

## A FIXED CHARGE TO BRIDGE SOLAR'S VALUE GAP

The current net metering debate is a sub-component of a much larger debate about the implications and benefits of new technology, the value of the electric grid, and rate design. The Residential Utility Consumer Office (RUCO) agrees with Arizona Corporation Commission (ACC) Staff that this issue should be part of a broader discussion such as a rate case. However, RUCO recognizes the situation relating to Arizona Public Service's (APS) stay-out provision along with the Commission's desire to see this matter addressed now. RUCO did find a net cost shift occurring. Therefore, RUCO recommends that the ACC open up a docket to investigate the broader issues, while at the same time adopting the RUCO interim solution now and require APS to file a rate case no later than 2016.

For the interim solution, RUCO recommends a market based fixed charge on every new solar customer's bill to start addressing this immediate net metering issue. This fixed charge uses the same legal lost fixed cost recovery (LFCR) mechanism as Staff proposes in their alternative options. Once totaled, RUCO's proposed charge starts to address the distribution/delivery portion of the bill. In other words, rooftop solar customers need to pay for the grid they rely on throughout the day. Moreover, it levels the playing field between different solar technologies. RUCO arrives at the figures detailed below by recognizing a set of potential benefits and subtracting them from the cost shift that occurs with each deployed system. To expand more on rectifying the cost shift, below is a summary of RUCO's findings and policy recommendations:

- There is a value gap with rooftop solar on APS rates. This means that the benefits of roof top solar do not cover the cost shifts to non-solar ratepayers resulting in a near term cost shift and long-term cost shift of \$20 per month or \$3/kW.
- A higher LFCR charge on new solar customer bills should be implemented to address this value gap.
  - This higher charge does not increase the total revenues collected by APS. Instead, it simply reduces the LFCR charge for non-solar customers.
- The charge should start at \$1/kW and increase over time.
  - Since there is uncertainty over the impact this charge will initially have on new installations (and the ability for additional residential ratepayers to go solar), RUCO strongly recommends a gradual phase-in tied to market demand. RUCO believes that starting at a level beyond \$1/kW could start to trigger rapid declines in installs and significantly hurt the industry.
  - Once the market can accommodate a \$3/kW charge, rooftop solar is cost neutral to non-solar residential ratepayers over 20 years but there is still a near-term cost shift to mitigate.
- To provide regulatory certainty, the charge should be locked in for 20 years, and linked to the system not homeowner.
- The phase-in of the charge should be designed to mirror the existing approach Arizona utilities have taken toward upfront incentives, which have gradually declined over time in conjunction with market demand.
  - Every 20 MW triggers a \$0.50/kW increase to the LFCR charge.
  - For example, a 7 kW system would start at \$7 per month and then after the market reaches 20 MW, the charge for a new 7 kW system would go to \$10.50 (a \$3.50 increase).

- To avoid excess cost shifting any system 16 kW and above should be assessed at a \$3/kW rate. That would translate to a \$48 per month charge.
  - To ensure pricing is still current, periodically the utility should determine the capacity value of solar photovoltaics (PV) using the method they readily use today (subject to the Commissions oversight).
- The market driven mechanism should consider compliance requirements in the DE carve out.

### **Outcomes:**

RUCO's approach to a solution is built around a simple idea - use market based metrics over a reasonable time horizon to gauge the value of DG to non-solar ratepayers. This method involves a look at capacity value and future generation requirements to determine the value of DG. This creates a price signal to the market that encourages innovation, on-peak production, and ensures a measured deployment of DG.

The end result of this policy is a protection of residential non-solar ratepayers from a ballooning cost shift and market certainty to the solar industry. In doing this, RUCO's proposal balances the positions of Staff, the solar industry, and APS. The policy also leads to:

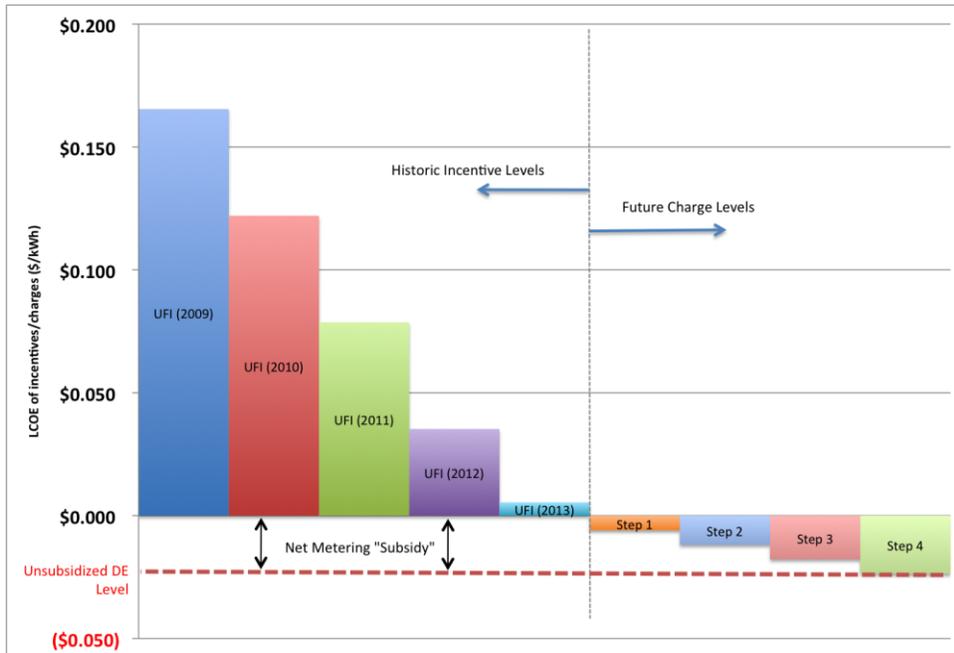
1. Fair allocation of costs and benefits to solar and non-solar customers.
2. Sustainable statewide policy platform that prepares DG to flourish without long-term negative impacts to ratepayers.
3. Market-based encouragement of new technologies that does not pick winners or losers.
4. Measured approach to DG deployment based on what the utility system needs.
5. Incremental approach that is easy for customers to understand and facilitates financing.

RUCO admits that there is quantifiable benefits or even intangible benefits to DG but RUCO focused in what is valuable to the grid and in turn non-solar ratepayers. In doing so, RUCO balances the concerns of all parties and protects ratepayers from a ballooning of near term fixed cost shifts.

In sum, RUCO's policy accomplishes the following:

1. It develops a uniform methodology for other Arizona utilities to follow while taking into account the uniqueness of their service territory (TEP, UNSE, etc.)
2. It can apply to other technologies
3. It recognizes solar's value
4. It recognizes the cost shift and contains it with money going to ratepayers not the utility
5. It takes into account changes in solar's value over time
6. It levels the playing field between solar technologies
7. It can be designed to capture RECs
8. Net metering still exists in its current form
9. Underlying rate structures do not need to change to guard against solar adoption
10. It provides the Commission with much flexibility

## Visual of Charge Phase-in



## Under RUCO's Policy Every Stakeholder gets A Piece of the Pie:

