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8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10 COMMISSIONERS

11 SUSAN BITTER SMITH, Chairman  
12 BOB STUMP  
13 BOB BURNS  
14 DOUG LITTLE  
15 TOM FORESE

Arizona Corporation Commission

DOCKETED

APR 02 2015

DOCKETED BY  
RTA

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

DOCKET NO. E-01345A-13-0248  
**MOTION TO RESET**

18 If a customer uses the grid, they should fairly contribute to the grid's fixed costs.  
19 Customers who install distributed generation (DG), like rooftop solar, do use the grid—  
20 24 hours a day. But because of a rate design that the Commission has found to be  
21 “unfair” and “defective,”<sup>1</sup> customers with DG don't pay their fair share for that use.

22 In late 2013, the Commission began addressing this unfairness on an interim  
23 basis when it ordered customers who install rooftop solar to pay \$0.70 per month for  
24 each kW of their solar system. This payment was called the “LFCR Adjustment,”<sup>2</sup> and it  
25 was structured so that it did not increase APS's revenue. Anticipating that the  
26

27 <sup>1</sup> See Decision 74202 at P 96 (Dec. 3, 2013).

28 <sup>2</sup> LFCR stands for Lost Fixed Cost Recovery and refers to APS's LFCR Mechanism.

1 Adjustment might need to increase before APS's next rate case, the Commission also  
2 established a framework to reset the Adjustment on an interim basis.

3 This Motion requests a reset of the LFCR Adjustment under that framework. The  
4 need to make further progress in fairly allocating costs has only deepened since 2013. In  
5 the year following Decision No. 74202, 7,800 DG systems were installed in APS's  
6 territory—more than any other year. Each of these systems is designed to operate for at  
7 least 20 years. For every 7,800 systems installed, a permanent cost shift of  
8 approximately \$126 million over that 20-year period is created. If the current pace of  
9 installations continues through mid-2017, APS estimates that close to \$800 million in  
10 fixed costs will be shifted to and paid by customers without DG if no further steps are  
11 taken to reduce the cost shift.

12 Accordingly, APS submits this Motion to Reset and requests that the LFCR  
13 Adjustment be reset to \$3/kW, an amount the Commission has already found to be  
14 reasonable.<sup>3</sup> This Motion relies entirely on the findings and conclusions in Decision No.  
15 74202. It only requests a reset consistent with the Commission's prior determinations.  
16 Resetting the Adjustment in this manner would:

- 17 • be revenue neutral;
- 18 • apply only to customers who install rooftop solar after the effective date of  
19 any decision on this Motion; and
- 20 • make incremental progress in addressing a looming \$800 million cost shift.

21 Because fixed costs continue to accumulate each day, APS urges the Commission to act  
22 promptly on this Motion, ordering a reset to take effect on August 1, 2015.

### 23 I. BACKGROUND

24 In July 2013, APS filed its Application for Approval of a Net Metering Cost Shift  
25 Solution. In support of its Application, APS submitted sworn testimony and other  
26 evidence demonstrating that: (i) the manner in which customers use the grid is changing;

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27  
28 <sup>3</sup> See Decision No. 74202 at P 84.

1 (ii) the growth of DG reinforces the need to have a modern, resilient, and reliable grid;  
2 (iii) customers with DG, and rooftop solar specifically, use the grid 24 hours a day,  
3 including at night, to start large appliances like air conditioners and refrigerators, to  
4 ensure power quality, and to be available any time that the sun isn't shining; (iv) APS  
5 incurs fixed costs to serve a customer with DG; (v) when a customer installs rooftop  
6 solar, APS still incurs these fixed costs to serve that customer; (vi) under APS's existing  
7 rate design, however, customers with DG avoid paying approximately \$804 of these  
8 fixed costs each year (or \$67 per month); and (vii) the \$67 of fixed costs not paid each  
9 month by customers with DG are unfairly shifted to, and ultimately paid by, customers  
10 without DG.

