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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

<p>In the Matter of the Investigation of the Costs and Benefits of PacifiCorp’s Net Metering Program</p>	<p>Docket No. 14-035-114</p> <p>COMPLIANCE FILING AND REQUEST TO COMPLETE ALL ANALYSES REQUIRED UNDER THE NET METERING STATUTE FOR THE EVALUATION OF THE NET METERING PROGRAM</p>
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INTRODUCTION

Pursuant to Utah Code Ann. § 54-15-105.1 (the "Net Metering Statute") and the Order issued by the Public Service Commission of Utah ("Commission") in this docket on November 10, 2015 ("November 2015 Order"), Rocky Mountain Power, a division of PacifiCorp ("Company" or "Rocky Mountain Power"), submits this Compliance Filing and Request to Complete All Analyses Required under the Net Metering Statute for the Evaluation of the Net

Metering Program (“Compliance Filing”). In this Compliance Filing, the Company provides the Commission with the actual and counterfactual cost of service studies (“ACOS” and “CFCOS”), which were ordered by the Commission and were performed using calendar year 2015 actual data collected from the Company’s load research study. The Company asks the Commission to:

- (1) find that the CFCOS, the ACOS, and the net metering breakout cost of service study (“NEM Breakout COS”) are compliant with and fulfill the November 2015 Order;
- (2) find, based on the cost of service analyses, that the costs of the net metering program under the current rate structure exceed its benefits;
- (3) find, based on the cost of service analyses, that the unique usage characteristics of net metering customers justify segregating them into a distinct class;
- (4) determine that the current rate structure for net metering customers is unjust and unreasonable because it does not reflect the costs imposed on and benefits contributed to the system, and unfairly shifts costs from net metering customers to other customers;
- (5) approve, as just and reasonable, the Company’s proposed Schedule 136, Net Metering Service, with modifications to net metering service and Schedule 5, Residential Service for Customer Generators, which includes a three-part tariff structure that reflects the costs and benefits that net metering customers impose on and contribute to the system; and
- (6) approve a waiver of Utah Admin. R. 746-312-13, pursuant to Utah Admin. R. 746-312-3(2) for changes to the application fee, as explained in more detail below.

Concurrently with this filing, the Company is filing Advice 16-13 which requests the Commission to close currently effective residential net metering Schedule 135 to new service and

approve and implement Schedule 135A, effective December 10, 2016, on a temporary basis until the Commission issues its decision pursuant to the Net Metering Statute. The Company anticipates that part of the Commission's decision in this Compliance Filing will be to approve Schedule 136 and its related Schedule 5 tariff, for electric Company service to residential net metering customers.

SUMMARY

A. Compliance Filing

This Compliance Filing includes the studies that comply with the November 2015 Order, enabling the Commission to complete the evaluation of the Company's net metering program required by the Net Metering Statute. The Net Metering Statute requires the Commission to "determine a just and reasonable charge, credit or ratemaking structure, including new or existing tariffs, in light of the costs and benefits of the net metering program." Consistent with the framework directed by the Commission in the November 2015 Order, the Company prepared the ACOS, CFCOS and NEM Breakout COS that use calendar year 2015 actual load and production data collected from the Company's load research study. The ACOS, CFCOS and NEM Breakout COS were also prepared consistent with Commission-approved standards that have evolved over many years.¹ The Company's data demonstrates that the costs of the net metering program do, in fact, exceed its benefits and that customers with private solar generation systems have unique load and cost characteristics that support a new rate structure from the rest of the residential class. Recent exponential growth of the net metering program, evident in the data supporting this filing and described in detail below and in testimony, precipitated this Compliance Filing and the

¹ Company witness Robert Meredith discusses how the cost of service studies were prepared consistent with Commission-approved standards.

concurrent tariff advice letter filing, requesting immediate relief.² The Company proposes to replace the current rate structure with a three-part rate structure that will include a fixed monthly charge, a demand charge, and an energy charge. Proposed Schedule 5 reflects the costs imposed on, and the benefits contributed to, the system by net metering customers. In the interim, the Company proposes a temporary tariff for net metering service as described in Section B below.

