Staff's report confirms the core premise underlying APS's Application: the cost shift associated with Net Metering is real and will increase rates for customers without rooftop solar systems. Staff's assessment concludes what has been to date an unproductive discussion regarding whether the Net Metering subsidy shifts costs to non-solar customers. Now, the Commission can focus on how to best address the cost shift and make rooftop solar fair for all customers.

To make rooftop solar fair, the Commission should meaningfully address the cost shift immediately, rather than waiting for another Commission to solve this issue. Deciding to delay would unnecessarily raise rates on residential customers, including a group of customers that can least afford it, all simply to preserve hidden subsidies. With Staff's acknowledgement that the cost shift is occurring and increases rates, the most

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1 See Staff Report, pp. 4-5.
responsible course of action is to align how much solar customers contribute to the grid with how much they use the grid. APS’s proposals would accomplish this alignment.

What APS’s proposals would not do is increase APS’s revenue beyond what the Commission has already approved as needed to pay for the grid’s fixed costs. Nonetheless, APS supports Staff’s concept of returning to customers any incremental revenue received from new solar customers until APS’s next rate case. Just like Staff’s Report ends inaccurate claims that cost shifting does not occur with Net Metering, APS’s agreement with Staff on returning any incremental revenues should make it clear that fixing Net Metering has never been about revenue to APS.

Instead, APS’s proposals have consistently focused on fairness and creating a framework to make solar—both distributed and utility scale—sustainable for the long term. The cost shift associated with Net Metering is real and unfair. It must be addressed promptly and in a meaningful manner. APS’s proposed solutions would do so. And using up-front incentives, as APS proposed, would permit gradual, transparent adjustments to the subsidies that make rooftop solar viable. APS urges the Commission to chart a path to a sustainable, fair solar policy by:

- Adopting APS’s Net Metering Option or a modified version of Staff’s Alternative #2 as described below;
- Ordering additional up-front incentives as a transparent and flexible means to encourage residential rooftop solar;
- Grandfathering existing rooftop systems, not just existing solar customers; and
- Returning to customers all incremental revenue received from new solar customers through the Lost Fixed Cost Recovery (LFCR) mechanism as part of this interim solution.

APS submits these Comments to Staff’s Report now and will separately submit proposed Amendments to Staff’s Recommended Order before the Commission holds Open Meeting to consider this matter.
I. STAFF’S RECOGNITION THAT THE COST SHIFT IS REAL CONFIRMS THAT ACTION MUST BE TAKEN NOW.

Staff’s Report puts to rest any debate about whether the cost shift is occurring. Staff agrees with the fundamental premise behind APS’s Application—that customers with rooftop solar avoid paying for the grid’s fixed costs and that customers without rooftop solar will pay for those fixed costs through higher rates. This conclusion has two critical implications that should guide the remainder of this proceeding.

First, the consequences of the Net Metering subsidy will only deepen if the cost shift is not addressed. As more customers install rooftop solar under current Net Metering rules, more costs will get shifted to customers without solar. When APS filed its Application, the total shifted costs were $18 million. Today, that amount has grown to over $19 million. And as these shifted costs grow, they increase future rates for all non-solar residential customers, including those customers that can least afford it.

Second, the knowledge that rates will increase means that the most responsible action is to meaningfully address the cost shift now. After this proceeding, every additional dollar shifted to non-solar customer rates could have been avoided. The growing cost shift can and should be addressed now. APS urges the Commission to reject calls to wait until APS’s next rate case and instead meaningfully address the cost shift now before the potential rapid growth of Net Metering makes the cost shift unmanageable.

II. APS’S PROPOSALS ARE THE BEST WAY TO MEANINGFULLY ADDRESS THE COST SHIFT.

Staff states that its alternative recommendations are only “bridge solutions that begin to address the [Net Metering] cost-shift” until the Commission can more completely address the cost shift in APS’s next rate case. The two Alternatives develop a rate to be paid by new solar customers based on different methodologies. Staff

\[2\] Staff Report, p. 10.
Alternative #1's methodology results in a low charge that would only reinforce the status quo and perpetuate the growing inequity caused by the Net Metering cost shift. By contrast, Staff Alternative #2 would appropriately align fixed cost contributions with grid cost if accurate inputs are used.

