompass Maine's alternative net metering paradigm. Both the Maine proposal and RUCO's RPS credit option signify 20-year fixed crediting mechanisms that are intrinsically linked to specific REST procurement targets. Similar to the Maine proposal's capacity-based declining block mechanism, the crediting rate for new DG customers, under RUCO's proposed RPS credit option, decreases over time as the Company's renewable energy capacity increases. RUCO's RPS credit option would initiate the credit rate for new DG customers at 11 cents per kWh and would subsequently decline gradually in a manner that reflects increasing REST compliance, to a point no lower than the Market Cost of Comparable Conventional Generation (MCCCG) rate. As in the case of the Maine proposal, RUCO's RPS credit option affords enhanced pricing certainty to residential DG customers, given that credit rate reductions are based on pre-determined allocations, while better addressing notable cost-shift concerns. RUCO's proposal would also notably enable DG customers, who submitted interconnection applications prior to June 15, 2015, to be grandfathered under the existing net metering rate.

Although certainly more attenuated, UNSE's proposed "Renewable Credit Rate" signifies an alternative DG compensation approach that resembles Maine's market-based proposal and thus merits further consideration. The Company's proposal would effectively eliminate the option of banking excess DG energy and would alternatively compensate new DG customers with a monthly bill credit for their exported generation based on a Renewable Credit Rate that reflects the current cost of utility-scale solar. The proposed Renewable Credit Rate would be updated annually to reflect the Company's most recent utility-scale renewable energy purchased power agreement. According to the Company's proposal, this alternative net metering scheme would apply to DG customers who submit applications for interconnection after June 1, 2015, thereby enabling existing net-metered customers to be grandfathered under the present net metering tariff.

In the final analysis, I believe it would benefit the Commissioners' decision-making process to encourage a discussion by the parties regarding the plausibility of successfully adopting a market-based aggregation credit approach resembling the Maine proposal or RUCO's RPS Bill Credit Option. Proposals involving some blending of PPA rates would also be welcome. I also believe there is merit in continued dialogue concerning the implementation logistics of the Company's Renewable Credit Rate proposal. Finally, I encourage the parties to present any other well-suited market-based alternative proposals to the current net metering policy for Commission consideration.

Sincerely yours,

Bob Stump
Commissioner
Arizona Corporation Commission

CC: Service List