The Company supports renewable resources and customer options for renewable resources. However, the options should be provided consistent with an appropriate rate structure that allows residential customers to use private solar generation without adversely affecting other residential customers. The combination of declining prices of private solar generation systems, continued availability of government subsidies and the kilowatt-hour compensation for excess generation have contributed to the rapid growth of private solar generation. This growth renders the current ratemaking structure unsustainable; accordingly, that structure must change. As is demonstrated by the results of the comparison of the ACOS to the CFCOS, under the current net metering program, the costs of the net metering program exceed the benefits to the system, and results in costs that will be unfairly borne by all other customers. For the net metering program to continue and be sustainable in the future, its rate structure must be modified to accurately reflect its impact on the system and to properly allocate costs between customers as part of a proper rate design.

B. Tariff Advice Filing No. 16-13

Proposed Schedule 135A will be used to provide net metering services to new net metering customers *on the same terms* as Schedule 135 until the Commission's ruling on this Compliance Filing and approval of proposed Schedule 136, or other tariff. Under proposed Schedule 135A,

² As part of this docket, the Commission left open the possibility of addressing the ratemaking structure of the net metering program, "in a further phase of this docket, a general rate case or other appropriate proceeding." November 2015 Order at 1.

customers who apply for residential net metering would be required to take service through a different meter, as under the current tariff,³ and would be on notice that, when proposed Schedule 136 or another tariff is approved, they will receive service under that schedule.

The Company's proposal offers a sustainable, long-term solution that is consistent with the state's policy of encouraging, and the Company's commitment to, cost-effective renewable energy. The proposed rate structure reflects the costs and benefits that residential net metering customers impose on and contribute to the system, and is consistent with the cost of service analyses. It produces rates that are "just and reasonable ... in light of the costs and benefits"⁴ of the net metering program and is equitable to other customers.

C. Compliance Filing Support

The Compliance Filing is supported by the testimony of the following witnesses:

Mr. Gary H. Hoogveen provides an overview of the major components of the Company's filings, explains why the Company's proposals should be adopted consistent with the state policy of encouraging, and the Company's commitment to, cost-effective renewable resources, and identifies the witnesses who will present detailed testimony supporting the filings.

Ms. Joelle R. Steward explains the proposed tariff changes in this Compliance Filing, including policy considerations of cost of service and rate design and the unique usage characteristics and loads of net metering customers that justify their segregation into a different class. Ms. Steward's testimony also explains the proposed new rates for residential customer generators that include a three-part rate structure designed to capture a monthly basic charge, a demand charge and an energy charge. She explains that the proposed rates are based on the same level of costs reflected in the Company's 2014 general rate case, Docket No. 13-035-184 ("2014

³ Utah Code Ann. § 54-15-103(4)(a).

⁴ Utah Code Ann. § 54-15-105.1(2).

GRC”). Ms. Steward's testimony also supports the Company's proposed changes to the application fees for the net metering program, including adding a fee for Level 1 applications, which will require a waiver of rule R746-312-13. Ms. Steward's testimony explains that the Company's proposed changes to the fees are based on an assessment of the actual costs incurred to process applications and that recovery of the costs to process them, particularly for Level 1, has not kept pace with the growth in applications.

Mr. Robert M. Meredith explains the inputs and results of the ACOS, CFCOS and the NEM Breakout COS. He also describes the load research study for private solar generation, and the incorporation of that data into the cost of service studies.

Mr. Douglas L. Marx supports the engineering and administrative costs that are included in the cost of service studies and explains how private solar generation facilities can impact distribution planning and design criteria. He also explains the effects and ensuing costs and benefits of continued, unchecked growth of private solar generation on the Company's distribution system. He describes the administrative costs related to net metering applications that justify the Company's proposed application fee.

Mr. Michael G. Wilding explains the net power costs and credits attributed to net metering customers in the cost of service studies.

BACKGROUND

The net metering program developed from a Commission order in Docket No. 97-035-01, in which the Commission organized a task force in the “interest of concrete proposals, well analyzed as to the costs and benefits, and the specifics of program delivery ...” with respect to energy efficiency and renewable resources.⁵ That order set forth specific programs for which the

⁵ See *In the Matter of the Investigation Into the Reasonableness of Rates and Charges of PacifiCorp, dba Utah Power & Light Company*, Report and Order (March 4, 1999); 1999 WL 35637961, at *68 (Utah P.S.C. March 4, 1999).

