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March 9, 2010

Ms. Deborah R. Scott
Pinnacle West Capital Corporation
400 North Fifth Street
Post Office Box 53999/MS 8695
Phoenix, Arizona 85072-3999

Re: Flagstaff Pilot Project, Docket No. E-01345A-09-0227

Dear Ms. Scott:

I am seeking additional information from you regarding the Flagstaff Community Power Pilot Project that was discussed during the Commission's Open Meeting last week. From my perspective, there seemed to be broad support among the Commissioners to saturate APS' Sandvig-4 feeder with distributed generation ("DG") resources in order to study the effects of DG on the electrical distribution system (the "Field Study"). I do not understand, however, why APS needs to own all of the DG resources within the Sandvig-4 feeder in order to conduct the Field Study. Wouldn't APS be able to collect the same data from systems installed and owned by SunRun and/or SolarCity?

Why did APS package the Field Study together with the APS ownership of DG systems as if the two issues were somehow connected to each other? Shouldn't the merits of APS ownership of DG resources stand on its own feet? If APS ownership is a good idea, wouldn't it be a good idea outside of the Sandvig-4 feeder area also?

Did APS even consider the option of saturating Sandvig-4 feeder through traditionally-financed DG systems, perhaps through the use of heightened incentives if necessary? Did APS have discussions with SunRun, SolarCity or others in the DG industry to inquire what kinds of incentives it would require to obtain 1 MW of solar DG (400 kW of commercial PV, 600 kW of residential PV) in the Sandvig-4 feeder area? If so, what were the results of those discussions, and why doesn't the application describe the outcome of those discussions for the Commission? If APS has not already had those discussions, why not, and would APS be willing to engage in them now?

As you know, I am a proponent of getting as much renewable energy as cheaply as we can ("the best bang for the buck") because I believe that is the kindest policy to ratepayers' pocket books. The application indicates that APS has budgeted approximately $15 million to obtain 1.5 MW of DG in the Sandvig-4 feeder. Fifteen million dollars may be a fantastic deal; it may represent an absolute scalding of the ratepayers. I cannot make an informed decision because I don't have enough information. Could SunRun or SolarCity install 1.5 MW of DG in the Sandvig-4 feeder area for less than $15 million dollars? Shouldn't we at least ask them?

Phased Installation

APS' application indicates that APS will install the DG systems in phases: "After installation of 200 kW of residential rooftop systems, or 500 kW of all rooftop systems, the Company will pause to review system field performance, program budget, customer satisfaction and comments, and overall project management."

Given APS' plan to deploy the DG system in phases, wouldn't it be appropriate to give SunRun, SolarCity and other solar PV installers the first crack at installing projects in the Sandvig-4 feeder, at a heightened incentive rate if necessary? These Companies could be given six months to a year to deploy as many systems as possible, at which time APS could come back to the Commission, report the results, and recommend adjustments, if needed, including a recommendation to allow APS to install and own the DG systems itself. Would this be an acceptable DG installation plan for the area?

Risk Reduction versus Involuntary Risk Shifting

In page six of their exceptions to the Recommended Order, SunRun makes the following point:

"[U]nder the existing business model [for DG] SunRun and other market entrants are bringing capital to the Arizona market [for DG], and most of the cost of the residential solar system is covered by willing customers and investors, not by other captured ratepayers."

Other things being equal, I would rather have SunRun's investors and customers pay for the DG systems in the Sandvig-4 feeder area than to have captive ratepayers in Yuma, Bisbee, and Sun City do so. Throughout the Application, APS boasts that by owning the DG systems in question, APS has removed all operating risk from the pilot project participants. While this may be true, it appears to have done so only by shifting that risk entirely to its other captured ratepayers. How would APS be financially harmed if one of the DG systems has operational difficulties and APS has to sell more kWh's to the customer than it otherwise would have? Would that scenario simply result in APS receiving more revenue? It appears to me that the "risk reduction" associated with APS ownership of the DG systems is illusory and simply entails involuntary risk shifting to APS' other captured ratepayers.

I look forward to receiving your responses to these questions.

Thank you,

Gary L. Pierce

Commissioner Gary Pierce

cc. Chairman Kristin Mayes

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