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ARIZONA CORPORATION COMMISSION

ORIGINAL

January 27, 2014

RE: Value and Cost of Distributed Generation (Including Net Metering), Docket No. E-00000J-14-0023

Dear Interested Stakeholders:

In November 2013, the Commission heard an application by Arizona Public Service Company (“APS”) entitled “Net Metering Cost Shift Solution.”¹ During the course of reviewing this application, the Commission received comments from various parties as to the value and costs that arise from the implementation of Distributed Generation (“DG”), especially when the level of DG penetration becomes significant. The information received in this matter was varied, with a wide range of benefits and costs ascribed to DG systems. Recognizing that the relative costs and benefits of DG is an issue faced by all electric utilities in Arizona, the Commission ordered² that a generic docket be opened for the purpose of holding workshop meetings with all Stakeholders to help inform future Commission policy on the value that DG installations bring to the grid. Accordingly, Commission Staff opened the instant docket on January 24, 2014.

The Commission further ordered that “...the workshops shall investigate the currently non-monetized benefits of DG with the goal of developing a methodology for assigning DG values,...The workshops shall be based upon the Commission’s determination of the presence of a cost shift from DG customers to non DG residential customers, and shall provide for the Commission’s future full consideration of the net metering cost shift issue, the development of a method(s) by which the value of DG can be considered and balanced in the public interest, and the evaluation of the role and value of the electric grid as it relates to rooftop solar, other forms of distributed generation, and customer-sited technology generally.”

A number of DG costs and benefits were identified in the referenced APS Net Metering Cost Shift Solutions docket. This list of potential DG benefits and cost categories is as follows:

Capacity

- Distributed Energy Capacity Value (MW)
- Avoided Generation Capacity (new generation \$)
- PV System Orientation

Grid Support Services

- Ancillary Services
 - (a) Reactive Supply & Voltage Control
 - (b) Frequency Regulation

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¹ Docket No. E-01345A-13-0248

² Decision No. 74202 (December 3, 2013)

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- (c) Energy Imbalance
- (d) Operating Reserves
- (e) Scheduling / Forecasting
- DG System Integration Costs

Avoided Costs / Financial Risk

- Avoided Power Plant Capital Costs - Customer's Capital Contribution
- Avoided Fuel / Purchased Power Costs
- Avoided Fuel Hedging Costs
- Avoided Line Losses
- Avoided / Delayed Transmission System Investment
- Avoided / Delayed Distribution System Investment
- Avoided Renewable Energy Standard Cost
- Avoided Utility Administration Costs
- Avoided Market Price Mitigation (reduction of wholesale market clearing prices for natural gas and electricity)
- Avoided Variable Operation & Maintenance Costs
- Avoided Fixed Operations and Maintenance Costs
- Avoided Power Plant Decommissioning Costs

Security & Reliability

- Grid Security
- Grid / Service Reliability

Environmental

- Water Consumption
- Cost of Environmental Compliance
- Health Effects (Benefits)
- Non-Compliance Environmental Effects

Social

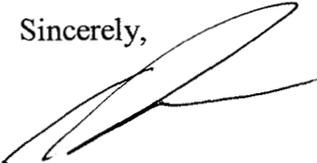
- Economic Development and Jobs
- Civic Engagement / Conservation Awareness
- Ratepayer / Consumer Interest
- Ratepayer Cross-Subsidization
- Technology Synergies
- Energy Subsidies (incentives, rebates, tax credits, etc.)

Staff believes that the first step in implementing the Commission's workshop orders is to obtain written comments from the parties as to the relevance and significance of each of the listed categories of DG values and costs, and recommendations of other DG-related issues that should be considered in this docket. In addition, Staff seeks substantive comments from all parties regarding the process and methodology for assigning monetary values to DG costs and values. Lastly, Staff seeks Stakeholder recommendations for persons or entities that you believe would be appropriate presenters at the workshops. **Please provide your comments by filing**

them in this docket by Friday, February 14, 2014. Please address your comments to Docket Control, Arizona Corporation Commission, 1200 W. Washington St., Phoenix, AZ 85007. The extent and range of your comments will help Staff determine the scope and sequencing of the mandated workshops.

Thank you in advance for your participation in this important docket. If you have any questions regarding this matter, please contact Rick Lloyd at 602-542-0819, Barbara Keene at 602-542-0853, or Eli Abinah at 602-542-6935.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven M. Olea". The signature is fluid and cursive, with a large loop at the end.

Steven M. Olea
Director
Utilities Division