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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

DOUG LITTLE, Chairman
BOB STUMP
BOB BURNS
TOM FORESE
ANDY TOBIN

IN THE MATTER OF THE COMMISSION'S INVESTIGATION OF VALUE AND COST OF DISTRIBUTED GENERATION.	Docket No. E-00000J-14-0023

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INITIAL CLOSING BRIEF

OF

GRAND CANYON STATE ELECTRIC COOPERATIVE ASSOCIATION, INC.

July 11, 2016

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INTRODUCTION

Grand Canyon State Electric Cooperative Association, Inc. ("GCSECA"), on behalf of its electric distribution cooperative members (the "Cooperatives"),[1] submits this Initial Closing Brief. In considering the value and cost of Distributed Generation ("DG"), GCSECA urges the Commission to adopt policies and guidelines consistent with standard ratemaking principles and flexible enough to account for each utility's unique characteristics, including structure and purpose as well as diversity in customers, geography, power sources, load, and growth potential.

In the context of the Cooperatives, the following findings are supported by the record, just, reasonable, and in the public interest:

- The appropriate method for valuing DG and determining the rate to be paid for excess DG generation is a utility-specific question;
- Rates should be set based on actual, known, measurable, and quantifiable data, not long-term forecasts or speculative benefits;
- The appropriate rate for the Cooperatives to pay for excess DG generation is their true avoided costs, which are limited to their avoided wholesale energy and fuel costs; and
- The Cooperatives should be afforded flexibility to develop rate design solutions to the cost shift caused by DG and should not be required to comply with any one-size-fits-all requirements that would impose economic and operational hardships.

[1] GCSECA's electric distribution cooperative members include Dixie Escalante Rural Electric Association, Inc.; Duncan Valley Electric Cooperative, Inc.; Garkane Energy Cooperative, Inc.; Graham County Electric Cooperative, Inc.; Navopache Electric Cooperative, Inc.; Mohave Electric Cooperative, Inc.; Sulphur Springs Valley Electric Cooperative, Inc.; and Trico Electric Cooperative, Inc.

GCSECA'S POSITION ON VALUE AND COST OF DISTRIBUTED GENERATION

GCSECA is not proposing a particular methodology for evaluating the value of DG or for conducting a general cost/benefit analysis of DG.[2] Instead, GCSECA's focus is on the potential use of a "value of DG" analysis to calculate the rate utilities must pay (via energy credits and bank refunds) for excess electricity generated by DG. To the extent that this docket endorses a methodology to be used to set a rate for excess DG generation, then the methodology should be consistent with the principles applicable to utility ratemaking.

First, the costs and benefits should be quantifiable and not based on forecasts or assumptions.[3] Forecasts, especially long-term forecasts, are valuable in the context of resource planning, but are ill-suited for calculating rates because they are based on inherently unknowable assumptions.[4] Also, incorporating long-term benefits into current rates creates an inequitable mismatch by paying today for a benefit that will not be received until the distant future, if at all.[5] That is why the Commission does not use forecasts to set utility rates, but instead insists on using actual, known, and measurable data.[6] The same standard should apply to setting the rate for excess DG generation.

Second, social or indirect benefits (such as environmental benefits, job creation, and avoided water consumption) should not be included in the rate-setting/valuation analysis. Not only are these alleged benefits speculative and difficult (if not impossible) to quantify, but such benefits are not included in the ratemaking formula for non-DG generation.[7] Therefore, the same

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[2] Hr. Tr., Vol. VI, p. 1100, l. 20 – p. 1101, l. 8.
[3] Hr. Tr., Vol. VI, p. 1100, l. 20 – p. 1101, l. 8; GCSECA-1, p. 13, l. 11 – p. 14, l. 2.
[4] Hr. Tr., Vol. X, p. 1936, l. 16 – p. 1940, l. 25.
[5] Hr. Tr., Vol. VI, p. 1049, l. 19 – p. 1051, l. 3.
[6] Hr. Tr., Vol. VI, p. 1101, l. 9 – p. 1102, l. 5; Hr. Tr., Vol. IX, p. 1770, ll. 5–13.
[7] Hr. Tr., Vol. VII, p. 1427, l. 1 – p. 1429, l. 3.

rules should apply to exclude secondary benefits from the process of setting the excess DG generation rate paid by utilities.

