Arizona Interfaith Power and Light, Environment Arizona, Interwest Energy Alliance, Islands Energy Coalition, Natural Resources Defense Council, Renewable Northwest Project, Sierra Club, Sonoran Institute, The Wilderness Society, Utah Clean Energy, Western Environmental Law Center, Western Grid Group

September 27, 2013

Arizona Corporation Commission
Docket Control
1200 W. Washington Street
Phoenix, Arizona 85007

RE: In the matter of the application of Arizona Public Service Company for the approval of net metering cost shift solution.
DOCKET NUMBER E-01345A-13-0248

Dear Commissioners,

Arizona Interfaith Power and Light, Environment Arizona, Interwest Energy Alliance, Islands Energy Coalition, Natural Resources Defense Council, Renewable Northwest Project, Sierra Club, Sonoran Institute, The Wilderness Society, Utah Clean Energy, Western Environmental Law Center and Western Grid Group appreciate the opportunity to provide comments to the Arizona Corporation Commission on net metering, Docket Number E-01345A-13-0248.

I. Changes in the Electricity Sector

The electric utility industry is undergoing significant change due to reductions in the cost of solar, wind, and natural gas resources; increasing regulation of emissions from coal-fired power plants; and growth of customer-sited resources such as distributed generation, demand response, and energy efficiency. The matter being considered in this docket stems from the gradual move away from large central-station generators to a more distributed solar energy system. Nowhere is this more evident than in Arizona, with its recent uptake of distributed solar energy systems by customers.

APS is requesting that the Commission consider two proposals which will affect the net metering rate and thus the economics of distributed solar energy. APS has advocated that net

metering needs immediate attention as the current policy is unfairly shifting costs to non-solar customers.

Unfortunately, the APS proposals will have a negative effect on all its customers by retarding the development of clean, stably-priced solar energy and by constraining customer choice without the benefit of a reasonable third party estimate of the costs and benefits of increased distributed solar generation. With its proposals, APS is working to thwart an industry-wide trend toward distributed, clean energy by attacking a single component of policy while leaving larger questions unaddressed. Utilities, such as APS, face systemic challenges of increasing costs, emergence of new technologies, and changes in customer usage patterns. It is evident that current regulatory methods and utility business models are not conducive to the flexibility necessary to adapt to the changing market place.

We believe that the Commission should explore options to change the regulatory model to create metrics and a compensation system that would support greater clean energy development at the lowest cost, and better enable APS to adapt to inevitable changes in the electric sector.

We commend to the Commission America's Power Plan, http://americaspowerplan.com, a series of eight papers for state policymakers, developed with input from over 150 energy industry experts. The papers make recommendations for policies in the areas of power markets, utility business models, finance policy, distributed energy resources, distributed generation policy, transmission policy, and siting of new power infrastructure.

At the Commission Staff meeting on September 11, 2013 when the Commission voted to close the docket on electric competition, Commissioners supported opening dockets to continue to explore "innovation" and ways to allow for more choice by customers. **We agree, and suggest that the Commission initiate a process to explore changes expected in the utility industry, innovations in technology, and regulation to incent utilities to provide reliable electric service at the lowest societal cost and within a timeframe consistent with any related dockets and the planning needs of the affected utilities. Such a process would allow the Commission to begin to examine the impacts and opportunities of distributed energy in an integrated manner, not in isolation, before taking action on specific proposals.**

II. Evaluation of Costs and Benefits of Net Metering

This year several Western utilities, including APS, have asked their commissions to consider changes to net metering policies as the utilities perceive a threat to their earnings potential. APS has asked the Commission for "expedited review" of two proposals, indicating urgency. However, as solar is a critical energy resource for Arizona, we recommend that the Commission

reject APS's proposal for immediate action and instead conduct a thorough evaluation of the role of distributed solar energy before changing existing policy.

The states of California, Nevada, Colorado, and Idaho are also evaluating net metering. The Idaho Public Utilities Commission recently reaffirmed its support for net metering by rejecting requests to change the existing policy. California, Colorado, and Nevada have decided to undertake comprehensive studies that evaluate costs and benefits of net metering. Studies are being conducted under the direction of the public utility or energy commissions with stakeholder input.

Therefore, we recommend that the Commission evaluate the range of costs and benefits of distributed energy resources to develop a transparent framework or methodology, based on industry best practices for such analysis, to establish net metering rates and to consider other policies related to distributed energy. A Commission study or workshop process with stakeholder engagement will allow for the creation of positive outcomes for customers and utilities.

III. Gradual, Uniform Change

APS's proposal before the Commission is narrowly tailored on changes to APS's net metering rate. Because all the state's utilities offer net metering, it makes more sense for the Commission to evaluate and consider a statewide policy for net metering and not evaluate proposals utility by utility. Adopting different policies for different utilities will be time consuming, possibly create disparities between utilities, and create more complicated rules for businesses.

Stable, long-term policy is necessary for business investment. Conversely, sudden changes in market rules and tariffs are disruptive to existing businesses and future economic development. As a long-term policy of the Commission, net metering has supported the creation of a thriving distributed solar energy industry. Residential and commercial solar installation and leasing companies have expanded in Arizona based on the policy set by the Commission. As the Commission considers changes to any policy, it should consider providing for a gradual change, which is noticed well in advance, to minimize job loss and disruption to businesses. Establishing a glide path that provides for change over several years will allow companies and utilities to adapt their business models to new policy regimes.

IV. Summary

We recommend that the Commission:

- explore trends and changes in the utility industry and innovation in regulation to align utility incentives with minimizing the societal cost of reliable energy services before considering specific changes to net metering practices, and
- undertake a Commission-sponsored review of the costs and benefits of distributed solar energy.

Because of the complexity of these issues, we also recommend that the Commission use workshops rather than litigation before issuing orders or making rule changes. Workshops permit more give-and-take and allow for learning and flexibility.

Thank you for your consideration of these comments.

Respectfully,

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