A. Alternative #1 Does Not Address, and Would Only Deepen, the Unfair Cost Shift Recognized by Staff.

Alternative #1 would impose an average $2.76 per month charge on new solar customers, for an annual charge of $33.12. This amount falls far short of the approximate $1,000 shifted by each solar installation each year. And Alternative #1 would only continue the cost shift at the time of its most rapid growth. The cost shift is occurring so rapidly that by the time APS's next rate case is decided, the total amount shifted could be $40 million, $50 million or even more. Based on recent data, APS estimates that a cost shift of $50 million could result in a 4% increase to residential rates in APS's next rate case. This potential rate increase would be in addition to any rate increase that may result from traditional cost of service calculations. If left unchecked, Net Metering will either result in a sharp rate increase on non-solar residential customers, or even the cancellation of Net Metering for the many thousands of customers that install solar between this proceeding and the rate case. Both outcomes are avoidable if the cost shift is addressed now in a meaningful fashion, rather than the adoption of Staff Alternative #1. Accordingly, APS opposes Staff Alternative #1.

B. Staff Alternative #2 Would Result in an Appropriate Charge for Use of the Grid if Accurate PPA and Retail Rate Numbers are Used.

Staff's Alternative #2 is predicated on APS's position that the benefits of solar should be acquired at the lowest possible cost. APS and Staff agree that this means using the price to buy solar power from a utility-scale (or central station) solar facility as a ceiling for the amount paid to rooftop solar customers. APS can buy solar power from these larger facilities using a purchased power agreement (PPA) at a lower cost than
APS currently pays for rooftop solar through Net Metering. Indeed, the City of Riverside, California recently signed a solar PPA for $0.07/kWh. APS believes that this $0.07/kWh price is a reasonable proxy for Arizona solar prices. Because central station solar offers the same societal, environmental and fuel diversity benefits as rooftop solar, a current solar PPA price should set a ceiling for how much APS pays for rooftop solar energy in Arizona.

The fact is, however, that APS effectively pays approximately $0.135/kWh for solar power from distributed solar customers. This is the retail rate that the typical distributed solar customer avoids by installing rooftop solar. Staff’s Alternative #2 recognizes that APS could purchase solar energy for far less than it currently does from rooftop solar installations ($0.135/kWh instead of $0.07/kWh), and sets forth a framework that involves DG customers returning this overpayment in the form of a DG Premium. Alternative #2’s framework produces different DG Premiums depending on the inputs used. Staff develops an example DG Premium focusing on two inputs—a hypothetical $0.10/kWh PPA rate and a $0.125/kWh avoided retail rate.

Those inputs, however, do not reflect current data. Instead of $0.10/kWh, recent PPAs like the one signed by the City of Riverside indicate that the PPA price should be set closer to $0.07/kWh. And instead of a $0.125/kWh avoided retail rate, the typical solar customer actually avoids an approximate $0.135/kWh retail rate. Using these

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3 See Riverside Public Utilities Board memorandum, dated September 6, 2013, attached to APS’s Notice of Filing Data Requests and Responses, dated September 23, 2013.
4 Other publicly available information supports a PPA price of $0.07/kWh. For instance, the City of Palo Alto, California recently considered three PPA bids, two of which were priced under $0.069/kWh and one of which was priced just over $0.071/kWh. See City of Palo Alto City Council Staff Report, available at https://www.cityofpaloalto.org/civicax/filebank/documents/34789. It appears that the City of Palo Alto approved one of the PPAs priced at $0.069/kWh. See City of Palo Alto Resolution No. 9344, available at https://www.cityofpaloalto.org/civicax/filebank/documents/35120.
5 See APS Response to Staff Data Request 1.34.
6 APS notes that because central station solar captures 100% of the benefits of solar, all discussions regarding generation capacity benefits or the “value of solar” are moot. The only question remaining is how to ensure that APS customers pay the lowest possible price to obtain the benefits of solar.
7 This avoided retail rate is before sales tax.
8 See APS’s Responses to Staff Data Requests 1.21 and 1.49.
accurate numbers with Alternative #2’s framework results in a DG Premium of $56.89 as shown in the following table recreated from Appendix III of Staff’s Report:

