



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
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IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY – APPLICATION FOR
AUTHORIZATION TO ACQUIRE OUT-OF-
STATE RENEWABLE RESOURCES.

DOCKET NO. E-01345A-05-

APPLICATION

E-01345A-05-0675

I. INTRODUCTION

Pursuant to Decision No. 67744 (April 7, 2005), Arizona Public Service Company (“APS” or “Company”) hereby requests that the Arizona Corporation Commission (“Commission”) authorize the Company to acquire out-of-state renewable resources in partial satisfaction of the requirements of said Decision. The Company further requests that the Commission act on this Application by the Open Meeting on November 8, 2005. Such prompt approval is required in order for the Company to take advantage of opportunities to secure the most economic resources for its customers, and to facilitate the timely completion of the projects.

II. THE APS RENEWABLES RFP

As required by Decision No. 67744, on May 11, 2005, APS issued a request for proposals (“RFP”) seeking at least 100 MW and at least 250,000 MWH per year of renewable energy resources for delivery beginning in 2006 (the “Renewables RFP”).¹ The Renewables RFP was widely publicized. The Company sent email notifications regarding the release of the Renewables RFP to more than 70 individuals or entities that it believed would be interested in the solicitation. The Company also issued a press release, which was picked up by trade journals and electronic

¹ The Request for Proposal for Renewable Energy Resources, May 11, 2005, is attached to this Application as Exhibit A. The schedules to the Renewables RFP are available at www.aps.com/rfp.

1 newsletters. Finally, APS maintained a page on its RFP web site for the Renewables RFP. That page
2 has logged more than 850 visits from almost 500 different visitors outside of APS.

3 Consistent with the requirements set forth in Decision No. 67744, APS sought proposals from
4 solar, biomass/biogas, wind, small hydro, hydrogen, and geothermal projects.² Individual renewable
5 resources bid in response to the Renewables RFP were required to provide at least 20,000 MWH of
6 renewable energy annually. Such resources could not cost more than 125% of conventional resource
7 alternatives. In addition, resources were required to be deliverable to the APS system, either directly
8 or through displacement, and any purchased power agreements (“PPAs”) offered had to be for a
9 minimum of five (5) years and no more than 30 years. Respondents also were required to offer
10 resources with either fixed prices or relatively stable prices that do not vary with the price of natural
11 gas or electricity. Although the Renewables RFP was open to both in-state and out-of-state renewable
12 resources, APS was required to seek Commission approval if it could not meet the stated objective of
13 paragraph 69 of the Settlement Agreement adopted in Decision No. 67744 with qualified in-state
14 resources. No affiliates of APS were allowed to participate in the Renewables RFP.

15 The schedule for the Renewables RFP was as follows:

16

ACTIVITY	DATE
Issue Draft RFP	March 31, 2005
Pre-RFP Meeting (Bidders' Conference)	April 13, 2005
Issue RFP	May 11, 2005
Notice of Intent to Bid Due	May 25, 2005
RFP Responses Due	June 14, 2005, 2:00 p.m. MST
Shortlist Notification	July 14, 2005
Selection Process Complete	September 12, 2005

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28 ² Decision No. 67744 also requires APS to acquire 10% of its annual incremental peak capacity needs from such renewable resources.

1 Representatives from 30 entities, including the Commission, attended the Bidders' Conference.
2 During the Bidders' Conference, APS discussed the Renewables RFP and had its transmission group
3 give a presentation on the Company's interconnection process. On April 20, 2005, APS posted on its
4 RFP web site a series of "Questions and Answers" addressing issues submitted electronically or
5 raised during the Bidders' Conference, including a discussion of the evaluation process.³

6 III. THE BIDS

7
8 APS received 24 proposals from 12 different parties in response to the Renewables RFP,
9 consisting of 22 proposed purchased power agreements ("PPAs") and two proposed asset sales. Five
10 of the six solicited technologies were represented in those bids – wind, geothermal, solar,
11 biogas/biomass, and small hydro. Fourteen of the proposals were for in-state projects, and ten were
12 for out-of-state projects.

13 APS conducted an initial screening of all bids received in response to the Renewables RFP.
14 The screening included an economic evaluation that determined how each proposal compared to the
15 economic threshold specified in the APS rate order using the following formula:

$$16 \quad \text{(Respondent's Proposal Price + APS' Integration Costs)} \\ 17 \quad \leq 125\% \text{ of APS' Total Avoided Cost}$$

18 Where: "Integration Costs" included other costs incurred by APS, such as transmission wheeling and
19 ancillary services. "APS' Total Avoided Costs" equaled APS' Avoided Capacity Cost plus APS'
20 Avoided Energy Cost.

