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ARIZONA CORPORATION COMMISSION
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April 15, 2014

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

RE: Arizona Public Service Company (APS or Company)
Application for Approval of Net Metering Cost Shift Solution
Docket No. E-01345A-13-0248




0000152486

Federal and State Compliance

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Arizona Corporation Commission
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On December 3, 2013, the Commission issued Decision No. 74202 that approved a \$0.70/kW monthly interim adjustment charge ("LFCR-DG Charge") for residential distributed generation (DG) systems beginning January 1, 2014.¹ As a part of that Decision, the Commission found that a reasonable monthly charge for DG systems was \$3.00/kW, but adopted instead a \$0.70/kW charge as an interim step to address the cost shift from DG customers to non-DG customers as discussed in the Company's application in this docket.

The Commission stated that the LFCR-DG Charge may be periodically adjusted and the Company is required to provide quarterly DG statistics intended to reflect ongoing market penetration of DG systems in the APS service territory:

IT IS FURTHER ORDERED that Arizona Public Service Company shall file quarterly reports as discussed herein, with the first report due April 15, 2014. At a minimum, the report shall include the number of DG installations per month, size of the installations by kW, and the amount collected each month through the interim LFCR DG adjustment. (*Decision No. 74202, page 29 line 17.*)

This filing is the Company's initial filing in compliance with the above requirement.

For background, APS remains in compliance with the DG carve-out portion of the Renewable Energy Standard (RES) rules for some time to come. Indeed, to date over 25,000 residential grid-tied solar photovoltaic (PV) systems have been installed in APS's service territory. At current retail sales projections, the Company anticipates that it will be in compliance with the residential DG requirements through mid-2017 and with the non-residential requirements through mid-2021. At the end of 2013, total residential DG energy production capability equaled 165 percent of the RES DG compliance requirement and total non-residential DG energy production capability equaled 248 percent of the RES compliance requirement. It is important to note that these percentages reflect only DG systems that received incentives. The Commission

¹ Residential customers who before December 31, 2013 either installed DG systems on their homes or submitted applications to APS for installation of a DG system along with a signed contract with a solar installer are grandfathered under the then in effect net metering policies until APS's next rate case. See Decision 74202, page 24, lines 17-20. In addition, customers served under the Company's rate Schedule ECT-2, the residential demand rate, are excluded from the LFCR-DG Charge.

has not decided whether, and if so how, the Company should count towards RES compliance, interconnection-only DG installations, *i.e.*, installations that do not receive a cash incentive.

Table 1 (attached) provides the information required by Decision No. 74202 for the first quarter of 2014. APS also provides additional fourth quarter 2013 and first quarter 2014 information for context on DG market performance. Figure 1 (attached) may be useful for the Commission to consider when analyzing the contribution of DG to cost-shifting trends and long-term RES compliance, as well as determining whether an adjustment to the LFCR-DG Charge will eventually be warranted. The Company will add to this graphic each quarter in upcoming filings to illustrate DG market activity.

This data shows that installation counts alone do not fully demonstrate DG market activity trends because the actual installation of a DG system may lag from two to as long as six months behind the interconnect application. In addition, the numbers from the last half of 2013 reflect an increase of applications due to the availability of incentive dollars and the desire of customers interested in solar rooftop systems to be considered "grandfathered" under Decision No. 74202.

If you have any questions regarding this information, please call Greg Bernosky at (602)250-4849.