<table>
<thead>
<tr>
<th>Assumed Annual Rate of Production</th>
<th>Retail Rate</th>
<th>1641 kWh/kW $0.135</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Customer DG System Size</td>
<td></td>
<td>6.4 kW</td>
</tr>
<tr>
<td>B. Assumed Annual Rate of Production</td>
<td></td>
<td>1,641 kWh/kW</td>
</tr>
<tr>
<td>C. Calculated Annual Production</td>
<td></td>
<td>10,502 kWh (A*B)</td>
</tr>
<tr>
<td>D. Assumed Customer Retail Rate</td>
<td></td>
<td>$0.135/kWh</td>
</tr>
<tr>
<td>E. Annual Retail Cost of Production</td>
<td></td>
<td>$1,417.82 (C*D)</td>
</tr>
<tr>
<td>F. Assumed Utility Scale PPA Rate</td>
<td></td>
<td>$0.07/kWh</td>
</tr>
<tr>
<td>G. Annual PPA Cost of Production</td>
<td></td>
<td>$735.17 (C*F)</td>
</tr>
<tr>
<td>H. Annual DG Premium</td>
<td></td>
<td>$682.66 (E-G)</td>
</tr>
<tr>
<td>I. Monthly LFCR DG Premium</td>
<td></td>
<td>$56.89 (H/12)</td>
</tr>
<tr>
<td>J. Monthly LFCR DG Premium Per kW</td>
<td></td>
<td>$8.89 (I/A)</td>
</tr>
</tbody>
</table>

A DG Premium of $56.89 would roughly align fixed cost contributions with grid use. In other words, Alternative #2 creates a solution that would meaningfully address the cost shift if accurate inputs are used.

C. The Commission Should Select One of APS’s Proposals, Notwithstanding the Two Concerns Raised by Staff.

In addition to offering a meaningful solution, Alternative #2 with accurate inputs indirectly confirms that APS’s proposals reach the right result. A monthly payment of $56.89 is roughly equal to the amount that new solar customers would pay under APS’s Proposals. In addition, APS’s proposals use existing rates and can be implemented without creating a new charge. In fact, it appears that Staff sees independent value in APS’s proposals. Staff states that “the equitable distribution of DG costs and benefits ideally requires all [Net Metering] customers to have some form of demand-based charges.” APS’s Net Metering Option is exactly that—APS’s demand-based ECT-2 rate that keeps Net Metering intact.

9 APS’s Net Metering Option would result in a typical new solar customer incrementally contributing approximately $55/month to the grid’s fixed costs. APS’s Bill Credit Option would result a typical new solar customer incrementally contributing approximately $81/month to the grid’s fixed costs.
10 Staff Report, p. 6.
Notwithstanding Staff’s positive statements regarding ECT-2, Staff raises a concern that APS’s Net Metering Option would force customers onto a specific rate schedule.\textsuperscript{11} It is not clear, however, how customers would be forced to do anything. Customers would only transition to rate schedule ECT-2 after deciding to install solar in the first place. Moreover, Staff recognizes that when a customer installs solar, they shift costs onto non-solar customers, a circumstance over which non-solar customers can exercise no choice. APS believes that any consideration of rate choice for solar customers should be considered in tandem with the choices non-solar customers have regarding rate increases caused by the cost shift. Finally, Staff notes that equitably balancing the costs and benefits of solar ideally requires a demand-based charge.\textsuperscript{12} It is precisely this ideal that prompted APS to propose ECT-2 as one of its two options.

