

Utility-Industry Rate Case Settlement Opens Period of Stability in Arizona's Solar Industry

Collaboration Shows Way for Effective Rate Case Decision Making in Other States

March 7, 2017

MARCH 1 UTILITY AND INDUSTRY RATE DESIGN AGREEMENT

On March 1, 2017, the **Arizona Public Service (APS)**, the largest utility in the state, and **solar industry** filed a **rate design settlement agreement** with the Arizona Corporation Commission (AZ CC) to bring a five-year debate over rooftop solar compensation to an end. The agreement, consistent with the AZ CC's December 2016 decision in the Value of Solar docket, would **grandfather existing customers into the current net metering tariff for 20 years and compensate future customers with an export rate** based on AZ CC's newly adopted resource comparison proxy (RCP) model. With the APS agreement, Arizona joins New York and Colorado where utilities and solar advocates have reached similar compromises in the transition from retail rate net metering, demonstrating that **the solar industry and utilities can find practical alternatives to solar grid charges**.

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Settlement Agreement in Brief

The APS settlement agreement (Docket Nos. **E-01345A-16-0123** and **E-01345A-16-0036**) would allow future DG customers to choose from time-of-use (TOU) and demand-based rate plan. The new rates would be set according to the AZ CC December 2016 decision (Docket No. **E-00000J-14-0023**), which concluded a three-year investigation into the value and cost of solar, replaced retail-rate net metering with lower export rates that will be determined in each utility rate case based on the resource comparison proxy methodology that uses the cost of utility-scale solar as the basis to determine the DG export rate in pending rate cases while export rates in future cases can use the RCP or avoided-costs method.



Grid export rate: **>\$0.129/kWh**

Sets rates for **new customers**

Consumption offset rate: **~\$0.12/kWh**



Grandfathers existing customers for 20 years



Increases bills by 4.5% (\$6 per month)



Includes ~\$30 million in efficiency and low-income solar programs

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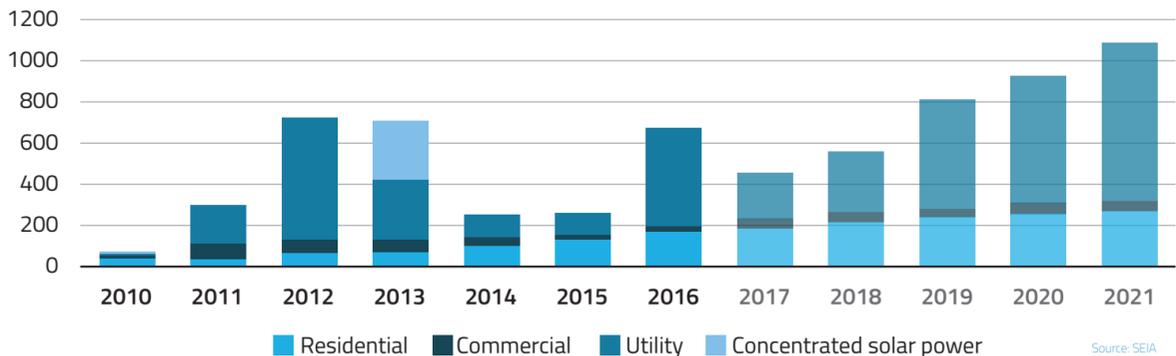
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Industry Values Stability

Solar interests view the **collaborative process of arriving at a settlement agreement as the preferable alternative to drawn-out litigation** over APS' initial proposal. The Solar Energy Industries Association (SEIA) also commended the grandfathering provision, which has been the Association's priority. Sunrun, content that years of debate has ended, said that the agreement shows that rooftop solar is inevitable though the agreement **neither fully recognizes the benefits of solar nor serves as a model to encourage DG innovation**. According to SEIA, the Arizona solar industry, which has traditionally shown significant growth, **started slowing down in 2014 due to debates over solar valuation** net metering charge.