Sincerely,



Lisa Malagon

LM/bgs

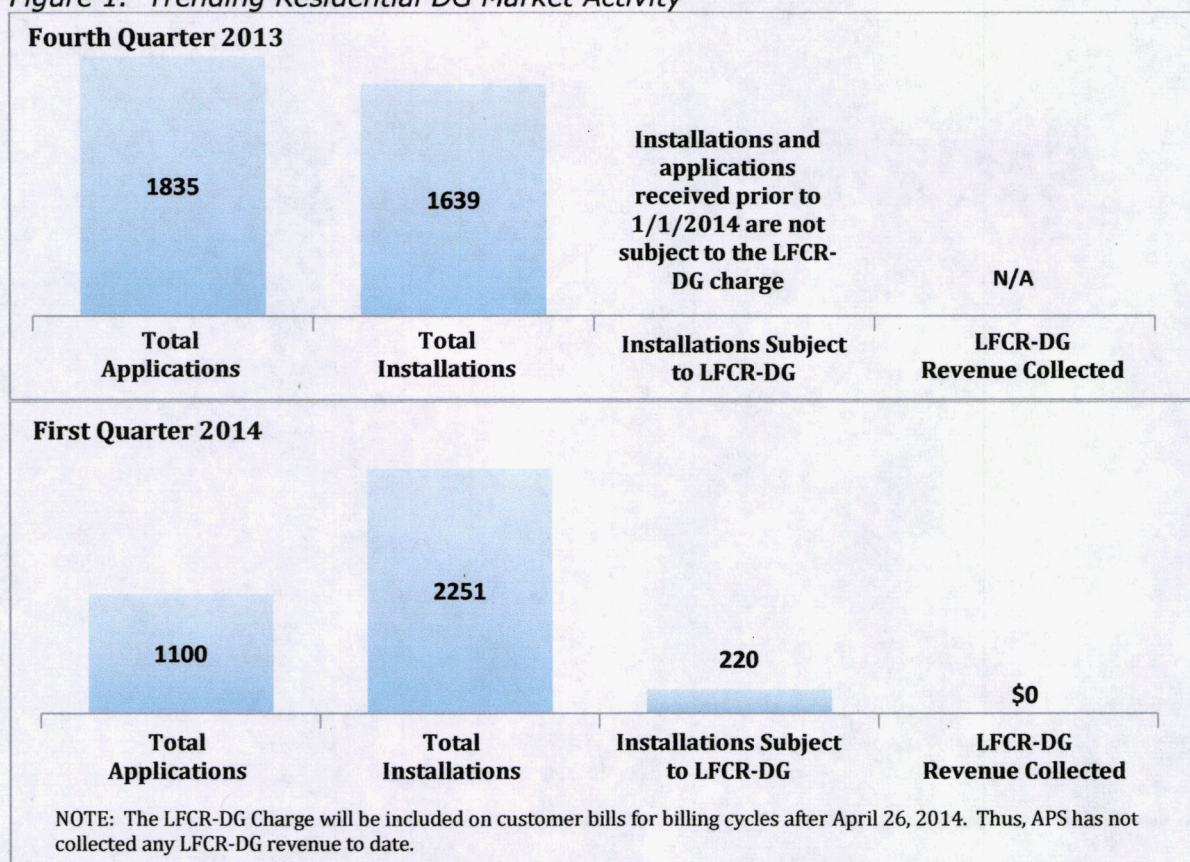
c: Steve Olea
Terri Ford
Brian Bozzo

TABLE 1

DG STATISTICS FOR Q1 2014
FOR SYSTEMS SUBJECT TO THE LFCR-DG ADJUSTMENT

	January 2014	February 2014	March 2014
Total Number of Installations	1	73	146
<5 kW	-	18	32
5 to 6.5 kW	1	17	44
6.5 to 10 kW	-	30	55
>10 kW	-	8	15
Total Number of kW Installed	6	493	984
Amount Collected through LFCR-DG	\$0	\$0	\$0

Figure 1. Trending Residential DG Market Activity



For clarity, the terms used in Figure 1 are defined as follows:

Applications. All applications for interconnection from customers for a grid-tied solar photovoltaic (PV) DG system during a calendar year quarter. Because of design changes and cancellations, not all applications will result in a corresponding installation.

Installations. A DG grid-tied solar PV system that has been approved by the Company to be interconnected to the APS distribution grid.

Installations Subject to LFCR-DG Charge. Installations (as defined above) connecting to the grid on or after January 1, 2014 and not subject to the system grandfathering provisions (see Decision No. 74202).

LFCR-DG Revenue Collected. Revenues collected from customers subject to LFCR-DG Charge.

NOTE: The numbers reported herein reflect gross applications received, whereas the numbers posted on the arizonagoessolar.com website reflect net applications (*i.e.*, applications less cancellations, withdrawals, etc.).