21 As a result of the initial screening, APS eliminated from further consideration only those
22 projects with prices more than 150% of APS' total avoided cost or that offered only renewable
23 energy credits. Six proposals from four entities were eliminated through the initial screening process,
24 leaving 18 proposals from eight entities available for further consideration.

25 The Company then entered into discussions with all remaining bidders to get clarification on
26 the proposals and refinements of the prices offered. Discussions also addressed firming up in-service

27 ³ APS Transmission conducted a transmission seminar that potential bidders were invited to attend on July 7, 2005. That
28 seminar provided an overview of the Arizona and APS transmission systems, APS transmission development plans, and
other topics.

1 dates, technology risk, transmission availability, and performance requirements. In most cases,
2 critical terms of the proposals were modified during negotiations, including in-service dates and
3 pricing. In arriving at its final selection, APS eliminated bids that had an in-service date after
4 December 31, 2007. Other proposals were eliminated because they continued to have prices more
5 than 125% of APS' Total Avoided Cost. Proposals were *not* eliminated due to such factors as the
6 firmness of the power, in-state vs. out-of-state, Environmental Portfolio Standard eligibility, or credit
7 issues.

8 APS ultimately selected five proposals – two in-state biogas projects, one out-of-state wind
9 project, and two out-of-state geothermal projects – that met the requirements of being in-service
10 before the end of 2007 and having pricing at or below 125% of APS' Total Avoided Cost.
11 Respondents to the Renewables RFP did not present sufficient economic in-state proposals to meet
12 all the requirements specified in Decision No. 67744. APS carefully considered the objectives
13 expressed by the parties to the Settlement Agreement approved in Decision No. 67744 and the
14 objectives set forth in the Decision itself, and chose a diverse portfolio of technologies that included
15 economic in-state resources and minimized the cost of acquiring the remaining need from out-of-state
16 proposals.⁴ APS has executed memoranda of understanding (“MOUs”) with the bidders for the five
17 proposals. Those MOUs involving out-of-state resources are contingent upon the approval of the
18 Commission for APS to acquire such resources. The following table summarizes the projects
19 selected:

Project	State	Expected Start Date	Size (MWs)	Annual Energy (GWHs)
Biogas:				
Cambrian	AZ	Dec-06	3	23
Ameresco	AZ	Jun-07	3	24

25 ⁴ Those objectives included providing “a hedge against high prices of natural gas.” See Testimony of David Berry,
26 Hearing Transcript, Vol. V at 1044 (November 30, 2004); see also Direct Testimony of Stephen Ahearn, September 27,
27 2004, at 9 (noting that the use of renewable resources is “beneficial for fuel diversity, risk minimization, sustainable local
28 economic development and for environmental reasons”); Staff Report on Demand Side Management, Renewables, and
Distributed Generation Issues Contained in the Proposed Settlement Agreement of Arizona Public Service Company’s
Request for Rate Adjustment (Docket No. E-01345A-03-0437), September 27, 2004, at 3 (noting that “[i]ncreasing
renewable energy could help reduce reliance on conventional fuel sources such as natural gas”).

Project	State	Expected Start Date	Size (MWs)	Annual Energy (GWHs)
Geothermal				
Cal Energy, CE Turbo #1	CA	Jan-06	10	81
Cal Energy, Binary Aug'd	CA	Dec-07	40	280
Wind				
Superior, Aragonne Wind	NM	Dec-06	94	278
Total			150	686

The five proposals selected will provide APS with a diverse portfolio of renewable resources, as well as capacity and energy well above the targets for 100 MW and 250,000 MWH identified in Decision No. 67744.⁵ All agreements include energy-based pricing; thus, APS pays only for the energy produced by the project and is not required to pay any capacity charge. Also, consistent with the requirements of Decision No. 67744, the agreements are either fixed or relatively fixed and are not indexed to natural gas.

As previously mentioned APS could not have met the requirements of Decision No. 67744 with in-state resources and therefore selected certain economic out-of-state resources to complete an attractive portfolio of renewable projects. APS therefore requests that the Commission approve its acquiring those resources as set forth in Decision No. 67744.