parties requested additional analysis. Included in the list were green offerings, *net metering*, and energy efficiency.⁶ On December 23, 1999, the Energy Efficiency and Renewable Task Force recommended that a “net metering program be established in Utah Power’s service territory.”⁷ Pursuant to legislation, the net metering program officially launched in 2002.⁸ Over the years, the program has changed to implement amendments to net metering laws, encourage more participation in the program by establishing a higher amount of eligible generating capacity, incorporate statutory interconnection requirements, and change the rate credited for excess energy, among other modifications.⁹

One of the more significant modifications to the net metering program dealt with a change to the rate credited to net metering customers for excess energy in Docket No. 08-035-78. In that docket, titled “*In the Matter of the Consideration of Changes to Rocky Mountain Power’s Schedule No. 135 - Net Metering Service*,” parties requested, and the Commission approved, a change to the rate credited for excess energy from avoided costs to a kilowatt-hour credit, which amounts to credit for excess energy at the full retail rate.¹⁰ In the same docket, parties also requested a change to the cap for net metering cumulative generation capacity from 0.1 percent to 20 percent of the Company’s 2007 peak demand. Both modifications were based on perceived barriers to the implementation of the net metering program. The Company proposed a one percent cap and objected to the 20 percent cap because the cap appeared to give the impression of a target. The Company also cited engineering concerns with a 20 percent cap.¹¹ Other parties either

⁶ *Id.*

⁷ Docket No. 97-2035-01, Report of the Energy Efficiency and Renewable Task Force, at 36 (Utah P.S.C. December 23, 1999) at 36.

⁸ L. Utah 2002, Ch. 6. *See also* Docket No. 02-035-T05, Tariff Approval Letter (Utah P.S.C. June 24, 2002).

⁹ *See* Docket Nos. 08-035-78, 08-035-T04, 09-035-T03, 10-035-T04, 10-035-T12, 11-035-T05, 12-035-T09, 13-035-T09, 13-035-T10, and 14-035-T06.

¹⁰ Docket No. 08-035-78, Report and Order at 13 (Utah P.S.C. February 12, 2009).

¹¹ *Id.* at 6.

recommended or did not object to the 20 percent cap because of limited program participation at the time (the enrolled capacity for net metering was 540 kilowatts as of October 31, 2008).¹² In its order approving the 20 percent cap, the Commission indicated that, to the extent the Company “determines it is being adversely affected by net metering ... the Company has the ability to approach the Commission with information on both costs and benefits to address the issue.”¹³ Since then, the customer costs of installing a private solar generation system have dropped and subsidies have become available, which, in combination with the modifications to the program, have contributed to the popularity and growth of private solar generation in the state of Utah.

By the end of 2013, about 2,200 customers participated in the program. By the end of calendar year 2015, that number had climbed to over 6,700 customers, a growth rate of 200 percent in just two years. As of October 7, 2016, 7,000 more customers enrolled, with 3,500 more expected to enroll by the end of this year, bringing the total number of net metering customers to over 17,000 by the end of 2016. In light of the subsidies embedded within the current rate structure of the net metering program, growth highlights the fact that the current ratemaking structure is unsustainable and, in fact, are increasingly harming other customers.

Recognizing the significant growth and increasing costs of the program on other residential customers, Senate Bill 208 was enacted by the Utah Legislature in its 2014 Session and signed into law on March 25, 2014. It included the Net Metering Statute, which reads:

54-15-105.1. Determination of costs and benefits - Determination of just and reasonable charge, credit or ratemaking structure.

The governing authority shall:

(1) determine, after appropriate notice and opportunity for public comment, whether costs that the electrical corporation or other customers will incur from a

¹² *Id.*

¹³ *Id.* at 13.

net metering program will exceed the benefits of the net metering program, or whether the benefits of the net metering program will exceed the costs; and

(2) determine a just and reasonable charge, credit, or ratemaking structure, including new or existing tariffs, in light of the costs and benefits.

Utah Code Ann. § 54-15-105.1 (hereinafter, § 54-15-105.1(1) will be referred to as “Subsection One” and § 54-15-105.1(2) as “Subsection Two”).

