



The Arizona Experience: Net metering, cost shifts, and lessons learned



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One Year Ago

- Issue attracted national attention.
- RUCO held a workshop on the issue at ASU.
- RUCO conducted an analysis and offered a policy solution.



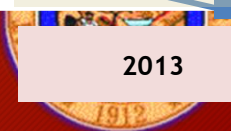
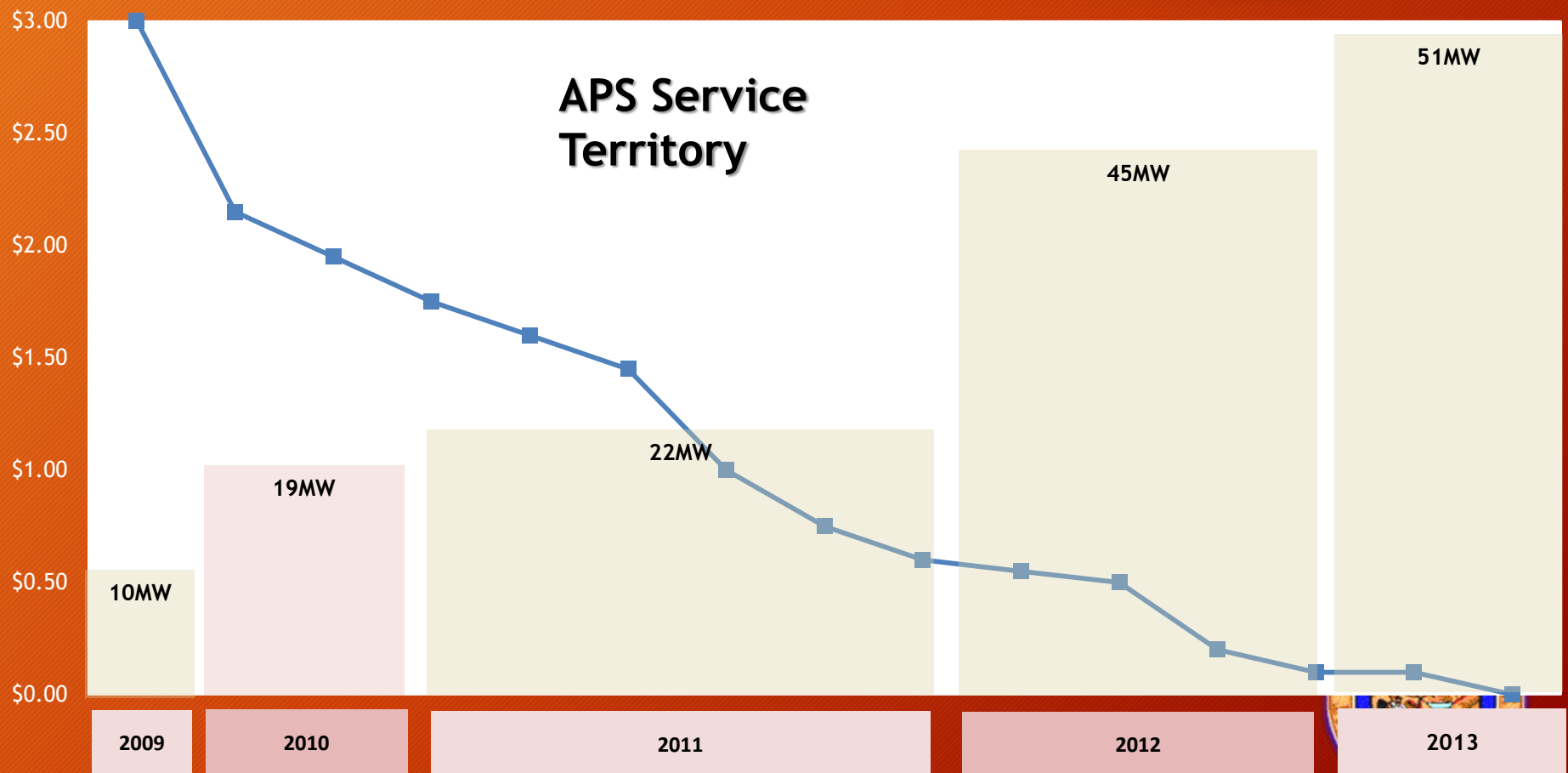
The Issue



- Cost shifting is not directly about net metering (NEM)
- The debate is much larger and more fundamental
- A rate case or generic docket is the best forum to have the discussion.
 - The matter is not an impending emergency but it should start to be addressed.



NEM, Tax Credits, Cost Declines, And New Industry Business Models



Approach

- There are two ways to look at the issue of customer sited generation:

The impact today and the impact over time.

- APS looked in the near-term and the rooftop solar industry looks over the long-term.
- RUCO tried to balance both perspectives.
- A manageable level of short run cost shifts are acceptable as long as benefits overtake those costs in the long-term.