Staff also expresses concern that APS’s Bill Credit Option would implicate customers’ ability to supply their own power. But under the Bill Credit Option, customers still place their rooftop solar on their side of the meter and still supply their own power. The Bill Credit Option solely changes how customers are credited for their solar production so that their monthly bill accurately reflects the extent to which they use and rely on the electrical grid. The Bill Credit Option is essentially an accounting mechanism; it does not change the physical reality of customers receiving power from a solar facility they install on their rooftop.

\textbf{III. UP-FRONT INCENTIVES ARE A TRANSPARENT AND FISCALLY RESPONSIBLE MEANS TO ENCOURAGE ROOFTOP SOLAR.}

Up-front incentives paid to residential customers installing solar have steadily declined since their inception. In 2008, APS offered an up-front incentive of $3.00/watt. The up-front incentive began 2013 at $0.10/watt, and has now gone to zero. Although some have celebrated the disappearance of up-front incentives as proof that rooftop solar

\textsuperscript{11} Staff Report, p. 7.
\textsuperscript{12} Staff Report, p. 6.
can now stand on its own without incentives, this is flatly wrong. Rooftop solar customers still receive incentives through Net Metering in the form of an avoided retail rate. The following chart demonstrates how Net Metering has become increasingly relevant to rooftop solar transactions as up-front incentives have declined:

The embedded incentive in Net Metering and up-front incentives are essentially the same thing—a financial benefit provided to customers who install rooftop solar. The primary difference is how the payments are made. Up-front incentives involve a single cash payment when the customer installs solar, whereas Net Metering involves reduced monthly electricity payments.

It is because of this difference that the Commission should address the cost shift by (i) removing the hidden incentive embedded in Net Metering; and (ii) reinstating up-front incentives as the means by which policy goals, such as compliance with the REST,
are achieved. If the Commission selected APS’s Net Metering option, it could use up-front incentives to flexibly incentivize rooftop solar, even up to the amount solar customers receive today through the current Net Metering incentive, as shown in the following chart:

Up-front incentives give the Commission a transparent view into the amount paid to incentivize solar. With that knowledge, the Commission can finely tune payments to encourage innovation and reduce costs to customers.

By contrast, Net Metering does not encourage innovation or reduce costs to customers. Net Metering is a rigid incentive that does not and cannot react to market conditions. As an inflexible incentive, Net Metering functions like a feed-in tariff. Both feed-in tariffs and Net Metering lock in certain levels of payment. But when market conditions change, the amount paid does not. If the Commission were to accept Staff’s
recommendation and do nothing until APS’s next rate case, the incentive paid to rooftop solar customers would remain locked at approximately $0.135/kWh until then:

![How Incentives Could Decline Over Time](image)

The flexibility offered by up-front incentives affords the Commission greater control over the amount customers pay to fund solar incentives in relation to the amount installed. If, for instance, the cost to install solar drops, the Commission could reduce the up-front incentive without reducing the financial proposition for customers installing solar. In this circumstance, customers as a whole would pay less over time and the Commission would be pushing solar installers to continue cost reductions. With Net Metering, however, the price cannot be reduced so easily. Relying on Net Metering, instead of up-front incentives, to encourage rooftop solar will still result in solar being installed, but customers would pay more and an opportunity to encourage innovation and cost reductions would be lost. APS urges the Commission to use up-front incentives, rather than the current hidden incentive in Net Metering, to encourage rooftop solar.
IV. APS PROPOSES UP-FRONT INCENTIVES FUNDED BY MONEY ALREADY CREDITED TO APS's REST PROGRAM.

APS has already collected $35 million through the REST surcharge that is currently unallocated. APS proposes that the Commission use at least some of this money to fund up-front incentives that would replace the embedded Net Metering incentive. Up-front incentives would enable the Commission to encourage new rooftop solar installations, while adjusting the amount paid by all other customers as needed. This flexibility and transparency is something lacking under the feed-in tariff-like structure of the current Net Metering incentive.