In the Company’s 2014 GRC, the Company requested approval of a proposed monthly fixed net metering facilities charge for residential net metering customers to cover distribution and certain customer service costs. In a notice issued April 16, 2014, following the enactment of the Net Metering Statute, the Commission stated its intent to address the implementation of the statute in the 2014 GRC. The Commission invited the public to submit written comments and also directed intervenors to address the costs and benefits of the net metering program as part of their written testimony on cost of service issues.¹⁴ Several parties filed testimony responding to the Company’s proposed charge and provided additional testimony regarding the costs and benefits of the net metering program.

All other issues in the 2014 GRC were ultimately settled, so the final hearings held in that docket only concerned the proposed net metering charge. Following hearings, the Commission issued its order, declining to approve the proposed net metering charge in a two-to-one decision. Instead, “recognizing the importance of the issues raised by parties in the rate case,” the Commission established the current docket to examine the costs and benefits of the Company’s net metering program.¹⁵ The Commission also decided that it would perform the examination in steps: first it would establish an appropriate analytical framework to implement the new statute,

¹⁴ Docket No. 13-035-184, Public Notice (Utah P.S.C. April 16, 2014).

¹⁵ Docket No. 14-035-114, Notices of Comment Period and Scheduling Conference, at 1; 2014 WL 6713287 at *1 (Utah P.S.C. November 21, 2014).

then it would “examine the costs and benefits that result from applying the data to the approved analytical framework” and determine whether any proposed changes in rates are just and reasonable. The analytical framework to be established to implement Subsection One was to “include the types of analyses that must be performed, the components of costs and benefits to be included in the analyses, and the sources and time period of data inputs.”¹⁶ The Commission indicated it would examine the costs and benefits that result from applying the data to the approved analytical framework, and ultimately make the Subsection Two determination, “in a further phase of this docket, a general rate case or other appropriate proceeding.”¹⁷

In preparation for the hearing on Subsection One of the Commission’s process, the Company requested that the Commission decide certain issues as a matter of law. Specifically, it asked the Commission to rule that “(1) the benefits and costs the Commission is to consider under [the Net Metering Statute] are limited to those accruing to RMP and its non-net metering customers; (2) those costs and benefits must be ‘actual’ and ‘quantifiable’; and (3) the statute excludes consideration of studies relating to benefits or costs outside of Utah.”¹⁸ On July 1, 2015, the Commission ruled that: (1) Subsection One of the Net Metering Statute is independent of Subsection Two; (2) the Commission would consider only the costs and benefits to current customers in their capacity as ratepayers; and (3) the Commission would not consider “costs and benefits that are either unquantifiable or not subject to reasonable verification.”¹⁹

¹⁶ *Id.* at 2.

¹⁷ Docket No. 14-035-114, Notices of Comment Period and Scheduling Conference (Utah P.S.C. November 21, 2014).

¹⁸ Docket No. 14-035-114, Order Re: Conclusions of Law on Statutory Interpretation and Order Denying Motion to Strike, at 2; 2015 WL 4155503 at *2 (Utah P.S.C. July 1, 2015).

¹⁹ *Id.* at 17-18.

DISCUSSION

A. The ACOS, CFCOS and NEM Breakout COS Comply with the Commission's Direction in the November 2015 Order and Should Be Accepted.

The Commission opened the current docket on August 29, 2014, to ensure a focused, complete and accurate evaluation of the net metering program. In an earlier phase of this docket, the Commission established the appropriate analytical framework to examine the costs and benefits of the net metering program. In November 2015, the Commission approved an analytical framework and directed the Company to file the ACOS and CFCOS:

One study creates a counterfactual scenario that assumes away the existence of net metering customers' power generation, meaning PacifiCorp must meet net metering customers' full load and these customers push no energy back to the grid ["CFCOS"]. . . . The second cost of service study . . . should reflect PacifiCorp's actual cost of service inclusive of net metering customers' participation ["ACOS"]. Under this scenario, PacifiCorp meets only net metering customers' "net load" (i.e. net metering customers' total consumption less the amount they self-generate) and the model includes the excess energy net metering customers push to the grid.²⁰

This Compliance Filing satisfies the Commission's directive and completes the requirements for the Commission to perform its duties under Subsection One. The ACOS, CFCOS and NEM Breakout COS were developed consistent with Commission approved standards that have evolved over many years. They reflect costs the Company incurs to provide electric service to customers who install private generation including fixed costs associated with back-office systems like accounting, billing, customer service, and meters; costs associated with use of the system; and costs related to the energy consumed including energy-related generation and transmission. They demonstrate that the current rate structure unfairly shifts a portion of these costs to other customers.