IV. TIMING OF COMMISSION DECISION ON APPLICATION

The timing of a Commission decision in this matter is largely driven by the existing market for renewable resources. In order to ensure not only that the projects will be in-service before the end of 2007, but also that the selected proposals will continue to be available to APS, the Company requests prompt approval of its acquisition of the out-of-state wind and geothermal resources summarized above. Because such renewable projects require a long lead time for construction and are in high demand, project developers are unwilling to hold open a commitment for more than a short time before pursuing other opportunities.

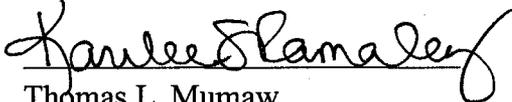
⁵ No in-state projects other than the two biogas proposals selected by the Company offered prices less than 125% of APS' Total Avoided Cost.

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V. CONCLUSION

APS believes the requested approval will provide APS and its customers with a diverse portfolio of renewable resources, consistent with the goals expressed in Decision No. 67744. Thus, APS requests that the Commission approve the Company's acquisition of the out-of-state geothermal and wind resources discussed in this application by the Open Meeting on November 8, 2005.

RESPECTFULLY SUBMITTED this 22nd day of September, 2005.



Thomas L. Mumaw
Karilee S. Ramaley

Attorneys for Arizona Public Service Company

The original and 13 copies of the foregoing were filed this 22nd day of September, 2005 with:

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

EXHIBIT A



Arizona Public Service Co.

**Request for Proposal for
Renewable Energy Resources**

May 11, 2005

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1. INTRODUCTION

1.1. Purpose

Arizona Public Service Company (“APS”) is a public service corporation with retail load in 11 of Arizona’s 15 counties, with approximately 70-80% of its load located in the Phoenix metropolitan area. During the normal course of its business operations, APS continuously evaluates alternatives to fulfill its need to maintain reliable and cost-efficient generation capacity for its customers. Specifically, APS seeks to procure a mix of resource types that offers energy price stability, with consideration being given to the environmental impacts of the generating facilities. In this Request for Proposals (“RFP” or “RFP Process”), APS requests competitive proposals (“Proposals”) for renewable resources totaling at least 100 megawatts (MW) and at least 250,000 megawatt-hours (MWh) per year for a period of not less than five years with deliveries beginning in 2006. The all-in cost to APS of these resources shall be no more than 125% of the estimated market price of a comparably structured conventional resource alternative. Persons or entities responding to this RFP are referred to in this as “Respondents”.

1.2. Product Description

APS is conducting this RFP pursuant to a Settlement Agreement and corresponding Arizona Corporation Commission (“ACC” or “Commission”) Decision No. 67744 in Docket No. E-01345A-03-0437. Specifically, this RFP is issued pursuant to and consistent with Section VIII of the Settlement Agreement (“Settlement”), *entitled “Environmental Portfolio Standard and Other Renewables Programs”*. In this regard, paragraph 69 of the Settlement as amended in Decision No. 67744 states the following:

APS will issue a special RFP by May 15, 2005 seeking at least 100 MW and at least 250,000 MWh per year of any of the following types of renewable energy resources for delivery beginning in 2006: solar, biomass/biogas, wind, small hydro (under 10 MW), hydrogen (other than from natural gas), or geothermal. APS will, either in this solicitation or in subsequent procurements for renewables,

Arizona Public Service Co. – Request for Proposal for Renewable Energy Resources

seek to acquire at least ten percent of its annual incremental peak capacity needs from renewable resources. The renewable resources solicited by this RFP or future solicitations issued pursuant to this paragraph shall be subject to the following conditions:

- a. Resources need not provide firm capacity, but APS will take into consideration the degree of the resource's firmness in determining the appropriate capacity value to assign to such resource.*
- b. Individual resources must be capable of providing at least 20,000 MWh of renewable energy annually.*
- c. Resources must be deliverable to the APS system, either directly or through displacement (tradable tags or credits alone will not suffice), and the costs of integrating a specified resource into the APS system will be considered in determining whether a proposed resource meets the pricing requirements of this paragraph.*
- d. Resources may be, but need not be, EPS-eligible (Environmental Portfolio Standard).*
- e. Purchased power agreements ("PPAs") offering renewable energy must be for a minimum term of five years, but may be for terms, including renewal options, of as long as thirty years.*
- f. Respondents to this renewable energy RFP must offer products with either fixed prices or relatively stable prices that do not vary with either the price of natural gas or of electricity.*
- g. Renewable resources must be no more costly, on a levelized cost per MWh basis, than 125% of the reasonably estimated market price of conventional resource alternatives.*
- h. If APS purchases renewable resources through a PPA, the portion of the cost of those resources that is at or below market price may be recovered through the PSA (Power Supply Adjuster) similar to other PPA costs.*
- i. If APS purchases through a PPA renewable resources that are not eligible for EPS recovery, the portion of the cost of those resources that is above*

market price may be recovered through the PSA similar to other PPA costs.

