OPEN MEETING AGENDA ITEM

0000109332

ORIGINAL

PINNACLE WEST
CAPITAL CORPORATION

RECEIVED LAW DEPARTMENT

DEBORAH R. SCOTT
Senior Regulatory Attorney
Telephone: (602) 250-5508
Facsimile: (602) 250-3393
E-mail: deb.scott@pinnaclewest.com

2010 MAR 25 P 4:02

AZ CORP COMMISSION
DOCKET CONTROL

March 25, 2010

Kristin K. Mayes, Chairman
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED
MAR 25 2010
DOCKETED BY

RE: Community Power Project – Flagstaff Pilot
Docket No. E-01345A-09-0227

Dear Chairman Mayes:

This letter is in response to your letter dated March 19, 2010. You asked the parties to provide the Commission with information regarding two alternative proposals to Arizona Public Service Company's ("APS" or "Company") Community Power Project – Flagstaff Pilot (the "Pilot"). As discussed in detail below, while the Company believes it is essential that APS maintain ownership of the core 200 systems (or full 1.5 megawatts ("MW")) proposed in the Pilot to assure adequate deployment of systems and adequate data recovery, APS does believe that expanding the Pilot beyond that core amount is compatible with the Pilot's design and would further the Commission's distributed energy objectives.

Each of your proposals is discussed in detail below.

1. **APS has identified a sample size of 200 for the overall Flagstaff pilot. I would like to know whether the Commission should consider an alternative arrangement, in which APS would retain sole control over 100 of the 200 systems while allowing third parties an opportunity to participate with respect to the balance of the systems, in accordance with APS' technological requirements.**

   The Pilot includes many elements in addition to the installation of photovoltaic ("PV") systems on the property of residential customers. The design of the Pilot was intended to increase the predictability and timeliness of system installations in order to achieve the level of PV penetration for the Pilot, within a shortened and carefully managed timeframe. Distribution of the PV equipment across the Sandvig-4 feeder and integration of the monitoring and data collection infrastructure must be carefully managed.

APS believes the field study portion of the Pilot will require the ability to monitor, access and physically manage these systems. Additionally, by deploying residential PV systems that are uniform in design (*e.g.*, 2, 3, and 4 kilowatt ("kW") systems), APS believes it will gain a better understanding of the effects of PV by eliminating variables in design and corresponding differences in output due to inverters or module response. APS does not believe it is constructive or efficient to further complicate the deployment of the initial sample size of 200 PV systems proposed in the Pilot by introducing a competitive element to gain participants in such a small and captive population of customers.

While much of the focus on the Pilot has revolved around the deployment of PV technologies at residential and non-residential locations, this is only one facet. Deployment of the PV technologies alone does not facilitate key field study objectives for which the Pilot was designed. Data must be synchronously collected from the PV system, the distribution system, weather systems and related equipment, and the end user/customer. Only in concert will this data allow for a comprehensive evaluation of the implications of high penetrations of PV equipment on the electric distribution system and opportunities for optimized operation. The Pilot includes the technology and analytical elements necessary to collect, capture, monitor and analyze the data required to meet the Pilot's objectives.

As was discussed in the March 3, 2010 Open Meeting, APS proposed what it believes to be a Pilot of modest size. The proposed Pilot is sufficiently large to facilitate the field study objectives, yet small enough that it will not impact the rapidly growing distributed energy market. The PV systems within the Pilot represent less than 5 percent of the currently installed customer-owned distributed energy capacity and less than 10 percent of the capacity reserved for installation by customers through March 15, 2010.

For the reasons stated above, APS believes that it should maintain control of deployment and ownership of the full 1.5 MW of PV necessary to conduct an effective and efficient Pilot, as proposed in APS's Application.

2. **In lieu of splitting the project between APS and other installers, is there an opportunity for the Company to expand the project beyond the currently proposed 200 systems, such that APS would implement the Flagstaff Pilot program as proposed, with an appropriate number of additional systems on the same feeder dedicated to other installers like Sun Run?**

Yes. Since APS has identified the minimum amount of PV capacity necessary to create the appropriate saturation on the Sandvig-4 feeder, the Company believes a strategy designed to encourage additional installations on the Sandvig-4 feeder is consistent with both the Commission's distributed renewable energy objectives and the design integrity of the Pilot.

The Pilot was designed to allow customers on the Sandvig-4 feeder to install systems through the Company's distributed energy incentive program. APS fully recognizes that the approach presented in the Pilot will not suit some customers and in other instances, while the customer may be interested in hosting a PV system, the Company may deem the site inappropriate for various technical reasons. As a result, both during and following full deployment of the systems detailed in the Pilot, customers will be informed about the range of options available for installing solar energy systems.

Under a scenario where the Pilot is expanded beyond the originally planned capacity, the Company believes it is important to support customers by providing information (print and internet) that describes the range of options provided by the solar industry through third-party installers. While this is clearly the focus of all APS renewable marketing efforts, those efforts can be fine-tuned to address the unique situation created under the Pilot environment.