²⁰ November 2015 Order at 5.

In its November 2015 Order, the Commission ordered that the CFCOS and ACOS be “commensurate with the test period in PacifiCorp’s next general rate case.”²¹ In its rejection of the Joint Parties’ proposal to use a 20-year study period, the Commission stated that a short-term study period would be far more useful for rate setting:

We do not find this approach to be consistent with the Statute. The Division is correct to emphasize the framework we adopt for the Subsection One analysis must be useful for rate setting under Subsection Two. ... Subsection One instructs us to assess the impact of net metering on the utility and its “other customers.” Those who are present customers of PacifiCorp may or may not be customers in two decades. We believe the Legislature was careful to include the term “other customers” in Subsection One because it was concerned about the near term impact net metering has on the utility’s other current customers.²²

Consistent with the Commission’s direction of using a short-term period for the required analysis, and with the way general rates are set, the Company adjusted the 2015 test period cost of service results in the NEM Breakout Study to the revenue requirement approved in the 2014 GRC – on which all other current customer rates are based. This is also consistent with the November 2015 Order that the Subsection Two proceeding could take place “in a further phase of this docket, a general rate case or other appropriate proceeding.”²³ The exponential growth of the net metering program and the findings from the comparison of the ACOS and CFCOS studies mandate this Compliance Filing before the preparation of the Company’s next general rate case. Utilization of the 2015 test period and the 2014 GRC revenue requirement is explained in more detail in the testimony and exhibits of Ms. Steward and Mr. Meredith.

²¹ November 2015 Order at 7.

²² *Id.* at 14.

²³ *Id.* at 1.

B. Net Metering Customers Have Unique Usage Characteristics that Support Creation of a Net Metering Residential Class

Not only does the current net metering program unfairly shift a substantial portion of costs to other customers, the bi-directional use of the distribution system are unique net metering customer characteristics that differ from other customers. Unlike other customers, net metering customers both import *and* export electricity. They also require stand-by-only service when they are self-generating. This solar generation often does not coincide with the Company's peak load, thus only minimally reducing that load. Company witness Mr. Marx testifies that a net metering customer's peak production occurs during the spring months while their peak load, and that of other customers, occurs during the summer months. These factors necessitate increasing the size of the distribution facilities as a result of net metering. These unique usage characteristics justify segregating net metering customers from the residential class into a distinct class. In this way, the costs imposed on and benefits contributed to the system by net metering customers will be clearly identified. In addition, net metering customers will be fairly compensated for any capacity and energy benefits associated with their private solar generation systems.

C. The Subsection One Cost/Benefit Analysis Justifies a Different Rate Structure for Net Metering Customers.

Once the Commission determines the costs and benefits provided to the system by net metering, it must "determine a just and reasonable charge, credit or ratemaking structure, including new or existing tariffs, in light of the costs and benefits."²⁴ The 673 percent growth²⁵ of the net metering program since 2013 mandates the Company's request for the Commission to address the Subsection Two analysis and to approve its proposed Schedule 136 and Schedule 5.

²⁴ Utah Code Ann. § 54-15-105.1(2).

²⁵ The Company used the total number of projects to determine the percentage in growth. There were 2,204 projects on December 31, 2013 and 14,841 projects on October 31, 2016. Had capacity been used as the metric, the percentage in growth would be 782 percent. The capacity was 14,657 on December 31, 2013 and 114,592 on October 31, 2016.

In the proposed Schedule 5 for service to residential customer generators, the Company proposes a three-part rate structure that accounts for the unique load characteristics of net metering customers and ensures that net metering customers pay a just and reasonable rate for service. The rate structure includes a fixed monthly charge, a charge for demand during peak hours, and an energy charge. The Company's proposed three-part structure is calculated based on the Company's cost of service studies. These charges are based on the specific costs that the Company incurs to provide electric service to net metering customers. The fixed monthly charge includes costs associated with connecting to the system that do not vary with usage like accounting, billing, customer service, meters and line transformers. The demand charge includes costs associated with the use of the distribution, generation, and transmission systems and reflects the maximum or peak load requirements of net metering customers. The energy charge reflects variable costs related to the energy net metering customers consume including net power costs and a portion of generation and transmission infrastructure. This proposed rate structure is described in more detail in the testimony and exhibits of Ms. Steward. The Company proposes that the new Schedules 136 and 5 become effective June 1, 2017, and apply to all net metering customers enrolling in the program on and after December 10, 2016, the proposed effective date of the concurrent filing in Tariff Advice No. 16-13