11 **A. After a Robust Process, the Commission Issued a Final Decision and no**  
12 **Party Sought Rehearing.**

13 Thirteen Parties intervened in this docket after APS filed its Application (and  
14 continue to be parties of record). During the 2013 proceeding, 27 entities filed almost 60  
15 comments (not including APS), and numerous customers and community leaders  
16 submitted public comment. APS responded to a significant number of data requests from  
17 multiple parties, and filed each of its responses in the docket. No party requested a  
18 hearing, and the Commission held two days of Open Meeting to consider the matter.  
19 After receiving substantial comment, the Commission issued Decision No. 74202 on  
20 December 3, 2013. No party sought rehearing. By operation of law, it became a final  
21 decision of the Commission 20 days later on December 24, 2013.<sup>4</sup>

22 **B. Based on Filed Evidence, the Commission Found that the Cost Shift**  
23 **Exists and that Action Should Be Taken Before APS's Next Rate Case.**

24 In Decision 74202, the Commission found that "the proliferation of DG  
25 installations results in a cost shift from APS's DG customers to APS's non-DG

26 \_\_\_\_\_  
27 <sup>4</sup> Upon becoming final, Decision No. 74202 became immune from collateral attack. *See Ariz. Pub. Serv.*  
28 *Co. v. S. Union Gas Co.*, 76 Ariz. 373, 377 (1954) (holding that matters decided by the Commission are  
conclusive, can only be challenged as specified by statute, "and in the absence of pursuing such  
[statutory] remedy the decision is not subject to collateral attack.").

1 residential customers absent significant changes to APS's rate design."<sup>5</sup> The  
2 Commission further declared that this cost shift was unfair, and that those who cause  
3 costs should contribute their fair share:

4 [i]t is simply unfair for DG customers to contribute less to the recovery of  
5 APS's annual LFCR revenue than non-DG customers do. A basic principle  
6 of revenue allocation across customer classes is that the cost causer should  
7 bear a fair share of the costs that he creates. A revenue allocation that  
8 achieves the opposite result can only be regarded as defective.<sup>6</sup>

9 Due to the rapidly growing number of DG installations, the Commission concluded that  
10 waiting until APS's next rate case to begin addressing the cost shift would not serve the  
11 public interest.<sup>7</sup>

12 **C. The Commission Found that \$3/kW is a Reasonable Adjustment, but**  
13 **Initially Set a Lower Amount Under the Circumstances Existing in 2013.**

14 In determining the amount of the Adjustment, the Commission reviewed,  
15 examined, and considered analyses, evidence, and public comment from various  
16 stakeholders, representing all perspectives. The Commission focused on analyses  
17 presented by two independent voices: Commission Staff and RUCO. The possible  
18 charges proposed by Commission Staff ranged from \$3.08/kW to \$12/kW, based on the  
19 assumptions made regarding the average retail rate and cost to purchase solar generation  
20 under a large-scale power purchase agreement.<sup>8</sup> RUCO focused on a solution that  
21 increased over time, and assumed the ultimate need for at least a \$3/kW charge.<sup>9</sup>

22 Based on these analyses, the Commission found that an interim charge of "\$3.00  
23 per kW per month (which would be \$21.00 for a customer system of 7 kW) is  
24 reasonable for new DG customers."<sup>10</sup> In other words, the Commission selected Staff's  
25 *lowest number* (\$3/kW per month), one which was also proposed by RUCO, as a  
26 reasonable amount to charge customers with DG through the interim LFCR Adjustment.

27 <sup>5</sup> Decision No. 74202 at P 49.

28 <sup>6</sup> *Id.* at P 96.

<sup>7</sup> *Id.* at P 99.

<sup>8</sup> *See id.* at PP 63-72.

<sup>9</sup> *See id.* at PP 45 and 84.

<sup>10</sup> *Id.* at P 84.