The Commission may choose to embrace a strategy of providing customers on the Sandvig-4 feeder with additional motivation to contract directly with third-party installation companies. This may help in retaining momentum created by the Pilot among Sandvig-4 customers. APS believes this can be effectively accomplished at the current APS residential PV incentive level of $3.00[1] per installed watt accompanied by the removal of the incentive contribution cap of 50 percent, which is a feature of the standard program. This means that customers would be eligible to receive the full $3.00 per installed watt incentive irrespective of the actual cost of the PV system.[2] Applicants for this incentive would be awarded project funding on a first-come, first-reserved basis up to the first 300 kW of capacity.[3]

However, APS has some concerns related to timing and tactical deployment of additional capacity. The population on the Sandvig-4 feeder is small. APS believes that any method that is designed to increase the installed capacity as part of this Pilot should not create customer confusion or frustration. APS would propose a period of time to allow for deployment of the initial Pilot systems to avoid multiple, overlapping sales visits. Managing the timing will also allow APS's third-party contractors installing systems on behalf of APS for this Pilot to participate in the additional phase. Those contractors would not be allowed to sell their independent services to host prospects beyond those described in the Pilot offering. As such, while having provided the most compelling value offering to APS through

[1] APS would enable additional higher incentives if the Commission believes it is necessary to drive increased participation on the Sandvig-4 feeder.
[2] Since late-2009, APS has observed an increasing number of customers' reservation requests where the reported total installed cost is less than $6.00 per watt. As a result, customers are no longer eligible to receive the full $3.00 per watt incentive, but rather only 50 percent of the actual reported system installed cost.
[3] Based on APS's Pilot design, 300 kW would allow approximately 100 additional residential systems to be included in the Pilot.

competitive solicitation, those same installing partners would be disadvantaged in providing service directly to customers while Pilot installations were underway. For these reasons, the Company believes that a strategy that expands the installed capacity within the Pilot beyond the original APS Application should be deferred until such time the Company has reached sufficient customer participation levels. APS can provide both customers on the feeder and installers active in Arizona notice when the Pilot capacity has been achieved. APS does believe if it is unable to achieve commitments for the necessary capacity within six months of publically launching the Pilot, third parties should be afforded access to the capacity originally planned as part of the Pilot.

Further, APS recognizes the solar industry's concerns over the use of residential Renewable Energy Standard ("RES") incentive funds as part of this Pilot. While those funds are indeed supporting residential distributed energy installations, APS recognizes it may be constructive to execute the Pilot without the use of any RES incentive funds for the APS-owned systems. Should the Commission choose to give APS such direction, the APS capital contribution towards the project would increase, thus freeing up the reserved RES funding. The additional RES funding could be used to support funding of the incremental third-party owned systems discussed above. Attachment A details the revised balance of APS's capital contribution towards this Pilot and the resulting revenue requirement that results from APS's investment.

I hope that the information provided is responsive to your inquiry. Company representatives will be prepared to answer further questions you might have on this topic at the next open meeting.

Sincerely,

Deborah R. Scott

DRS/jlj

cc: Gary Pierce, Commissioner
Paul Newman, Commissioner
Bob Stump, Commissioner

Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission

Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission

Lyn Farmer
Administrative Law Judge
Arizona Corporation Commission

Ernest Johnson
Rebecca Wilder
Jeff Pasquinelli
Ray Williamson
Barbara Keene
Terri Ford
Arizona Corporation Commission

C. Webb Crockett
Fennemore Craig, PC

Scott Wakefield
Ridenour, Hienton & Lewis, P.L.L.C.

Adam Browning
Executive Director
The Vote Solar Initiative

David L. Townley
Vice President, US Sales & Marketing
Infinia Corporation

Herbert Abel
Chief Executive Officer
Green Choice Solar

Daniel Pozefsky
RUCO

Jay I. Moyes
Steve Wene
Moyes Sellers & Sims Ltd.

ATTACHMENT A

Arizona Public Service
Attachment A
Community Power Project Budget Summary: No Incentives Applied to the Reduction of System Capital Cost

Renewable Energy Equipment - Capital Budget

	APS	RES[1]	Total
Capital and Capital Offset (Incentives)	$10,564,000	$270,000	$10,834,000

[1] RES incentive are drawn from current year RES funds.

Program Deployment and Ongoing Costs

	Total Launch and Installation (2009-2011)[1]	Average Ongoing
Deployment and Customer Support	$1,218,000	$220,000
Smart Grid Interface and Data Acquisition	$1,052,000	$21,000
System O&M	$222,000	$135,000
Contingency Costs[2]	$1,332,000	$38,000
Program Budget Total	**$3,824,000**	**$414,000**

[1] Deployment and Ongoing costs will be charged against the remaining $5.4 million that was recovered from customers in 2008 through the RES adjustor, but not allocated to a specific renewable programs in the approved 2009 RES Implementation Plan.
[2] Contingency funds are broadly allocated to the program and applied only if necessary for full execution of the pilot program. Funds may either be applied towards incentives or toward deployment related expenses.

Additional Funding Supported by RES

	2010	2011	2012[1]	2013	2014
Revenue Requirement	$517,525	$1,457,515	$667,542	$0	$0

[1] Assumes completion of an APS rate case and allocation to rate case on 07/01/2012.

RES Adjustor

	2011	2012[1]
Effect on Residential RES Cap	$ 0.02	$ 0.04

[1] Assumes completion of an APS rate case and allocation to rate case on 07/01/2012.

NOTE: These numbers are being provided solely for purposes of the Community Power Project and are not to be used or relied upon for purposes of trading any security.

Arizona Public Service

Attachment A

Community Power Project Budget Summary: No Incentives Applied to the Reduction of System Capital Cost

Community Power Project Expenses with remaining rollover budget

	2010	2011	2012
2010 RES Net Funds Available	$ 5.4	$ 2.4	$ -
Program Cost	$ (2.5)	$ (1.3)	$ -
Revenue Requirement	$ (0.5)	$ (1.5)	$ (0.7)
Ongoing Program Costs	$ -	$ -	$ (0.4)
2008 RES Net Funds Remaining	**$ 2.4**	**$ (0.5)**	**$ (1.1)**
Amount Funded through RES Adjustor	$ -	$ 0.5	$ 1.1

NOTE:

These numbers are being provided solely for purposes of the Community Power Project and are not to be used or relied upon for purposes of trading any security.