Finally, based on these principles, GCSECA urges the adoption of a simple methodology for calculating the excess DG rate that the Cooperatives pay; the rate should be based on the Cooperatives' true avoided costs. For the Cooperatives, it is undisputed that the only costs avoided by DG power are fuel and energy.[8] The Cooperatives do not provide their own generation, but receive their power pursuant to wholesale contracts that contain fixed charges for generation capacity.[9] As a result, any reduction in capacity requirements caused by DG does not translate into a reduction in generation capacity costs for the Cooperatives.[10] Likewise, DG does not reduce the Cooperatives' distribution costs and, instead, may result in the need for additional expenditures.[11] While it is possible that the future proliferation of DG could result in cost savings or other benefits, those benefits are not currently known, measurable, or quantifiable; therefore, they should not be included in the calculation of the rate that the Cooperatives pay for excess generation:

> [T]he value of solar is, for the co-ops, the avoided wholesale energy and fuel costs from the power supplier. We don't see any reduction in distribution costs. We don't see any reduction in transmission costs. We don't believe is it prudent that you are looking into the future to bring in some unquantifiable costs or benefits in the future periods. We think that's inconsistent with ratemaking principles at the Commission.[12]

[8] Hr. Tr., Vol. VI, p. 1039, l. 24 – p. 1040, l. 4.
[9] GCSECA-1, p. 10, ll. 15–22.
[10] GCSECA-1, p. 10, l. 23 – p. 11, l. 5; Hr. Tr., Vol. VII, p. 1403, l. 14 – p. 1404, l. 4.
[11] GCSECA-1, p. 11, l. 8 – p. 12, l. 3.
[12] Hr. Tr., Vol. VI, p. 1076, ll. 14–22.

OTHER VALUE OF SOLAR PROPOSALS

The parties' proposals and options presented for the Commission's consideration in this docket have evolved over the course of the proceeding. The Commission's Utilities Division Staff initially proposed an avoided cost approach with the possibility of "adders."[13] At hearing, Staff suggested a second methodology – a resource comparison approach – that would establish the rate for excess DG generation using as a proxy the weighted average of the cost of PPAs and utility-owned facilities.[14] Ultimately, Staff endorsed the concept that the Commission should approve multiple methodologies and provide the parties with guidance as to which methods would be most appropriate to use in future rate cases depending on the individual utility's circumstances:

> [T]he way I am anticipating this docket goes is there would be some finding which says in rate cases going forward we would like the parties to focus on this method, or we require the parties to use this method or these two methods or these three, and maybe some discussion around when they are more applicable than others and guide the parties.
>
> What happens – I understand the purpose of this docket is to guide us so the rate cases will be more focused and they will be less – how would I say? It will narrow the discussion in cases going forward once we have the findings from this docket.[15]

GCSECA agrees with Staff that finding the appropriate method for valuing DG is a "utility specific question."[16] No single methodology will address each utility's unique circumstances. This is especially true for the Cooperatives when compared to the larger,

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[13] S-2, p. 19, l. 5 – p. 20, l. 9.
[14] Hr. Tr., Vol. XIII, p. 2324, l. 12 – p. 2325, l. 1 and p. 2333, ll. 2–16.
[15] Hr. Tr., Vol. XIII, p. 2342, l. 18 – p. 2343, l. 4.
[16] Hr. Tr., Vol. XIII, p. 2352, ll. 11–14.

investor-owned, integrated utilities, and Staff admits that the different characteristics may warrant a different approach.[17]

Therefore, GCSECA joins Staff in urging the Commission to adopt a flexible approach that stresses the different circumstances and needs of each utility. However, for the reasons explained above, GCSECA opposes any proposal to establish a value of DG methodology based on long-term forecasts such as those proposed by RUCO, Vote Solar, and TASC. Moreover, several of the proposed methodologies should be rejected to the extent that they would require additional data gathering, analysis, and review that would impose economic and operational hardships on the Cooperatives.[18]

OTHER ISSUES RAISED IN THIS DOCKET

In addition to addressing the valuation methodology question, this docket touched on several related issues. Specifically, GCSECA and other parties raised concerns about the DG cost shift and current net metering policy and discussed potential rate design changes. To the extent that the Commission is inclined to address these issues in this docket, GCSECA provides the following comments.

The Cost Shift is Real

The vast majority of parties in this docket agree that the "cost shift" from DG is real. Under a rate design that recovers a major portion of a utility's fixed costs through the variable rate, fixed costs are under-recovered from DG customers due to their significant usage reduction; as a result, non-DG customers are forced to pay more than their equitable share of those fixed

[17] S-3, p. 18, ll. 1–2; Hr. Tr., Vol. VII, p. 1402, l. 11 – p. 1403, l. 13; Hr. Tr., Vol. XIII, p. 2352, l. 11 – p. 2353, l. 5.