The Commission could preserve the current Net Metering incentive by adopting APS’s Net Metering Option and layering the financial benefit of up-front incentives on top of the retail rate avoided through ECT-2. The typical solar customer on ECT-2 avoids an average of 7.9 cents per kWh, less than the (after-tax) 14.9 cents per kWh that the typical solar customer avoids while on other rates.$^{13}$ This means that to equal the current embedded Net Metering incentive, an up-front incentive would need to match a 7 cent per kWh financial benefit:

\[
\text{(14.9 cents/kWh existing residential rate offset) - (7.9 cents/kWh ECT-2 rate offset)}
\]

\[
= (7 \text{ cents/kWh equivalent needed from UFI})
\]

Based on APS’s analysis, each $1/watt up-front incentive translates into approximately a 4 to 5 cent per kWh financial benefit over twenty years. Assuming that a $1/watt up-front incentive equates to the mid-point of 4.5 cents per kWh, an up-front incentive of

\footnote{13 See APS's responses to Staff's Data Requests 1.29 and 1.41.}
$1.50/watt would be needed to match the 7 cents per kWh referenced above. In other words, the Commission could meaningfully address the cost shift through the use of ECT-2, but still ensure that new solar customers receive the existing rate offset seen today, by ordering an up-front incentive of $1.50/watt.

Shifting the embedded Net Metering incentive to an up-front incentive would provide two key advantages over the existing structure. First, the demand-based ECT-2 rate schedule gives customers greater control over managing their energy costs and allows for a substantive reduction in the costs that are shifting to non-solar customers. Second, a step-down mechanism can be applied to the $/watt up-front incentive, allowing the incentive level to adjust as the Commission deems appropriate. This has proven to be an effective means of lowering the overall cost of solar subsidies on all customers over the last several years.

B. Using Up-Front Incentives Permits the Commission to Adjust Incentives as Needed to Achieve Compliance and Other Policy Goals.

Using a $1.50/watt up-front incentive and APS’s ECT-2 rate would result in the same financial impact provided by the embedded Net Metering incentive. As a result of the current Net Metering incentive, APS residential customers are installing a significant amount of capacity every year. If an up-front incentive were set at $1.50/watt, APS has every reason to believe that the rate of installations would continue and, in fact, increase as costs continued to decline.

This rate of installations, however, exceeds what APS needs for compliance with the Renewable Energy Standard and Tariff. APS’s projections indicate that to achieve compliance with the DE portion of the REST in 2025, APS needs approximately 26 MW of new residential DE capacity each year between 2014 and 2025.

Given that APS only needs 26 MW for compliance, but the current financial proposition offered by the embedded Net Metering incentive results in customers installing 45 MW, the Commission may find it prudent to moderate the financial
incentives offered to potential customers. This is precisely the flexibility afforded by up-
front incentives, but unavailable due to the feed-in tariff-like structure of Net Metering.
Up-front incentives permit adjustments to the financial incentives offered to potential
solar customers to reflect cost declines or Commission policy decisions, whereas the
incentive provided by Net Metering does not. If the Commission ordered APS to replace
Net Metering with up-front incentives, APS could meet compliance with the distributed
energy requirements in the REST, but at less cost to customers.

C. Funding Already Exists for a Substantial 2014 Up-Front Incentive.

APS believes there is a unique opportunity in 2014 to fund the up-front incentives
necessary to compliment the implementation of the ECT-2 rate offset, while still
minimally impacting customer bills. As described in APS’s 2014 RES Implementation
Plan filing, APS collected $28 million dollars through the RES surcharge, but remains
unallocated. In its Recommended Opinion and Order, Staff proposes using $14 million
of this total to reduce the 2014 RES budget. This proposal would leave the remaining
$14 million to fund up-front incentives in 2014. Additionally, timing of the in-service
date for the Solana Generating Station has resulted in an additional $7 million in
collected, but unallocated funds available to fund up-front incentives in 2014. This
brings the total amount of collected, but unallocated, funds to approximately $35
million.

