BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
SUSAN BITTER SMITH - Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

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

STAFF’S REQUEST
FOR PROCEDURAL ORDER

The Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission") hereby requests that the Administrative Law Judge ("ALJ") schedule a procedural conference in the above captioned matter at his or her earliest convenience.

On April 2, 2015, Arizona Public Service Company ("APS" or "Company") filed a Motion to Reset the Lost Fixed Cost Recovery ("LFCR") Mechanism, established in APS’s last rate case. APS requests that the LFCR Adjustment be reset to $3 per kW per month (which would be $21.00 per month for a 7 kW system). Currently, solar customers pay $0.70 per kW per month or approximately $5.00 per month for a 7 kW system. APS states that consistent with prior determinations, the reset would: 1) be revenue neutral, 2) apply only to customers who install rooftop solar after the effective date of any Commission determination on this matter, and 3) make incremental progress in addressing an ever increasing cost shift to non-solar customers. APS claims that the need to make further progress in fairly allocating costs between solar and non-solar customers has only deepened since 2013. APS states that in the year following Decision No. 74202, 7,800 DG systems were installed in APS’s service territory—more than in any other year. APS has styled its pleading as a "motion", Staff believes that it is actually an "application", and should be treated as such.

1. APS’s Application at 2.
2. Id. at 5.
3. Id. at 2.
4. Id.
5. Id.
that "each DG installation shifts approximately $804 annually to customers without DG." With the 7,800 systems installed in 2014, APS states that the cost shift grew by $6.3 million. "For every 7,800 systems installed, a permanent cost shift of approximately $126 million over that 20-year period is created," or $6.3 million in 2014. "If the current pace of installations continues through mid-2017, APS estimates that close to $800 million in fixed costs will be shifted to and paid by customers without DG if no further steps are taken to reduce the cost shift."

The Commission addressed this issue last in 2013. In 2013, APS filed an application for approval of a Net Metering Cost Shift Solution. The Commission, in Decision No. 74202, allowed APS to implement a $.70 per kW per month interim LCFR DG adjustment for all residential DG installations after December 31, 2013. Decision No. 74202 further provided that customers who sign a contract with an installer after December 31, 2013, will be grandfathered at the $.70 per kW charge until APS’s next rate case.

APS seeks through this application to implement a partial fix through another LFCR reset on what it acknowledges to be an issue which is in need of a much broader inquiry and remedy in the Company’s next rate case. At p. 7 of its application, APS states that “resolving the cost shift for the long term and creating a sustainable future for all types of customer-sited technologies requires updating rate design in APS’s rate case in a manner that is fair for all customers.” Staff stands by the position it asserted in Decision No. 74202:

[D]uring general rate cases and as part of the rate design process, it is common practice to analyze matters of cost-shifts and cross-subsidizations within individual rate classes. Some rate designs commonly utilize subsidies to promote various public policy goals. The discount provided to low-income customers is a classic example of this intentional cross-subsidy. Another common example is the subsidy given to rural customers at the expense of urban customers to cover the higher cost of service to the more dispersed rural customers. Staff believes that the cross-subsidy discussed in the instant Application has explicit public policy considerations, and therefore would be most appropriately addressed in the setting of a general rate case.11

---

7 APS’s Application at 6.
8 Id.
9 APS’s Application at 2.
10 Id.
11 Decision No. 74202 at para. 33.
A rate case will allow this issue to be addressed in a much more comprehensive and balanced fashion. A rate case will allow the Commission to examine the whole rate design issue with more information and options available to it to reach a more balanced solution. The Commission in Decision No. 74202 stated that “[o]nce the costs and benefits of DG have been adequately quantified and valued, the allocation of these costs and benefits equitably among customers is a matter of rate design.”12 The Commission further stated “[d]evelopment of equitable rate structures that address the inherent disconnect between NM and volumetric rates can best be accomplished in a general rate case.”13 APS’s filing does not explain why this issue could not wait until it files its next rate case when the rate design issue can be looked at in depth. Further, any decision in this case is likely to be issued not long before the time that APS files its next rate case, where these issues will all be examined again.

In summary, the Company acknowledges that any fix that the Commission adopts in this proceeding will be a short term fix, until the Company’s next rate case. In order to more fully address these issues, Staff recommends that APS withdraw its application so that the Commission may consider these matters in a rate case. As stated above, Staff believes that addressing these issues in a rate case will allow the parties, and ultimately the Commission, to address these issues more holistically.

If the Company is not amenable to voluntarily withdrawing its application, Staff recommends that the Commission establish a briefing schedule so that the parties may file briefs addressing whether this application should be dismissed. Staff proposes the following briefing schedule:

<table>
<thead>
<tr>
<th>Briefing Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Briefs in Support</td>
<td>May 22, 2015</td>
</tr>
<tr>
<td>Responsive Briefs</td>
<td>June 5, 2015</td>
</tr>
<tr>
<td>Oral argument</td>
<td>T/B/D</td>
</tr>
</tbody>
</table>

Once the proceedings related to the motions to dismiss have been concluded, Staff would recommend that the ALJ prepare a recommended opinion and order (“ROO”) for the Commission’s consideration.

12 Decision No. 74202 at para. 32.
13 Id.
Staff respectfully requests that the ALJ issue a procedural order setting forth a schedule for briefing on any motions to dismiss the application and oral argument. Staff also requests that the ALJ categorize and treat APS’s filing as an application, rather than a motion. Staff further requests that the ALJ place the ex parte rule into effect.

RESPECTFULLY SUBMITTED this 17th day of April, 2015.

[Signature]

Maureen A. Scott, Senior Staff Counsel
Wesley Van Cleve, Attorney
Janet Wagner, Assistant Chief Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies of the foregoing filed this 17th day of April, 2015, with:

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

Copy of the foregoing Mailed - Via First-Class Mail and eMailed, this 17th day of April, 2015, to:

Thomas A. Loquvam
Deborah R. Scott
Pinnacle West Capital Corporation
400 North 5th Street, MS 8695
Phoenix, Arizona 85004
Attorney for Arizona Public Service Company
thomas.loquvam@pinnaclewest.com;
deb.scott@pinnaclewest.com

Lewis M. Levenson
1308 East Cedar Lane
Payson, Arizona 85541
equality@centurylink.net

Anne Smart, Executive Director
Alliance for Solar Choice
45 Fremont Street, 32nd Floor
San Francisco, California 94105
anne@allianceforsolarchoice.com

Michael W. Patten

Garry D. Hays
Law Offices of Garry D. Hays, P.C.
1702 East Highland Avenue, Suite 204
Phoenix, Arizona 85016
Attorney for Arizona Solar Deployment Alliance
ghays@lawgdh.com

Greg Patterson
916 West Adams, Suite 3
Phoenix, Arizona 85007
Attorney for Arizona Competitive Power Alliance
greg@azcpa.org

Patty Ihle
304 East Cedar Mill Road
Star Valley, Arizona 85541
apattywack@yahoo.com

Jason Gellman