1 Nonetheless, the Commission set a lower \$0.70 per kW Adjustment (or approximately  
2 \$5 a month for a 7 kW system) under the circumstances presented in 2013 as “an  
3 amount that will be easy to use and understand by customers.”<sup>11</sup>

4 **D. The Commission Made the Adjustment Revenue Neutral and Created a**  
5 **Means to Reset the Adjustment Before APS’s Next Rate Case.**

6 The Commission structured the Adjustment so that it did not increase APS’s  
7 revenue. The Adjustment only reallocated cost responsibility between customers with  
8 and without DG for APS’s annual LFCR revenue.<sup>12</sup> In addition, the Commission ordered  
9 that all amounts collected under the Adjustment be subject to true up in APS’s next rate  
10 case.<sup>13</sup>

11 The Commission did not set the Adjustment with the expectation that it would  
12 remain unchanged. Instead, the Commission recognized that “it may periodically adjust  
13 this charge in any APS LFCR reset proceeding.”<sup>14</sup> The Commission ordered that any  
14 adjustment would apply prospectively:

15 If the Commission subsequently adjusts the LFCR DG adjustment, the  
16 new adjustment shall only apply to new DG customers who sign a contract  
with a solar installer after the LFCR DG adjustment is adopted.<sup>15</sup>

17 The Commission ordered that these successive tranches of grandfathered customers  
18 would remain in place until APS’s next rate case.<sup>16</sup> The Commission stated: “requiring a  
19 full rate case in order to address the defect identified [in Decision 74202] would be  
20 harmful to the public interest....”<sup>17</sup> The Commission also found that “the presence of a  
21 defect in the method for allocating the revenue spread in the LFCR is [ ] an  
22 ‘extraordinary event.’ And we believe that it is in the public interest for us to address it  
23 now.”<sup>18</sup>

24 \_\_\_\_\_  
25 <sup>11</sup> Decision No. 74202 at P 85.  
<sup>12</sup> *Id.* at P 102.  
26 <sup>13</sup> *Id.* at P 104.  
<sup>14</sup> *Id.* at P 85.  
27 <sup>15</sup> *Id.* at P 87.  
<sup>16</sup> *Id.* at P 88.  
28 <sup>17</sup> *Id.* at P 103.  
<sup>18</sup> *Id.* at P 106.

1                   **E. Despite Unequivocal Claims to the Contrary, the LFCR Adjustment Did**  
2                   **Not Slow Rooftop Solar Penetration in 2014.**

3                   Throughout the 2013 proceeding, many asserted that the \$0.70/kW charge would  
4 significantly reduce the amount of solar installed. This, however, did not happen. In  
5 2014, approximately 7,800 DG systems were installed in APS's service territory<sup>19</sup>—the  
6 highest amount ever.

7                   The cost shift also grew in 2014. As evidence in this docket shows, each DG  
8 installation shifts approximately \$804 annually to customers without DG. With the 7,800  
9 systems installed in 2014, the cost shift grew by \$6.3 million (7,800 x \$804). Over the  
10 20-year life of these DG systems, the total amount shifted to customers without DG—  
11 solely by DG installed in 2014—will be approximately \$126 million (20 x \$6.3 million).  
12 If installations simply stay flat at 2014 levels, the 20-year cost shift will grow by \$126  
13 million each year. And by mid-2017, APS estimates that the 20-year cost shift to  
14 customers without DG will grow to approximately \$800 million.

15                   **II. PROPOSAL<sup>20</sup>**

16                   **A. APS Proposes that the Commission Implement its Prior Findings and**  
17                   **Reset the LFCR Adjustment to \$3/kW.**

18                   APS proposes resetting the LFCR Adjustment to \$3/kW per month. This is the  
19 amount that the Commission found to be reasonable in Decision No. 74202. It was also  
20 the lowest charge advocated by Commission Staff that was also endorsed by RUCO. A  
21 \$3/kW charge would result in a monthly payment of \$21 for customers with a system  
22 size of 7 kW. As ordered in Decision No. 74202, any reset would apply after the  
23 Commission's decision on this Motion and remain in place until APS's next rate case:  
24

25 <sup>19</sup> See Letter to Docket Control from Lisa Malagon, Docket No. E01345A-13-0248 (January 15, 2015).