The Fix: Guiding Principles for RUCO

- Fair
- Sustainable
- Market-based
- Measured
- Incremental

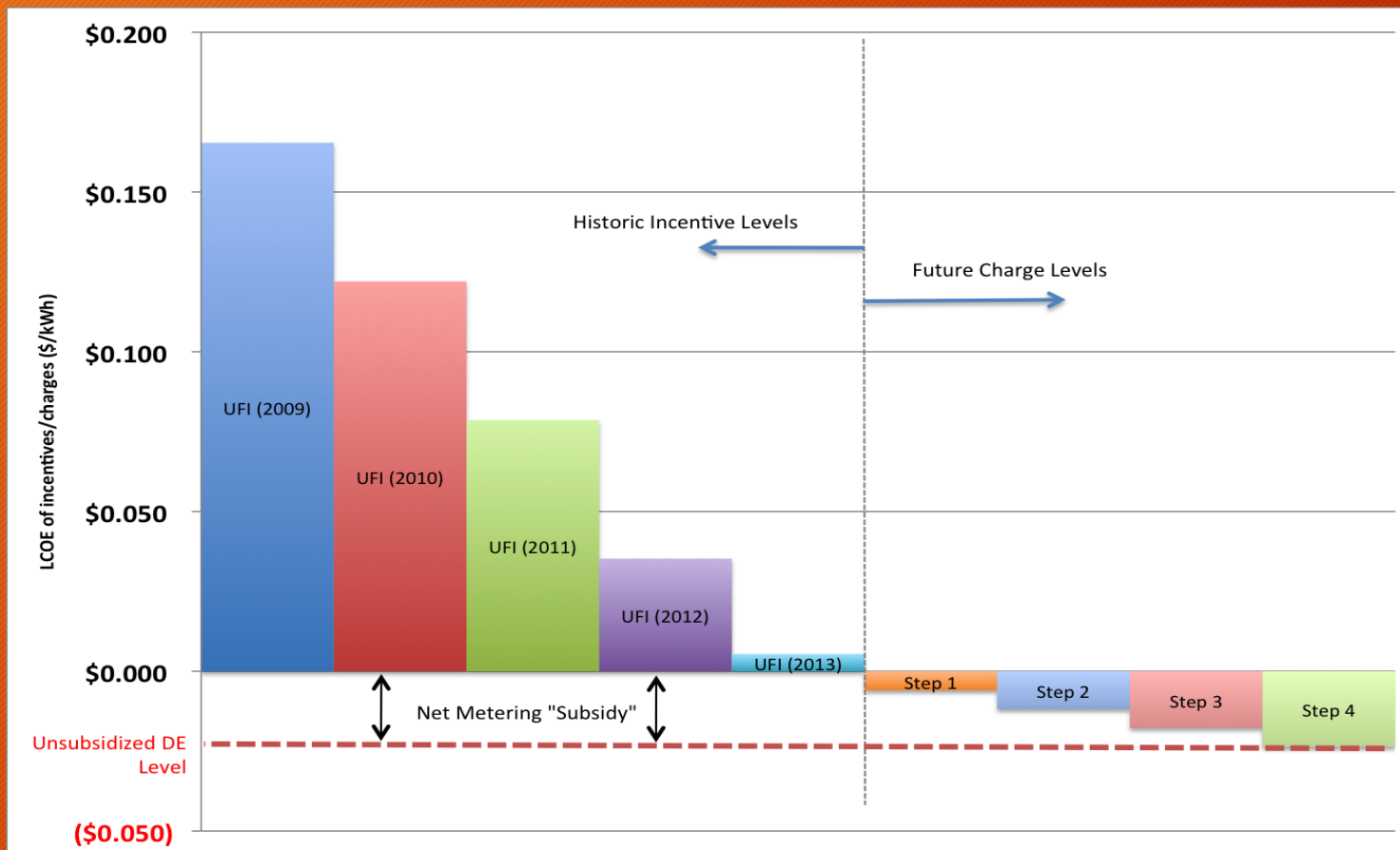


RUCO's Proposal

- RUCO proposed a model that maintains net metering but corrects any net cost shift to non-solar residential customers.
 - Market based fixed charge on every new solar customer's bill
- The near term target to reach is \$3/kW as soon as the market allows.
 - Can go higher than \$3/kW
- Monies go to customers.
- Fixed charge can be used to encourage beneficial solar deployment.



Implementation:



Settlement

- In the spirit of gradualism, a \$5 monthly fixed charge for the average system
 - RPS carve-out in mind
- ~\$3/kW for systems 16kW and above
- Quarterly review process to measure market demand
- Disclaimer to warn customers of future rate changes



What the Policy does not do

- Does not optimize investment compared to alternatives.
 - Similar to an energy efficiency measure that scores a 1.0 while another scores a 2.0
- Need a holistic valuation model



Lessons

- Retail rates for 98% of residential customers do not have to change to accommodate 2% of the customers adopting solar
- Measuring value and determining price
 - Near term vs. Long term value (overnight savings vs. 20 year levelized savings)
- Defining the cost shift
- Changing role of the consumer advocate as customers become suppliers



Thank You