D. The Commission Has Various Options Related to Up-Front
Incentives.

In light of the various incentive levels, resulting retail rate offsets and required
budgets, the following table summarizes some up-front incentive options:

<table>
<thead>
<tr>
<th>Effective Residential Rate Offset</th>
<th>Starting Incentive Level</th>
<th>Approximate 2014 Budget</th>
<th>Expected Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.135/kWh</td>
<td>$1.50/watt</td>
<td>$38 million</td>
<td>26 MW</td>
</tr>
<tr>
<td></td>
<td>$1.50/watt</td>
<td>$21 million</td>
<td>14 MW</td>
</tr>
<tr>
<td>$0.125/kWh</td>
<td>$1.30/watt</td>
<td>$32 million</td>
<td>26 MW</td>
</tr>
<tr>
<td></td>
<td>$1.30/watt</td>
<td>$21 million</td>
<td>17 MW</td>
</tr>
</tbody>
</table>
From whatever starting point is chosen, APS proposes that the Commission order a step down methodology that ensures funding will be available through the year, similar to APS's residential or commercial incentive programs. The methodology should also use a step down or similar mechanism that causes incentive levels to decline based on market activity, ensuring that APS achieves compliance at the lowest incentive level (and thus lowest cost to customers) possible.

V. APS WILL RETURN TO CUSTOMERS ALL INCREMENTAL REVENUE AS PART OF AN INTERIM SOLUTION.

Contrary to various allegations in this proceeding, APS's proposals were focused on cost shifting and sustainability rather than about near term revenue loss to APS. In fact, neither proposal would generate revenue beyond what the Commission has already deemed necessary to maintain the electric grid. Instead of revenue, APS's proposals were driven by the need to address the inequitable rate increases to non-solar residential customers caused by the cost shift. To prove this, APS agrees that as part of any solution adopted in this matter, APS will return to customers all incremental revenue received from new solar customers resulting from the new solar rate adopted until new rates go into effect at the end of APS's next rate case.

APS supports Staff's proposal to return the revenue by crediting APS's LFCR. Calculating the precise amount of the incremental revenue, however, is challenging because the revenue will be different for each new solar customer. New solar customers migrate from different rates and use different amounts of electricity every month. In light of this complexity, APS proposes to credit the LFCR with a flat amount calculated to reflect the average grid contribution paid by all new solar customers. For each new solar customer, APS would credit the LFCR by $55/month under the Net Metering Option and $81/month under the Bill Credit Option until APS's next rate case. These amounts are based on the testimony of APS witness Charles Miessner and are intended
to reflect the entire additional grid contribution that new solar customers would pay under each option, respectively.

VI. OTHER ASPECTS OF STAFF’S REPORT MERIT SERIOUS CONSIDERATION.

Beyond the issue of how new solar customers should contribute to the grid’s fixed costs, Staff’s Report contains a few other proposals that APS either supports outright, or supports with proposed modifications intended to further Staff’s stated objective.

A. APS Supports Staff’s Grandfathering Proposal.

Staff recommends that any customer who currently has a DG system installed on their home, or submits an application and a signed contract with a solar developer to APS by October 31, 2013, should be grandfathered under the current Net Metering rules. Staff also proposes that the grandfathering be tied to the DG system and not the customer. Based on feedback from customers, APS agrees with and supports Staff’s grandfathering proposal.

B. APS Supports Staff’s Consumer Protection Advisory, but Proposes Modified Language to Better Achieve Staff’s Objectives.

Staff recommends a consumer protection advisory designed to caution new solar customers regarding the nature of utility rates. It is well known that utility rates and rate design evolve to reflect any number of changed circumstances. Staff’s consumer advisory would remind prospective solar customers of this reality before they enter into 20 year contracts for rooftop solar. APS supports Staff’s advisory as a prudent, responsible and consumer friendly action to assist customers in making well-informed decisions about whether to install solar.