26 <sup>20</sup> Before describing its proposal, APS comments briefly on labeling. The original Adjustment was called  
27 the "LFCR DG Charge" or "LFCR DG Adjustment." This name, however, does not meaningfully  
28 describe the nature of the charge, nor invite customer understanding. Accordingly, in future filings, APS  
may use the term "Grid Access Charge" when referring to the Adjustment created by Decision No.  
74202. This change is in labeling only. It does not implicate any substantive aspect of the 2013 decision.

1 IT IS FURTHER ORDERED that if the Commission subsequently  
2 modifies the LFCR DG adjustment before APS's next rate case, the new  
3 adjustment shall only apply to new DG customers who sign a contract with  
4 a solar installer after the modified LFCR DG adjustment is adopted by the  
5 Commission. This tranche (sic) of customers and any successive tranches of  
6 customers shall remain in place until APS's next rate case decision.<sup>21</sup>

7 APS notes that a \$3/kW LFCR Adjustment will not fully address the cost shift.  
8 The need for existing infrastructure to serve a customer does not vary with that  
9 customer's usage. If a customer installs rooftop solar, and takes less energy from the  
10 grid during the day, the fixed grid costs to serve that customer are still incurred. Fairly  
11 allocating responsibility for these fixed infrastructure costs would result in monthly  
12 fixed charges that collect \$67 from customers with DG.

13 Collecting \$67 in fixed costs from customers with DG would comply with the  
14 Commission-recognized principle that a "cost causer should bear a fair share of the costs  
15 that he creates."<sup>22</sup> But Decision No. 74202 only contemplated a smaller adjustment  
16 before APS's rate case, not a complete solution to the cost shift. With this Motion, APS  
17 only seeks to reset an interim adjustment based on the Commission's findings and using  
18 the process established by the Commission. As noted by Commission Staff in Decision  
19 No. 74202, however, "the equitable distribution of DG costs and benefits ideally  
20 requires all [DG] customers to have some form of demand-based charges."<sup>23</sup> APS  
21 agrees: resolving the cost shift for the long term and creating a sustainable future for all  
22 types of customer-sited technologies requires updating rate design in APS's rate case in  
23 a manner that is fair for all customers.

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26  
27 <sup>21</sup> Decision No. 74202 at p. 30:1-5.

28 <sup>22</sup> *Id.* at P 96.

<sup>23</sup> *Id.* at Finding of Fact 32.

1           **B. The Commission Should Reset the LFCR Adjustment Now in the Interest**  
2           **of Gradualism.**

3           Waiting to address the entire cost shift in one instance might cause undue  
4           disruption that could otherwise be avoided. As evidence in this docket shows, each  
5           customer with DG shifts an average of \$67 in fixed grid costs to customers without DG  
6           each month. These costs represent the fixed infrastructure costs that APS must incur to  
7           safely deliver reliable power 24 hours a day. A fair allocation of costs to those who  
8           cause them would involve customers with DG paying fixed monthly charges of \$67.

9           But moving from the current \$5 monthly charge to fixed charges of \$67 in one  
10          rate case would be a significant change in a short period of time. Under generally-  
11          accepted principles of rate design, changes to rates should be done gradually, where  
12          possible.<sup>24</sup> Increasing the LFCR Adjustment to \$3/kW now would be an incremental  
13          step towards fair rate design. It would also be consistent with principles of rate  
14          gradualism and give customers and the rooftop solar industry time to adjust before fixed  
15          costs are (more) fairly allocated in APS's next rate case.

16           **C. Making Incremental Progress Now on Fairly Allocating Fixed Costs**  
17           **Provides More Flexibility in APS's Next Rate Case.**

18          Aside from the benefits of rate gradualism, increasing the LFCR Adjustment now  
19          would reduce the overall amount of the cost shift that must be addressed in APS's next  
20          rate case. More lost fixed costs accumulate each day—fixed costs that will be  
21          shouldered by customers without DG if APS's rate design is not modernized. If the  
22          Commission waits until the conclusion of APS's next rate case to address the cost shift,  
23          the magnitude of the costs at issue might limit the Commission's options. Permitting the  
24          cost shift to continue growing at its current pace may hinder balanced solutions in APS's  
25          next rate case.

