Arizona Corporation Commission (ACC) Continues its Evaluation of Distributed Generation, Net Metering

Article By:

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he Arizona Corporation Commission ("Commission") held its first workshop on the Value and Cost of Distributed Generation ("DG"), ACC Docket No. E-00000J-14-0023. The theme set forth by Commission Staff seemed to be encapsulated in the phrase "balance the value and cost of distributed generation for maximum benefit to all ratepayers." The first workshop consisted of seven presentations followed by a panel discussion. The PowerPoint slides for these presentations are available at the Commission eDocket website using the docket number above.

The first presentation was by Robert L. Davis of nFront Consulting on the topic "DG Valuation-Lessons From the APS Net Metering Technical Workshops." Mr. Davis largely reviewed the findings and conclusions of those workshops which were informal workshops hosted by APS prior to the net metering hearing at which the Commission imposed a small charge on DG customers to help contribute to the costs of maintaining the transmission grid. Mr. Davis compared the two competing studies by SEIA and by Crossborder which were filed in the net metering docket. He noted that those studies had vastly different findings about the total value of DG. In fact, the value assigned by the Crossborder study was almost three times the value assigned by the SEIA study. He also pointed out that no agreement was reached in a number of areas, such as on avoided energy costs, electric system losses and integration costs.

The second presentation was by Ben Norris of Clean Power Research on the topic of "Cost Causation and Benefits Allocation in Distributed Generation". Mr. Norris' discussion was a highly technical discussion of the various methods for evaluating cost causation. His main point seemed to be that cost and benefit analysis should be done on a marginal, not an average, basis.

The third speaker was Tom Beach of Crossborder Energy on the topic of "DG Valuation From at Rate Making Perspective." Mr. Beach, who has been a witness for the DG industry, first pointed out that DG is a resource while net metering is simply a billing concept. DG is similar to a demand response or energy efficiency program, so that using a modified energy efficiency cost benefit model is appropriate. He also noted that rate making is a key for DG. He proposed what he referred to as the RIM test viewing DG from the perspective of all the ratepayers, including ratepayers who are not DG customers. He also noted that any valuation should be based on the long term since DG facilities will last 20-30 years. He acknowledged that some DG benefits are difficult to value. He is a proponent for using a marginal cost analysis. He briefly compared central station solar to DG and emphasized the fact that the cost of the delivery of the power from the utility scale central station project is avoided by DG. He set forth a list of 11 rate design principles adopted by SEIA.

These principles are:

1. Rates should be based on marginal costs which emphasize a long-run perspective.
2. Rates should encourage conservation and integration of renewables.
3. Rates should reduce peak demand.
4. Rates should include the development of time-of-use (TOU) tariffs.
5. Rates should be based on cost-causation principles.
6. Any rate design should not be discriminatory toward renewables.
7. Rates should have transparency, with enough availability of data so that the customer has predictability into what their rate should be.
8. Any rate redesign should minimize any impact to existing customers, such as grandfathering in existing customers (no retroactivity), with the option to opt into a new rate.
9. There should be a smooth transition to a new rate structure.
10. Customer charges should be avoided.
11. Rates should encourage economically efficient decision-making.

The next speaker was Henry Courtright of the Electric Power Research Institute who spoke on the topic of the "Electric Grid and DG Operational Considerations." Mr. Courtright largely focused on the work his group is doing on integration and interconnection of DG with the existing system. He noted that there are concerns about voltage regulation and other grid operational problems and that the solutions will add cost.

The fifth speaker was Carl Rabago of Rabago Consulting on the topic of the "Value of Solar Tariffs." Mr. Rabago largely focused on Austin, Texas' efforts to assign a value to DG solar.

Pierre Bull of the National Research Council next spoke on the topic "Are New Rate Making Principles Required?" His answer is yes, but the challenge is to find a balance between the customer and the utility. He noted that the balance is complicated because it is difficult to value externalities.

Edward Comer of the Edison Electric Institute made the final presentation on the topic "Do Traditional Rate Making Principles Still Apply?" Mr. Comer spent a substantial amount of time comparing central station power and DG and asked the rhetorical question, "why is it fair to pay market prices for central station but not for DG?" His point was that renewable energy needs to be developed in the most cost effective way and that central station power must be considered in that analysis. He contended that DG customers should pay retail tariffed rates for all power they generate whether they use it or not, but then get a separate payment from the utility for the unused power sent to the grid based on the market price. In this way, the DG customers contribute appropriately to the grid while receiving a market price for power sent to the utility as do wholesale power generators. He closed by pointing out that using market pricing is relatively simple whereas other pricing structures are predictive and speculative.

National Law Review, Volume IV, Number 139