Annual Solar Installations in Arizona, MW

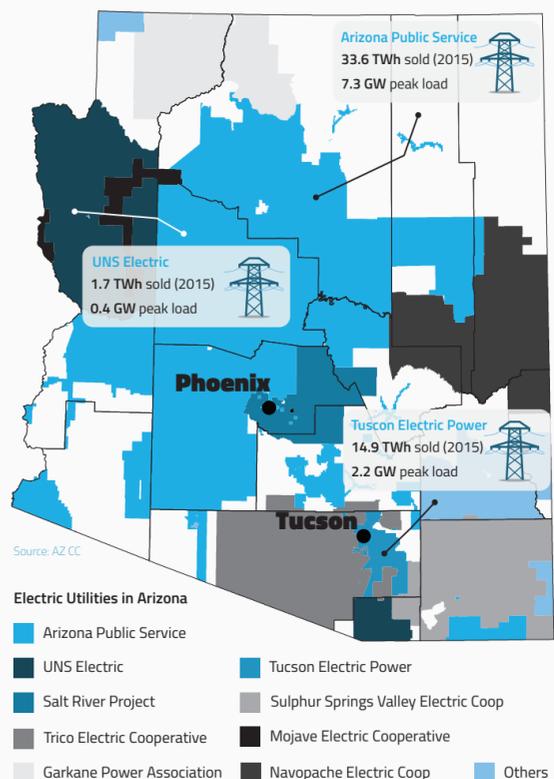


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Five-Year Debate

- Nov 2013**: APS requests approval to charge DG customers for a portion of fixed costs borne by non-DG customers (approximately \$67/month)
- Jan 2014**: AZ CC approves APS' proposal to increase charges for new rooftop solar customers (about \$5/month for a 7 kW system)
- Apr 2015**: AZ CC initiates generic docket to investigate the value and costs of DG
- Apr 2015**: APS requests to reset the solar fees (approximately \$21/month for a 7 kW system) to address the shift of fixed costs to non-DG customers (around \$6.3 million yearly)
- Jun 2016**: AZ CC declines APS' request as a short-term fix and opens a holistic docket on the value and cost of solar
- Jun 2016**: APS proposes mandatory demand charges and seeks to reduce NEM credit to wholesale rate
- Aug 2016**: AZ CC approves new rates for UNS Electric
- Dec 2016**: AZ CC closes the VOS docket by replacing retail-rate net metering with lower export rates
- Feb 2017**: AZ CC approves rates for Tucson Electric Power which offer TOU and residential demand charge options

ARIZONA UTILITIES



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States Grappling with Cost-Shift Issues

- MA**: In January, the MA Department of Energy Resources announced the Solar Massachusetts Renewable Target, a 1,600 MW AC declining-block program, which includes a tariff-based compensation for solar PV projects as well as a non-NEM bill crediting option.
- UT**: In December 2016, the Utah Public Service Commission granted Rocky Mountain Power's request (Docket No. 16-035-T14) to suspend its NEM-related proposal as stakeholders continued to work on mutually acceptable solutions. The proposal, which would have taken effect on December 10, intended to add language via Schedule 135A to its NEM tariff notifying that NEM rates for new customers would be subject to change.
- NH**: In October 2016, the NH Office of Consumer Advocate proposed net metering tariff alternatives (Docket No. DE 16-576) with options for a TOU rate for residential customers and a Fixed Solar Credit Rate for all customers, as well as a new community solar program.
- AR**: Arkansas is evaluating NEM credit rate issues pertaining to grandfathering and remuneration. In April 2016, the Arkansas Public Service Commission opened Docket No. 16-027-R to determine appropriate rates and terms for NEM contracts under Act 827 of 2015; and Docket No. 16-028-U to gather information regarding distributed generation.

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Utility-Solar Industry Collaboration in Other States

The APS agreement is in line with recent actions in New York and Colorado where utilities and solar advocates have reached similar compromises in the transition from retail rate net metering. Importantly, these actions demonstrate that solar industry and utilities can find practical alternatives to solar grid charges.

- CO**: On August 16, the Public Service Company of Colorado (subsidiary of Xcel Energy) and solar interests reached a settlement agreement (**16AL-0048E**) under which the **utility would withdraw its proposed grid use charge and institute time-of-use rates on a trial basis** for potential use as default rate design for residential customers. The agreement seeks to consolidate the utility's three separate proceedings – **electric rate-case proceeding, implementation of its Solar*Connect program, and 2017-2019 Renewable Energy compliance plan**. The settlement parties include Colorado Public Utilities Clean Energy (CO PUC) Staff and several clean energy and solar groups including the Solar Energy Industries Association and Office of Consumer Counsel.
- NY**: On April 18, the coalition of New York utilities and solar companies formed a "Solar Progress Partnership" to propose a **DG compensation model** that continues to support solar development in the state, while addressing customer cost sharing issues. Under the proposal, **solar developers would pay utilities for community solar and remote solar projects connected to the grid**, while preserving **utility bill savings for customers**. The proposal would generally retain the current mechanism until January 1, 2020, with options for providing to a new formula that provides a more accurate compensation for the value of the electricity exported to the grid.

BOTTOM LINE

Working Together
The Arizona NEM debate shows that contentious rate cases can result in drawn-out proceedings, while the ultimate solution could come from consensus outside the rate case. The settlement between APS and solar industry is viewed as a viable means to resolve years of NEM debate and a preferable alternative to potential litigation. Recent developments show that policy actions are no longer confined to major solar states like California, Hawaii and Nevada, and that nascent markets like New Hampshire and Arkansas are also considering approaches to transition from NEM (Figure 2). States that continue to review NEM policies to address cost-shift issues and valuation of grid-exported DG will likely embrace collaboration as a new trend to avoid years of pointless debate.

Lesser Compensation
Moving faster, increasing solar penetration will likely require customer generators to pay additional fees or accept lesser compensation for excess generation exported to the grid. Utilities will continue to seek rate structures that meet customers' evolving usage patterns, reduce cross-subsidies among DG and non-DG customers, and enhance recovery of fixed costs. As actions to fix NEM compensation issues evolve into rate case proceedings, utilities and solar industry can choose to collaborate given their interdependence in a grid with growing levels of distributed generation.

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