The Interstate Renewable Energy Council, Inc. (IREC) appreciates the opportunity to submit these comments in response to questions raised by Commissioner Brenda Burns in her letter to this docket dated November 4, 2013. The letter addresses comments and proposals from the Residential Utility Consumer Office (RUCO), filed on October 30 (RURO Proposal).

At the outset, IREC notes our agreement with RURO that the issues associated with net metering should be part of a broader discussion in a rate case, consistent with the recommendation from Arizona Corporation Commission (Commission) Staff.\(^1\) This position is also consistent with IREC’s comments on Staff’s Proposed Order, filed on October 10, and

\(^1\) See RURO Proposal at 1.
IREC’s comments regarding Commissioner Pierce’s letter, filed on November 6. The proposals under consideration from RUo and Staff are explicitly intended as temporary, interim solutions, until these issues can be more fully explored in the next rate case. As we have stated, IREC does not believe any interim action needs to be taken. Should the Commission choose to implement a temporary solution, however, IREC continues to recommend Staff’s Alternative #1, which relies directly on the Commission-approved Lost Fixed Cost Recovery (LFCR) mechanism. Unlike Staff’s Alternative #2 and RUO’s Proposal, Staff’s Alternative #1 does not require additional, problematic benefit-cost analysis to implement it. It is the cleanest and most balanced temporary solution proposed, and, if necessary, is the best available option prior to the next rate case. IREC urges the commission not to adopt the RUO Proposal, which would effectively and inappropriately make changes to rates based only on RUO’s cursory analysis.

I. Response to Commissioner Burn’s Question Regarding the Impact on Non-Solar Ratepayers if RUO’s Phased-In Approach Were Used

In her letter, Commissioner Burns states: “It would be helpful to me if RUO would provide an analysis of how much the total ‘cost shift’ paid by non-solar customers would be for each 20 MW ‘increment’ of assessment ($7, $7.50, etc.) annually, as well as over the 20 year period. In your calculation, please show the number of installations being assumed in that analysis for each 20 MW increment. Likewise, it would be helpful if the solar industry, staff, APS and other interested parties could give a similar rendering of the cost-shift impact on non-solar ratepayers if RUO’s phased-in approach were used, based on their own analysis of the cost-shift (or lack thereof).”

IREC appreciates Commissioner Burns’ interest in better understanding the alleged cost shift that is occurring due to net metering and the extent to which RUO’s proposed solution
would affect it. We do not believe that gathering analyses from the various parties will offer much clarity, however. As is apparent from the various analyses of benefits and costs of net metering already in this docket—including those from Arizona Public Service Company (APS), the Solar Energy Industries Association (SEIA) and RUPO—parties arrive at significantly different conclusions regarding the alleged cost shift depending on what methodology and inputs they use. We appreciate that Commissioner Burns recognizes this at the end of her letter. Relying on analysis from Clean Power Research of the conflicting studies from APS and SEIA in this docket, IREC demonstrated that the root of this disparity lies in their use of substantially different methodologies and inputs to generate their results. Likewise RUPO relies on its own methodology and collection of inputs in supporting its proposal, although it offers substantially less detail on its calculations and justification for the inputs it has chosen.

For example, RUPO examines all distributed solar generation, including energy immediately consumed onsite, rather than just the net exports. This inclusion of all-output results is inappropriate because the energy used onsite never touches the grid and does not impact other ratepayers; as RUPO recognizes, it is analogous to energy conservation or energy efficiency. For example, from the utility’s perspective, a customer making energy-efficiency improvements to achieve near-zero electricity demand looks much like a customer who installs an on-site solar system to offset most or all of her demand. Thus, any benefit-cost analysis of net metering should be limited to the power exported to the grid from net-metered systems, consistent with best practices. IREC notes that to the extent that net metering benefits are

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2 See RUPO Proposal at 10.
calculated to outweigh costs, consideration of all generation amplifies the calculated net benefit. However, if net metering costs outweigh benefits, as RUO has determined, the opposite is true; that is, the net costs are amplified.

Moreover, as RUO acknowledges, it took a “conservative view on the benefits” of distributed solar generation. RUO appears only to have considered avoided generation costs and the capacity value of distributed solar, and to a limited extent avoided transmission costs and avoided environmental compliance costs, if the Renewable Energy Credit (REC) is transferred. RUO does not appear to include the values associated with the full range of avoided transmission and distribution costs, avoided line losses, grid support (ancillary) services, market benefits, security benefits, avoided Renewable Energy Standard compliance costs, and various other environmental and social benefits. While some of these benefits are difficult to value, most have established methodologies on which RUO or the Commission could rely. It is erroneous to assume they are “questionable” or will “never materialize.”

Therefore it is likely that RUO has substantially underestimated the benefits of distributed solar generation, and thus overestimated the net costs and the purported associated cost shift to non-participants. RUO’s proposed charge depends on this faulty evaluation. Even if RUO provides the additional analysis requested by Commissioner Burns, its justification for its proposed charges and its explanation of the charge’s effects remain questionable and inconsistent with the perspectives of several other parties in the docket. Further, adoption of RUO’s proposal would not afford an opportunity for parties to thoroughly examine and vet the

Council, Inc. to the Docket, at 2 (filed Nov. 6, 2013) (further explaining the importance of an export-only analysis to an evaluation of net metering in the context of the recent California net metering study filed in this docket).

For a more exhaustive explanation of these issues, see IREC, A Regulator’s Guidebook: Calculating the Benefits and Costs of Distributed Solar Generation.

See RUO Proposal at 3, 4.
underlying assumptions used. It would be inappropriate to make what amount to rate changes at this time based on RUCO’s limited and untested analysis.

As IREC has emphasized in our Protest and in our other filings in this docket, we urge the Commission and stakeholders to develop, through an open and collaborative process, a common methodology and set of inputs to inform its policy decisions. Relying on this agreed-upon framework, an unbiased third party, such as Clean Power Research, could model the benefits and costs of distributed solar generation, producing a fair and neutral set of data. This data would allow the Commission to evaluate the policy options suggested by APS, Staff, RUCO and other parties, and determine how to move forward. In particular, such data could help to evaluate whether and to what extent any cost shifting is occurring, and whether and to what extent RUCO’s proposal—or any other proposed charge or policy change—affects such a cost shift. Until this analysis is done, comparing data generated by different parties under different evaluation models in the absence of any cross examination or vetting does not offer insight into the appropriate path forward.

Given the lack of clear data and the contentious debate regarding all of the analysis done to date, IREC continues to recommend Staff’s Alternative #1 as the appropriate interim solution. Alternative #1 does not rely on additional analysis of the benefits and costs of distributed generation, but rather is dependent only on the LFCR, which the Commission has already approved. If the Commission determines that an interim solution is necessary, Alternative #1 is the most appropriate option to put in place while the Commission and other stakeholders develop a more robust benefit-cost analytical framework in anticipation of the next rate case.

II. Response to Commissioner Burn’s Comments Regarding RU CO’s Proposal to
    Phase In Changes over 20 Years
In her letter, Commissioner Burns also states: “Further, it is notable that while RUO
believes the cost shift is $20 (or perhaps even $50 in the short term), per month, per new solar
customer, they seem to have taken the position that non-solar customers should continue to
subsidize each of the solar-customer systems for a full 20 years. It would be helpful to have
greater insight into RUO’s decision-making on that point.”

IREC believes that RUO already offers some explanation of why it has proposed a
phased-in charge. In fact, although IREC does not support RUO’s proposed charge and
questions RUO’s underlying calculations, we believe RUO makes an important point with
respect to phasing in a new charge. As RUO states, ratepayers have invested millions of dollars
in distributed solar generation and the nascent market continue to grow. A fixed charge like the
one RUO proposes could prove to be “business stopping” and could “cut off this investment
right before ratepayers could start to see real benefits.” Phasing in the charge attempts to
balance the possible (although as yet unsubstantiated) rate impacts to non-participating
ratepayers with the broad interest in encouraging distributed solar development in Arizona, and
the more specific interests of participating customers and the solar industry. We urge the
Commission to keep this in mind in considering its various options.

III. Response to Commissioner Burn’s Question Regarding Whether RUO’s Proposal
Protects Ratepayers

In closing, Commissioner Burns asks: “Do the parties believe that RUO’s proposal
protects ratepayers from a ‘ballooning cost shift’, why or why not?” As noted above, IREC
fundamentally disagrees that there is any evidence of a “ballooning cost shift.” We strenuously
recommend that the Commission undertake an unbiased analysis of the benefits and costs of

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RUO Proposal at 8.
distributed solar prior to moving forward with RUO’s or any other proposals to change net metering policy. The Commission needs a clearer understanding of the actual benefits and costs of net metering before it can make informed decisions about changing net metering policy, and the most appropriate forum for such an analysis would be a general rate case. Currently, the Commission has only the conflicting analyses and data available in this docket, which do not offer any useful insight into the appropriate treatment of net metering in Arizona.

IREC strongly supports the Commission’s efforts to find a fair policy solution that encourages solar while protecting non-participating ratepayers from unfair cost shifts. Transparent, unbiased analysis and robust data are essential to informing such a solution. Until the Commission has conducted such an evaluation, we urge it not to alter net metering, a policy that has to date supported a successful solar industry in Arizona and allowed many of its citizens to reap the benefits of solar self-generation.

Respectfully submitted this 8th day of November, 2013,

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CERTIFICATE OF SERVICE

I hereby certify I have this day served an original and thirteen copies of the foregoing on this 8th day of November, 2013, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

I hereby certify that I have this day served the foregoing documents by mail on all parties of record in this proceeding.

Dated this 8th day of November, 2013, in Phoenix, Arizona.

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