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IN THE MATTER OF THE COMMISSION'S)
INVESTIGATION OF VALUE AND COST OF)
DISTRIBUTED GENERATION)

DOCKET NO. E-00000J-14-0023

Arizona Corporation Commission

DOCKETED

AUG 05 2016

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**REPLY BRIEF
OF TUCSON ELECTRIC POWER COMPANY
AND UNS ELECTRIC, INC.**

August 5, 2016

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1 Tucson Electric Power Company (“TEP”) and UNS Electric, Inc. (“UNS Electric”)
2 (together “Companies”), submit their Reply Brief in this docket.

3 **I. Introduction.**

4 The Companies continue to believe that ratepayers should pay only for the true, known and
5 measurable benefits provided by distributed generation (“DG”). Accordingly, the methodologies
6 adopted here should not overvalue DG or value DG based on future, uncertain benefits that are not
7 actual avoided costs because they are not incurred by the utility. Many parties, including Staff,
8 recognize that potential, yet speculative, future benefits are not an appropriate basis for imposing
9 costs on ratepayers today.

10 However, some parties to this docket press for recovery of future benefits that reflect
11 resource planning principles and not cost of service principles. In seeking recovery for possible
12 future benefits, those parties failed to clearly state a methodology to value speculative future
13 benefits other than resorting to planning principles that could be applied to possible benefits.

14 It is also apparent from the evidentiary record and the briefing that some of the potential
15 methodologies for valuing DG are complicated and resource intensive. Indeed, it is likely that
16 these methodologies could greatly expand rate cases and end up being “the tail wagging the dog”
17 in future rate proceedings.¹ Although the Companies believe that an appropriate short-term
18 avoided cost methodology would be acceptable, the Companies continue to believe that an
19 alternative to the avoided cost determination for DG could be done more simply through a market-
20 proxy, which would also comport with PURPA.

21 **II. The Companies’ Value of DG Proposal.**

22 The Companies have presented two options for determining the cost and value of DG. As
23 noted in their Initial Brief, both approaches eliminate any “banking” of excess kWh exported into
24 the grid by a DG system. For the most part, other parties did not address the elimination of
25

26 ¹ The Companies do not believe that an export rate for excess DG energy necessarily needs to be
27 conducted in a rate case. A separate avoided cost proceeding, however, could require resources similar to a
rate case.

1 banking. Staff did acknowledge that “the concepts of banking and netting need to be reconsidered
2 as part of the overall value proposition.”² However, Staff believes that such reconsideration
3 should take place in a rate case or a rulemaking.³ The Companies disagree with Staff’s position.
4 As Staff also notes, most parties would limit the value of DG analysis to exported DG energy.⁴
5 The concept of value of DG necessarily requires no banking of DG. If parties believe that
6 exported DG energy is worth more or less than bundled retail rates, that exported energy cannot be
7 netted or banked. In fact, RUCO believes that even self-consumption should be subject to the
8 valuation process. The Commission should make clear in this proceeding that its valuation
9 methodologies do not include banking or netting of DG energy at retail rates.

10 **III. Other Proposals.**

11 **A. Commission Staff.**

12 The Companies provided some comment on these methodologies in their Initial Brief.

13 **1. Avoided Cost Methodology.**

14 First, Staff has proposed an avoided cost approach.⁵ The Companies support Staff’s
15 position not to include a variety of elements in the Value of DG methodology that are not included
16 in rates, such as environmental or economic benefits, fuel hedge values or grid reliability benefits.⁶
17 The Companies also agree with Staff that any long-term avoided costs, such as generation capacity
18 reductions, should only be considered if the DG resource provides real, concrete on-going benefits
19 through proof of “effective load carrying capabilities.”⁷ DG resources should meet a significant
20 burden of proof before any costs beyond short-term avoided cost savings can be imposed on non-
21 DG ratepayers.

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24 ² Staff Initial Closing Brief at 7-8.

25 ³ Id. at 8.

26 ⁴ Id. at 13.

27 ⁵ Tr. (Broderick) at 2324.

⁶ Staff Initial Closing Brief at 18-19.

⁷ Id. at 16-17.

1 The Companies continue to have reservations about the implementation of Staff's avoided
2 cost methodology. The complexity may provide a challenge to smaller utilities with limited
3 resources. To the extent such a methodology took place in a rate case, it could overwhelm the
4 other important issues in that rate case.

5 **2. Resource Comparison Methodology.**

6 Staff's proposal to use comparable resources continues to cause the Companies some
7 concern. First, the Companies do not agree with the use of utility-owned solar facilities costs as a
8 proxy for DG solar resources. As the Companies have set forth in their testimony, utility-owned
9 solar facilities are operated much differently than rooftop DG facilities.⁸ For example, the
10 Companies control the output of the system to provide voltage stabilization or other system
11 benefits. That may reduce the actual kWh produced by the system and skew the per-kWh cost –
12 however, the Companies would be gaining system benefits from the curtailment.