Staff attaches two alternative advisories and proposes that customers sign the advisory during the interconnection process. APS appreciates Staff’s proposals and agrees that customers would benefit from a stronger notice than that contained in APS’s
current interconnection agreement. Staff’s draft advisories, however, may not make clear that the financial underpinning of Net Metering may change in a way that would make their rooftop solar system uneconomic. To address this concern, APS proposes modifying Staff’s advisories in the form that is forthcoming with APS’s to-be-filed amendments. APS believes that the attached advisory would further Staff’s goal of protecting consumers by only making it more likely that customers are able to make informed decisions.

**C. Staff’s Proposed Workshop Should Be Expanded to Ensure That the Workshop Covers all Relevant Topics.**

In its Report, Staff acknowledges that the “value” provided by solar is subjective, and that it is also distinct from the objective costs caused by solar. Although one could compensate solar customers based upon the “value of solar,” doing so necessarily requires a policy decision that non-solar customers should pay higher rates to promote societal values. To permit further discussion regarding such policy decisions, Staff proposes a workshop to explore the subjective value of solar. APS welcomes dialogue regarding subjective values, but not if that dialogue is an excuse to permit unfettered growth of the cost shift. Dialogue concerning subjective values can only commence after the shift of objective costs to non-solar customers has been meaningfully addressed.

In addition, APS believes that other policy issues are so intertwined with the advent of customer-sited technology that they must be included as part of any dialogue regarding the “value of solar.” If Staff’s proposed workshop is to be relevant and successful, it must include a robust discussion regarding the role and value of the electric grid as it relates to rooftop solar, other forms of distributed generation and customer-sited technology generally. By adding the value of the grid to the workshop’s core agenda, the Commission will make it more likely that the workshop results in a meaningful and worthwhile discussion.

...
VII. CONCLUSION

The California Public Utilities Commission (CPUC) staff recently concluded that rooftop solar will shift $1.1 billion to non-solar California customers by 2020.14 The CPUC and Arizona Corporation Commission Staff now join a growing chorus of public utility commissions that recognize the cost-shifting impact of the Net Metering subsidy.15 The issue now confronting California policymakers is the same issue in this proceeding: with confirmation of a rapidly growing cost shift that will increase rates on non-solar customers, what should be done about it?

APS believes that its proposals provide a clear answer. APS has proposed two solutions, based on existing rates, that Staff’s own analysis confirms will appropriately match the amount solar customers contribute to the grid with the degree to which they use it. APS advocates grandfathering existing solar customers and has also proposed using up-front incentives, as needed, as a transparent way for the Commission to manage the impact on the solar industry and slowly reduce subsidies in a manner that will build a sustainable future for solar. APS also agrees to return all incremental revenue it receives from new solar customers as a result of this proceeding through its next rate case. APS’s proposals represent a balanced and fair compromise that will:

- mitigate future rate increases;
- grandfather existing solar customers;
- involve APS returning all incremental revenue; and
- create a sustainable, non-subsidized path for the future of solar.

The CPUC draft study was docketed in this proceeding on September 30, 2013. The study’s conclusions relevant to this proceeding are final; the study is only a draft for the purpose of limited comments from intervenors.

See, e.g., In re Idaho Power Co, Docket No. IPC-E-12-27, Order No. 32846, p. 11 (Idaho P.U.C., July 3, 2013) (“We agree with the Company that net metering customers do escape a portion of the fixed costs and shift the cost burden to other customers in their class.”).
Similar to APS's proposals, Staff's Alternative #2 would meaningfully address the cost shift if accurate data are used. APS urges the Commission to act now by adopting either one of APS's proposals or Staff's Alternative #2 with accurate data.

RESPECTFULLY SUBMITTED this 4th day of November 2013.

By:

[Signature]

Thomas A. Loquvam
Deborah R. Scott

Attorneys for Arizona Public Service Company

ORIGINAL and thirteen (13) copies of the foregoing filed this 4th day of November, 2013, with:

Docket Control
ARIZONA CORPORATION COMMISSION
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COPY of the foregoing mailed/delivered this 4th day of November, 2013 to:

All Parties of Record.

[Signature]