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BEFORE THE ARIZONA CORPORATION COMMISSION

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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
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EXCEPTIONS

OF TUCSON ELECTRIC POWER COMPANY

AND UNS ELECTRIC, INC.

November 15, 2016

Tucson Electric Power Company ("TEP") and UNS Electric, Inc. ("UNS Electric") (together "Companies"), submit their Exceptions to the October 7, 2016 Recommended Opinion and Order ("ROO") in this docket.

I. Introduction.

The Companies appreciate the efforts of Judge Jibilian in preparing a detailed ROO on the challenging issues in this docket. In general, the Companies support most of the ROO and believe that it provides a reasonable approach in transitioning from retail net metering to valuing and compensating excess energy from distributed generation ("DG") resources. The ROO seeks to mitigate the impact on non-DG ratepayers from the continuing expansion of DG, yet still recognize the economic decisions of DG ratepayers.

The Companies are filing these Exceptions to request: (i) clarification of certain elements of the ROO in order to reduce uncertainty when applying the Decision in this docket to subsequent proceedings; (ii) modification of the resource proxy calculation to provide more gradual change in the valuation of the compensation to be paid for the exported DG energy; and (iii) modification of the grandfathering provision to have grandfathering of rate design considered in rate cases in the context of specific rate design proposals.

The Companies have provided proposed amendment language in Attachment A.

II. Requests for Clarification.

A. Elimination of kWh banking.

The ROO (at 146) adopts the recommendations of Staff and the Companies that net metering be eliminated and that there be no banking or netting of DG energy at retail rates upon adoption of a valuation methodology. The ROO further states (at 146) that based on the value of DG methodology established in this docket, "a more precise framework for the fair and appropriate compensation of DG customers for their exports than the framework established by the Net Metering Rules in 2008." Although implicit in the finding of the ROO, the Companies request that the ROO expressly state that, upon establishment of a compensation rate for exported DG energy pursuant to the valuation methodologies adopted in this docket, all DG energy

exported to the utility from new DG systems will be compensated at the established export rate and that there will be no further banking or netting of exported DG energy. The Companies' request will eliminate potential ambiguity regarding the future use of net metering and avoid future disputes over the intent of the Commission in this docket.

B. Option of Avoided Cost or Resource Comparison Proxy Methodologies.

The ROO adopts (at 148) Staff's Avoided Cost methodology with a short-term forecasted view limited to five years "in conjunction" with Staff's Resource Comparison Proxy methodology with a five-year rolling average. The various proxy methodologies, including Staff's Resource Comparison Proxy methodology, were proposed as alternatives to the more complicated avoided cost methodologies. Indeed, the proposals for proxy methodologies sought approval of a methodology that would be used in lieu of an avoided cost approach. The Companies believe the intent of the ROO is to use one or the other of the two methodologies to set the DG export rate. However, the ROO does not clearly state this, although it is implied, and the record concerning proxy proposals is that the proxy would be used as an alternative to an avoided cost methodology. Moreover, the ROO does not state that the DG export rate must be based on a combination of the two methodologies, nor does it explain how the two methodologies would be weighted if combined.

The Companies request that the ROO be clarified to state that utilities may use either the Avoided Cost methodology or the Resource Comparison Proxy to set the DG export rate. The utility would then submit the information related to the selected methodology to the Commission for review as contemplated by the ROO.[1] This clarification will avoid any assertion that a utility has not submitted all necessary information to support its proposed valuation for DG exports.

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[1] The rate cases for both TEP and UNS Electric will have a Phase 2 proceeding related to DG-related issues. Rather than submitting the information within 30 days of the decision in this docket, TEP and UNS Electric believe it would be more appropriate to submit the information pursuant to the procedural schedules to be adopted for the Phase 2 proceedings.

Being able to rely upon the Resource Comparison Proxy methodology instead of the more complicated resource-intensive Avoided Cost methodology is in the public interest and may allow the Commission, Staff, the utilities and other parties to avoid protracted proceedings. The Resource Comparison Proxy methodology (i) relies on actual, verifiable costs incurred by the utility, (ii) avoids the subjectivity and inherent inaccuracy of forecasted data, and (iii) can provide a gradual transition to an objective, cost based method of valuing DG exports. Moreover, as the ROO states (at 167), "Use of utility-scale solar obligations represents the most reliable and objective avoided cost proxy for rooftop solar and diminishes concerns for the inclusion of societal and environmental factors and other externalities in valued solar DG exports."