In its concurrently filed tariff advice, the Company requests that Schedule 135 be closed to new customers immediately (after the 30th day of the filing)²⁶ and that customers requesting net metering service thereafter be served under proposed Schedule 135A until the Commission approves Schedules 136 and 5 and the new rate structure for residential customer generators. Proposed Schedule 135A facilitates a transition to a future rate design, whether it be through

²⁵ See Utah Admin. R. R746-405-2(E)(2).

Schedule 5 or some other structure. It leaves residential net metering applicants on the existing program, but provides clear notice that this tariff is subject to change once the Commission has fulfilled its duties under the Net Metering Statute. The Company supports keeping the current net metering customers on the existing net metering program and rate schedule, as further explained in Mr. Hoogeveen's testimony. In addition, current net metering customers on Schedule 135 do not have meters that can measure on-peak demand, which will be required under proposed Schedule 136. As a result, a wholesale transition of these customers to the new schedule would be administratively and operationally challenging. Rather than requiring these customers to replace their meters when Schedule 136 or another rate structure is approved, the Company proposes that they be allowed to continue to receive service under Schedule 135. The Company expects this issue will be considered in a future proceeding. The Commission has regularly approved closing service to existing customers under similar circumstances. *See, e.g., In the Matter of Bear Lake Comm'n, Inc.*, 2013 WL 4399208 (Utah P.S.C. August 8, 2013) (grandfathering emergency line service to existing customers); *In re U.S. West Comm'n*, 1999 WL 35639170 (Utah P.S.C. November 26, 1999) (grandfathering Centrex Plus service to existing customers); *In Re U.S. West Paging, Inc.*, 93-2026-01, 1993 WL 501443 (July 2, 1993) (grandfathering mobile telephone service to existing customers).

CONCLUSION AND REQUEST FOR RELIEF

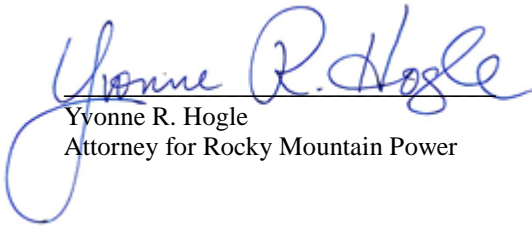
The Commission ordered the Company to prepare and analyze the ACOS, the CFCOS and the NEM Breakout COS. The Company has now done so. The results of those studies, as set forth in the testimony and exhibits supporting this Compliance Filing, bear out that the current net metering program does not account for the actual costs and benefits that net metering customers bring to the Company's system. Instead, those studies show that net metering customers are

currently not covering their costs and will shift them to other customers or the Company if the current rate structure is left unchanged. Further, the NEM Breakout COS shows that net metering customers have unique characteristics that justify creating a separate net metering customer class so that the costs and benefits those customers bring to the system can be clearly identified and properly addressed. Based upon the foregoing and for good cause shown, Rocky Mountain Power requests that the Commission:

- (1) find that the CFCOS, the ACOS, and the net metering breakout cost of service study (“NEM Breakout COS”) are compliant with and fulfill the November 2015 Order;
- (2) find, based on the cost of service analyses, that the costs of the net metering program under the current rate structure exceed its benefits;
- (3) find, based on the cost of service analyses, that the unique usage characteristics of net metering customers justify segregating them into a distinct class;
- (4) determine that the current rate structure for net metering customers is unjust and unreasonable because it does not reflect the costs imposed on and benefits contributed to the system, and unfairly shifts costs from net metering customers to other customers or to the Company;
- (5) approve the Company’s proposed Schedule 136 with modifications to net metering service and Schedule 5, which includes a three-part tariff structure that reflects the costs and benefits that net metering customers impose on and contribute to the distribution system as just and reasonable, effective June 1, 2017; and
- (6) approve a waiver of Utah Admin. R. 746-312-13, pursuant to Utah Admin. R. 746-312-3(2).

DATED: November 9, 2016.

Respectfully Submitted,



Yvonne R. Hogle
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