[18] These proposals include, without limitation: Staff's various adders, including the nodal approach to calculating a transmission or distribution adder (Hr. Tr., Vol. VII, p. 1303, l. 5 – p. 1308, l. 5 and p. 1384, l. 25 – p. 1385, l. 24; Hr. Tr., Vol. XIII, p. 2327, l. 22 – p. 2328, l. 1); Vote Solar's hosting capacity analysis and smart inverter requirements (Hr. Tr., Vol. IX, p. 1618, ll. 11–20, p. 1631, l. 22 – p. 1632, l. 15, p. 1650, l. 18 – p. 1653, l. 5, and p. 1686, l. 5 – p. 1688, l. 19); and TASC's marginal cost analyses (TASC-26, p. 19, l. 23 – p. 22, l. 10; S-3, p. 13, ll. 10-15).

costs.[19] The magnitude of the cost shift varies by utility, but two of GCSECA's members have demonstrated more than $1 million in annual lost fixed costs caused by DG, which is a substantial under-recovery for rural distribution cooperatives.[20] This shift is exacerbated by the current net metering policy, which forces the Cooperatives and their non-DG members to overpay DG customers for excess generation.[21] Further, given their rural location and small size, the Cooperatives have a higher level of plant investment per customer and fewer customers to absorb the subsidies created by DG, which makes the cost shift an even bigger problem for Cooperatives.[22]

The only parties who dispute the cost shift are Vote Solar and TASC. Vote Solar disputes the existence of a cost shift based on alleged methodological flaws in APS's and TEP/UNS's cost of service studies.[23] Meanwhile, TASC takes the position that, while non-DG customers may overpay in the short-term, there is no cost shift because "over time" DG is expected to produce long-term benefit.[24] Alternatively, TASC asserts that the Commission can justify forcing non-DG customers to "live with" the cost shift because, according to TASC, there are future societal benefits that outweigh fairness and equity.[25] Given the overwhelming evidence in this docket demonstrating the reality of the DG-caused cost shift and the inequitable impact it has on non-DG customers, the Commission should reject Vote Solar and TASC's arguments to the contrary.

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[19] GCSECA-1, p. 3, l. 1 – p. 5, l. 16; APS-1, p. 21, l. 5 – p. 22, l. 2; TEP-1, p. 3, l. 24 – p. 4, l. 7; AIC-1, p. 9, l. 14 – p. 10, l. 11; RUCO-2, p. 10, ll. 7–15; Hr. Tr., Vol. VII, p. 1335, l. 20 – p. 1337, l. 10.
[20] GCSECA-1, p. 6, l. 15 – p. 8, l. 11.
[21] GCSECA-1, p. 8, l. 13 – p. 10, l. 6.
[22] GCSECA-1, p. 12, l. 6 – p. 13, l. 8.
[23] Vote Solar-8, p. 4, ll. 11–15; Hr. Tr., Vol. IX, p. 1709, l. 15 – p. 1715, l. 13.
[24] Hr. Tr., Vol. X, p. 1912, l. 11 – p. 1913, l. 3.
[25] Hr. Tr., Vol. X, p. 1923, l. 22 – p. 1924, l. 19.

One-Size-Fits-All is the Wrong Answer

Various proposals were mentioned in the docket to address the cost shift. For example, Staff recommended a transition from the current two-part rate design and net metering system to a three-part time-of-use rate design and avoided cost-based compensation for excess DG generation.[26] Other viable – and in some cases the most appropriate – options include increasing fixed costs, developing separate rate classes for DG customers, and revising net metering tariffs for new DG customers.[27]

Just as determining the appropriate valuation methodology is a utility-specific inquiry, so too is the issue of rate design and finding the best solution to the cost shift. For example, transition to a three-part rate with a demand charge requires capital investment in metering capability and billing system upgrades as well as customer outreach and education.[28] While one of GCSECA's members has demand metering in place, the transition for many of the others would be prohibitively expensive and time-consuming.[29] Accordingly, given the significant impact that DG is having on the cooperative community, the Cooperatives need flexible options and solutions, not a one-size-fits-all rate design. As the Commission and Staff have repeatedly acknowledged, the Cooperatives differ from the other Arizona electric utilities in that the Cooperatives are small, non-profit, democratically governed, and serve some of the most economically challenged areas in the state.[30] Therefore, GCSECA urges the Commission to adopt a flexible approach and allow each cooperative to address the cost shift according to its individual circumstances and the needs of its members.

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[26] S-3, p. 30, ll. 4–16 and p. 31, ll. 7–9; Hr. Tr., Vol. VII, p. 1290, ll. 20–25 and p.1339, ll. 8–12.

[27] These options are being explored in two currently-pending cooperative rate cases: Docket Nos. E-01461A-15-0363 and E-01575A-15-0312.

[28] Hr. Tr., Vol. VI, p. 1080, l. 12 – p. 1081, l. 20.

[29] Hr. Tr., Vol. VI, p. 1081, l. 23 – p. 1083, l. 1.

[30] Hr. Tr., Vol. VII, p. 1405, l. 14 – p. 1406, l. 13.

RESPECTFULLY SUBMITTED this 11th day of July, 2016.

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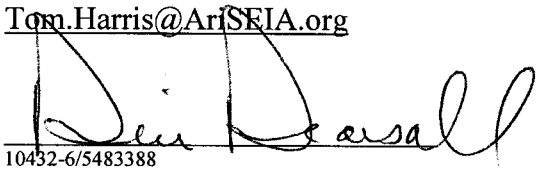

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