C. The Avoided Cost Methodology data to be submitted to Staff should be clarified.

The ROO (at 152) provides guidance regarding the implementation of the two methodologies. With respect to the Avoided Cost Methodology, the ROO states that Staff should use the matrix attached as Exhibit A to the ROO to evaluate information to determine the appropriate level of compensation to be paid for DG exports. However, only pages 3 and 4 of the matrix relates to DG exports. The ROO should clarify that the information to be submitted by a utility using the Avoid Cost methodology is set forth on pages 3 and 4 of Exhibit A (or simply reduce Exhibit A to those two pages).

III. <u>Requests for Modification.</u>

A. The Resource Comparison Proxy Value should be updated annually.

In describing the Resource Comparison Proxy methodology, the ROO indicates (at 149) that the five year rolling average "is likely to gradually reduce the cost to utilities of purchasing rooftop solar energy over time." However, the ROO then provides (at 151) that the methodology will be applied only in rate cases and will not be updated between rate cases. As a result, the DG export rate that is set in each rate case is locked in until the utility's next rate case.

The Companies agree with the concept of gradually reducing the DG export rate under the Resource Comparison Proxy. However, as structured under the ROO, it is likely that the DG

export rate will change significantly between the first and second rate cases in which it is set. According to the ROO (at 117), the Resource Comparison Proxy methodology would set the DG current export rate for TEP at 11 cents per kWh. Assuming TEP's next rate case order is issued in three years, the DG export rate determined by Resource Comparison Proxy methodology could be closer to 5 cents per kWh in light of the more expensive solar resources that would roll out of the calculation. The DG export rate reduction from 11 cents to 5 cents in one abrupt reduction could be very disruptive.

In order to provide for a more gradual reduction in the export rate, the Companies submit that the Resource Comparison Proxy rate should be reset annually. The initial DG export rate should be established in Phase 2 of the TEP and UNS Electric rate cases, using the most current five-year rolling average (presumably 2012-2016). The Commission would also approve a plan of administration for updating the DG export rate annually. That update would take place in a similar manner to the current resetting of the avoided cost rate under the Net Metering rules, as well as all of the Companies' other adjustor mechanisms. Updating the DG export rate annually would result in a more timely and precise DG export rate that matches the true rolling average. It also would avoid as sharp a change in the DG export rate at any time during the process.

B. The DG export rate for a DG system should be stable for a set period of time.

The Companies agree that, as set forth in the UNS Electric rate case order (Decision No. 75796 (August 18, 2016)), the default policy should be that the DG customers who interconnect prior to the decision on the new DG export rate in second phase of UNS Electric's rate case (as determined by one of the valuation methodologies adopted in this docket) should be grandfathered on the current net metering tariffs, subject to any modification based on specific utility circumstances. It is likely that new DG customers who interconnect after the setting of a DG export rate will expect an equivalent level of certainty on the DG export rate at the time of interconnection because their economic decision to install DG would be informed by that rate. Clearly, the ROO anticipates changes to the DG export rate over time. However the ROO is silent as to the duration of a DG export rate once it is set.

The Companies request that the duration of the applicability of future DG export rates be set forth in this docket. The Companies submit that the duration period of the DG export rate for a DG system should be set at 10 years from the date of the interconnection for that DG system, which is consistent with the current average payback periods for residential DG systems.

C. Grandfathering of rate design should only be considered in rate cases.

The ROO (at 153, line 21) states that "Generally, grandfathering decisions should be made in the context of a rate case." The ROO then provides (at 153-54), without any discussion, that "changes to rate design" will apply only to DG customers who sign up for new DG interconnections after the date of the decision in the first utility rate case that sets the DG export rate.

However, the ROO does not identify what is intended to be covered by "rate design". Different parties may have different interpretations of what constitutes a "change in rate design." Some may argue it is as simple as a change in the amount of a monthly basic service charge or an elimination of a volumetric tier. The ROO also does not address whether rate design changes adopted <u>after</u> the setting of a DG export rate would be grandfathered.