13 Staff's proposal to use both PPAs and utility-owned solar PV facilities as a proxy to
14 determine the value to be paid for exported DG energy appears to be overreaching because it
15 would use a weighted average of *all* such resources for a utility without any limitation on vintage.
16 That approach will clearly lead to overcompensation for exported DG energy and unnecessary
17 costs on non-DG ratepayers because of the steep decline in the cost of solar capacity. New DG
18 customers should not benefit from out-of-date PV pricing or older PPAs that were signed in order
19 to meet a Commission REST requirement. Indeed, at the time the pre-2014 PPAs were signed,
20 residential customers were still receiving upfront incentives to install rooftop PV systems.

21 **B. Solar Advocates.**

22 The Solar Advocates are proposing to include a levelized value of potential, yet
23 speculative, future benefits in the value of solar. They also oppose the use of a market proxy to set
24 a value for exported DG. Both positions will unnecessarily and improperly increase the costs to
25 non-DG customers and are not in the public interest. The Solar Advocates further fail to
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⁸ See Tr. (Tilghman) at 2226, 2247-48.

1 acknowledge the impact on value of the intermittent nature of solar energy on and, in the case of
2 residential rooftop DG systems, the “as available” nature of any exported energy.

3 First, as the Companies testified, the value of DG energy to the utilities – and to the
4 ratepayers – is equivalent to the utilities’ short-term avoided cost of energy because there is no
5 contractual or other commitment to provide certain amounts of energy or capacity. This value is
6 similar to value for “as available” energy provided for qualifying facilities under PURPA and
7 related FERC regulations. As a result, there are no long-term avoided costs from rooftop DG
8 systems. And non-DG customers should not pay for any speculative, levelized future benefits.

9 Second, under PURPA, a market-based proxy can satisfy the avoided cost payment
10 standard. The market-based proxy should be comparable in nature to the energy for which it is a
11 proxy.⁹ A distribution grid-tied PPA is *at least equivalent* to rooftop DG and is, in fact, a *superior*
12 resource from an operational perspective yet with similar renewable resource characteristics as
13 defined by the REST Rules. Non-DG customers should not pay more for DG energy than a
14 comparable market-proxy rate.

15 **C. RUCO.**

16 The Companies agree with many of RUCO’s statements in its Closing Brief. In particular,
17 RUCO believes that the status quo must change, but that the solar advocates resist any change,
18 insist that DG energy is more valuable than the current retail rate for energy, and simply attack
19 proposals rather than offer meaningful solutions.¹⁰ RUCO also states that the “most important
20 cost assumption the Commission needs to consider in determining the cost [of DG solar], is the
21 change of revenue collected by the utility from the customer before and after the customer installs
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25 ⁹ *Southern California Edison Company*, 133 FERC ¶ 61,059 at para. 29 (Issued October 21, 2010)
26 (clarifying that setting a utility’s avoided cost under PURPA based on all sources able to sell to the utility
27 means that “where a state requires a utility to procure a certain percentage of energy from generators with
certain characteristics, generators with those characteristics constitute the sources that are relevant to the
determination of the utility’s avoided cost for that procurement requirement.”

¹⁰ RUCO Closing Brief at 7.

1 a DG system.”¹¹ This is precisely what the Companies provided in their cost studies in this
2 docket.

3 RUCO appears to have settled on its RPS proposal as its primary preference, but would
4 still support other proposals as options for customers. The Companies are concerned about the
5 complexity of the RPS proposal, the challenge of setting initial parameters, the glide path for
6 reducing value of DG, the potential use of levelized values to approximate future benefits, and a
7 variety of other factors that underlie the proposal. It is not clear whether those elements would be
8 determined on a utility-by-utility basis in rate cases (or other proceedings) or whether there would
9 be an additional phase of the Value of DG proceeding to develop a more definitive “template” that
10 would then apply to all utilities. The other challenge in RUCO’s proposal is that it intends to
11 provide “a window of time for solar companies to be profitable with the subsidy,”¹² yet there is no
12 evidence in the record regarding the details of solar company business models that could allow
13 such an assessment.

14 **D. APS.**

15 APS’s proposals are similar to the Companies’ proposals because the value of exported
16 DG energy would be based on either short-term avoided cost or on a recent market rate proxy for
17 similar renewable resources. The Companies continue to be able to support APS’s proposals.

18 **IV. Conclusion.**

19 The Commission should adopt one of the Companies’ proposed methodologies to value
20 DG. For efficiency sake, the Companies believe that the current PPA Proxy methodology is the
21 most feasible and more objective approach and will be the least controversial to apply. The proxy
22 should reflect recent PPAs that accurately reflect the current cost of PV systems -- not older,
23 costlier systems. The Companies also request that, to the extent the Commission includes societal
24 and forward-looking benefits, those benefits be separately identified from the utility’s cost of
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27 ¹¹ Id. at 11.

¹² Id. at 8.

1 service, be paid outside of the avoided cost payments and be recovered from ratepayers through a
2 separate charge.

3 RESPECTFULLY SUBMITTED this 5th day of August, 2016.

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