26  
27  
28          <sup>24</sup> See, e.g., James C. Bonbright et al., *Principles of Public Utility Rates*, at 383 (2d ed. 1988).



1                   **D. Resetting the LFCR Adjustment Still Permits Customers to Reduce Costs**  
2                   **with Technology Under APS's Demand-Based Rate.**

3                   Resetting the LFCR Adjustment now does not preclude customers' ability to  
4 install DG, control their consumption, reduce their demand, and save money. APS  
5 customers have the option to avoid the LFCR Adjustment entirely if they take service  
6 under APS's ECT-2 rate. ECT-2 is a demand-based rate to which 100,000 APS  
7 residential customers already subscribe. It is similar to the rate approved in SRP's recent  
8 rate case, a rate that has been reviewed favorably as equalizing the cost-sharing burden  
9 between customers "while encouraging solar-generating customers to reduce their part  
10 of the maintenance tab by altering their behavior."<sup>25</sup> APS agrees. Demand-based rates  
11 offer a means for everyone to "win": customers can save money by reducing their  
12 demand with solar and other technologies; third parties are able to enhance their product  
13 offerings by installing more than just solar; utilities see their costs decrease; and the  
14 public at large benefits as customers experiment with different types of technologies and  
15 the most sustainable energy solutions begin to emerge.

16                  APS previously proposed ECT-2 as a solution to the cost shift in part because  
17 demand-based rates offer cost-saving opportunities for customers. It would also send the  
18 price signal needed to encourage the development of innovative demand-based  
19 technologies. Although the Commission did not immediately act on APS's proposal in  
20 2013, it did exempt all customers taking service under ECT-2 from the LFCR  
21 Adjustment. This exemption would continue if the Commission granted this Motion and  
22 reset the LFCR Adjustment.

23                  **III. CONCLUSION**

24                  In 2013, the Commission began the process of ensuring that all customers fairly  
25 contributed to the grid's fixed costs by implementing the initial \$0.70/kW LFCR  
26

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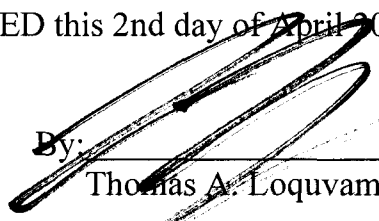
27                  <sup>25</sup> See Editorial Board, *SRP has a better solar-fee idea*, THE ARIZONA REPUBLIC, Dec. 2, 2014, available  
28 at: <http://www.azcentral.com/story/opinion/editorial/2014/12/02/srp-rooftop-solar-net-metering/19804431/>.

1 Adjustment. Recognizing that \$3/kW was a reasonable interim charge before APS's next  
2 rate case, however, the Commission also set out a framework for resetting the LFCR  
3 Adjustment. This Motion fits squarely within that framework and only requests what  
4 was previously found to be reasonable.

5 The factual basis for the LFCR Adjustment is more compelling than ever.  
6 Customers with DG continue to use the grid, but don't pay for that use. The strain placed  
7 on the existing unfair and defective revenue allocation has only increased. These facts  
8 are not just true for APS. Across the nation, public utility commissions are beginning to  
9 take action.

10 Resetting the LFCR Adjustment would make incremental progress towards fairly  
11 allocating costs between customers in a way that does not increase APS's revenue. By  
12 resetting the Adjustment now, the Commission can reduce unfair cost shifting within the  
13 LFCR and make APS's next rate case more manageable, all while preserving innovative  
14 energy solutions for APS customers. APS requests that the Commission reset the LFCR  
15 Adjustment to \$3/kW per month effective August 1, 2015.

16  
17 RESPECTFULLY SUBMITTED this 2nd day of April 2015.

18  
19 By:   
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21 Attorney for Arizona Public Service Company

22  
23 ORIGINAL and thirteen (13) copies  
24 of the foregoing filed this 2nd day of  
25 April 2015, with:

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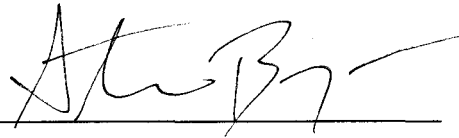
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