The Commission should not decide the issue of grandfathering rate design in this docket. Grandfathering of rate design was not the focus of the proceeding. Indeed, it was not addressed in sufficient manner to resolve the uncertainties set forth above. Moreover, it is difficult to assess to what extent rate design should be grandfathered without knowing what the rate design is. As a result, the Companies submit that grandfathering of rate design should be considered and decided in utility-specific rate cases. The ROO's statement on grandfathering of rate design is premature, not supported by the record and may not be appropriate depending on what rate design is actually proposed. The ROO also has not clearly stated what is intended to be covered by "a change in rate design."

IV. Other Concerns and Considerations.

A. The Avoided Cost Methodology is complex, ambiguous and subjective.

The Companies continue to have significant reservations regarding the use of the Avoided Cost methodology. As stated in the Companies' brief, the Companies believe that non-DG customers should pay for only the known and measurable benefits provided by DG. As proposed, the Avoided Cost Methodology is complex, difficult to implement and many elements of the calculation are likely subject to future litigation. The ROO correctly states (at 167) that, "Quantifying the societal and economic developments benefits of DG in an avoided cost forecast is speculative and inappropriate for ratemaking purposes." However, the Companies believe that, despite the determinations found in the ROO, that many of the elements of the Avoided Cost Methodology leave open for interpretation the quantification and weight given to other benefits that are speculative and not cost-based. The Companies fear that mandating the use of the proposed Avoided Cost methodology sets the stage for protracted and contentious proceedings in which parties will debate the numerous inputs and assumptions needed to derive a DG export value using this methodology.

B. Calculation of the Resource Comparison Proxy Methodology.

If the Resource Comparison Proxy method is adopted, the Commission should consider the weight given to utility-owned solar facilities as a proxy for residential DG resources. As stated by the Companies in previous filings in this docket, utility-owned facilities are operated much differently than rooftop DG or third-party utility-scale solar PPA facilities. For example, the Companies control the output of owned systems to provide voltage support and other system benefits. Realizing these ancillary grid benefits from utility-owned solar facilities will have the effect of reducing the actual kWh production of the system, thus skewing/overstating the per kWh cost of that facility. The Companies believe that, to the extent utility-owned facilities are included in the calculation, the output of the system for calculating the cents per kWh should reflect those facilities operating at levels similar to rooftop or third party PPA systems.

V. Conclusion.

The Commission should amend and clarify the ROO as set forth in the proposed amendment language in Attachment A.

RESPECTFULLY SUBMITTED this 15th day of November, 2016.

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Attachment A

Proposed Amendment Language

Amendment 1 (related to Section II.A of TEP/UNSE Exceptions)

Purpose:

This language clarifies that there will be no netting or banking of kWh (except for grandfathered DG customers) once a DG export rate is set.

Proposed Amendment Language:

At page 146, line 23, after "2008.", INSERT:

"Once a DG customer is subject to a DG export compensation rate determined by one of the DG valuation methodologies adopted by this Decision, there will be no further netting or banking of exported DG kWh for that customer."

At page 166, line 19, after "exports.", INSERT:

"Once a DG customer is subject to a DG export compensation rate determined by one of the DG valuation methodologies adopted by this Decision, there will be no further netting or banking of exported DG kWh for that customer."

At page 171, line 6, after "rate case.", INSERT:

"Once a DG customer is subject to a DG export compensation rate determined by one of the DG valuation methodologies adopted by this Decision, there will be no further netting or banking of exported DG kWh for that customer."

Amendment 2 (Section II.B)

Purpose:

This language clarifies and confirms that the DG export rate may be set by either the Avoided Cost methodology or the Resource Comparison Proxy methodology.

Proposed Amendment Language:

At page 148, line 12, DELETE "combined".

At page 148, line 28, after "methodology", INSERT "as an alternative to the Avoided Cost methodology".

DELETE page 152, lines 3-5 and INSERT:

"a. For currently pending electric utility rate cases, the utility shall provide the underlying data of the utility that the selected valuation methodology relies upon to Staff pursuant to a procedural order to be issued in those rate cases. For electric utility rate cases not currently pending before the Commission, the data for the selected methodology will be provided within 30 days of a sufficiency finding."

