The Commission has reached an inflection point in the provision of retail electric service.

The costs of various forms of distributed generation—in this case, rooftop solar—are currently cheaper than—or in close proximity to—the retail rates that APS is allowed to charge for the power that those distributed forms of generation offset. This new phenomenon would not be problematic except that those retail rates contain substantial fixed costs that are not eliminated by the production that occurs from the distributed generation. This rate design issue causes two problems: First, as customers who adopt distributed generation use less energy, they no longer pay the share of fixed costs that are associated with the infrastructure that they continue to use. This causes a shift of costs that are initially borne by the utility and then are eventually borne by other rate payers.

Second—and of more concern to Alliance members—customers who receive price signals based on retail rates adopt technology that produces power at a cost that is higher than the wholesale cost of power. This increase in distributed generation serves to crowd out less expensive generation capacity—including utility scale renewable capacity—and at the same time increases the total cost of generation to the entire system.

While the issue has first become manifest in the contest of rooftop solar systems and net metering, the fundamental issue is rate design and the current faulty price signals will result in customers switching to a broader form of retail electric alternatives such as natural gas appliances or alternative forms of generation that appear to be just over the horizon.

The long term solution will be for the ACC to establish retail electric rates that reflect the true portion of fixed and variable costs associated with serving each customer. Unfortunately, this type of rate design change can only be accomplished in the context of a full rate case. Additionally, this type of change would provide a dramatic shift in the way that customers pay for retail electric usage and, in order to avoid customer shock, would have to be phased in over a long time period, probably involving multiple rate cases.
Staff and RU CO have suggested interim steps that can help correct the faulty price signals without having to wait until APS’s 2015 rate case. The ACC should do what it can within its constitutional constraints to correct this price distortion and then continue to correct the problem in the next APS rate case.

RESPECTFULLY SUBMITTED this 4th day of November, 2013

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