At page 167, line 25, REPLACE "Adoption of both these" with "Adoption of both of these alternative"

DELETE page 168, lines 18-22, and INSERT:

"147. For currently pending electric utility rate cases, the utility shall provide the underlying data of the utility that the selected valuation methodology relies upon to Staff pursuant to a procedural order to be issued in those rate cases.

148. For electric utility rate cases not currently pending before the Commission, the data for the selected methodology will be provided within 30 days of a sufficiency finding."

DELETE page 170, lines 16-17 and INSERT:

"IT IS FURTHER ORDERED that: (i) for currently pending electric utility rate cases, the utility shall provide the underlying data of the utility that the selected valuation methodology relies upon to Staff pursuant to a procedural order to be issued in those rate cases and (ii) for electric utility rate cases not currently pending before the Commission, the data for the selected methodology will be provided within 30 days of a sufficiency finding."

Amendment 3 (Section II.C)

Purpose:

This amendment clarifies that Exhibit A to the ROO should be limited to pages 3 and 4 of the proposed Exhibit A.

Proposed Amendment:

Exhibit A to the Decision should include only pages 3 and 4 of the proposed Exhibit A attached to the ROO.

Amendment 4 (Section III.A)

Purpose:

This language provides the DG export rate set under the Resource Comparison Proxy methodology would be updated annual to provide more gradual change in the DG export rate calculated using this methodology.

Proposed Amendment Language:

At page 151, line 15, DELETE the sentence beginning "Because the methodology" and INSERT:

"However, to ensure the valuation using this methodology changes gradually, it will be updated annually after it is initially set in a rate case proceeding. At the time that the initial DG export rate is set, a plan of administration that will provide the mechanism for annual modifications to that initial rate also will be adopted."

At page 152, line 17, after "available.", INSERT:

"The DG export rate will be updated annually after it is initially set in a rate case proceeding. At the time that the initial DG export rate is set, a plan of administration that will provide the mechanism for annual modifications to that initial rate also will be adopted."

At page 167, line 13, DELETE from "if the" through the end of the sentence.

DELETE page 167, lines 18 through 20.

At page 168, at the end of line 17, INSERT:

"The DG export rate based on this five year average will be updated annually after it is initially set in a rate case proceeding. At the time that the initial DG export rate is set, a plan of administration that will provide the mechanism for annual modifications to that initial rate also will be adopted."

Amendment 5 (Section III.B)

Purpose:

This language provides that the DG export rate for a DG system would be set for a period of ten years from the date of interconnection of that DG system. The ten year period reflects a typical payback period for new residential rooftop DG systems.

Proposed Amendment Language:

At page 154, line 5, INSERT:

"A customer who interconnects a DG system to a utility's distribution system after a DG export rate is set for that utility shall be placed on the DG export rate effective at the time of the interconnection for a period of ten years."

At page 169, line 28, INSERT:

"155. A customer who interconnects a DG system to a utility's distribution system after a DG export rate is set for that utility shall be placed on the DG export rate effective at the time of the interconnection for a period of ten years."

At page 171, at the end of line 9, INSERT:

"A customer who interconnects a DG system to a utility's distribution system after a DG export rate is set for that utility shall be placed on the DG export rate effective at the time of the interconnection for a period of ten years."

Amendment 6 (Section III.C)

Purpose:

This language provides that any grandfathering of rate design for DG customers will be decided in rate cases where the specific rate design proposals are known.

Proposed Amendment Language:

At page 153, lines 25-26, DELETE: ", as well as any changes to rate design,".

At page 154, line 3, DELETE: "rate design and".

At page 154, at the end of line 4, INSERT:

"Appropriate grandfathering of rate design, if any, will be decided in rate cases in light of the specific rate design proposed in a particular rate case."

At page 169, lines 21-22, DELETE: ", as well as any changes to rate design,"

At page 169, line 26, DELETE: "rate design and".

At page 169, at the end of line 27, INSERT:

"Appropriate grandfathering of rate design, if any, will be decided in rate cases in light of the specific rate design proposed in a particular rate case."

At page 171, line 4, DELETE: ", as well as any changes to rate design,"

At page 171, line 8, DELETE: "rate design and".