- j. If APS purchases through a PPA renewable resources that are eligible to meet EPS requirements, the portion of the cost of those resources that is above market price will be recovered from EPS funds; however, such recovery of cost premiums from EPS funds in any year shall be limited to the kWh, expanded by any applicable multipliers, necessary to meet then-existing EPS requirements for that year. If the portion of the cost that is above market price exceeds the amount that is available from the EPS funds as indicated above, or if the EPS funding is exhausted, the remainder may be recovered through the PSA.*
- k. The net proceeds from the sale of any environmental credits or tags attributable to the renewable resources acquired pursuant to this paragraph shall be credited to the EPS account.*
- l. Where feasible, utilization of in-state renewable resources is desirable, subject to the limitations and requirements set forth above, but if APS does not receive sufficient in-state qualified bids, APS is free to acquire qualifying out-of-state resources to meet its initial goal of at least 100 MW or its subsequent goal of acquiring at least ten percent of its incremental capacity needs from renewable resources. However, if APS determines it cannot meet this requirement through in-state resources, it must bring its proposal to purchase out-of-state resources to Staff and obtain Commission approval before making the out-of-state purchase.*
- m. Renewable resources acquired through this RFP or pursuant to Section IX that otherwise qualify for EPS treatment will be considered as applying to any EPS standard.*
- n. Renewable resources acquired through this RFP, through future solicitations for renewables, or pursuant to Section IX shall be subject to the Commission's customary prudence review. The fact that the cost of resources acquired pursuant to this paragraph exceeds market price shall not, in and of itself, render such purchases imprudent. Conversely, a*

renewable resource purchase shall not be rendered prudent solely by virtue of the resource's cost being below 125% of market price.

The Settlement also stipulates if APS fails to acquire the renewable resources as described in the previous paragraphs by the end of 2006, APS will describe the shortfall situation and recommend actions to the ACC by January 31, 2007.

Generation technologies that will be eligible to participate in this renewable RFP include solar, biomass/biogas, wind, small hydro (under 10 MW), hydrogen (other than from natural gas) or geothermal. Although the resources do not need to provide firm capacity, APS will take firmness as well as the timing of product availability into account during the evaluation. All environmental attributes associated with the generating resource must be included with the Proposal(s). All energy and capacity offered in a Proposal must be deliverable to serve APS retail load. Respondents are responsible for identifying how they will deliver the power to the APS system and should include the costs associated with integrating a resource into the APS system in their Proposals.

If the Proposal involves a generating unit not yet fully commercially operational, in addition to the other requirements outlined in this Section, the Respondent must provide APS with sufficient data to establish that the proposed generating unit(s) will achieve the Commercial Operation Date designated in the Proposal, and at that date will be fully capable of producing the capacity and/or energy stated in the Proposal. The Proposal must provide an overview and analysis of the proposed generating unit in a separate attachment as part of the Respondent's response package.

APS may require additional information not identified in this RFP in order to fully evaluate the costs and impacts of any Proposal.

1.3. Changes to RFP, Schedules and Addenda

APS reserves the right to unilaterally revise, suspend or terminate this RFP Process and any schedule related thereto at its sole discretion without liability to any Respondent. Any such changes will be posted on the RFP Web Site (Section 2.3).

2. BID SUBMITTAL

2.1. General Instructions

Respondents should meet all the terms and conditions of the RFP to be eligible to compete in the RFP Process. Respondents should follow all instructions contained in the RFP. Response Packages have been provided and Respondents must complete all relevant documents. All RFP documents, including any updates, can be found on the RFP Web Site (Section 2.3). It is the Respondent's responsibility to advise APS' Official Contact (identified below in Section 2.8.2) of any conflicting requirements, omissions of information or the need for clarification before Proposals are due. Respondents should clearly organize and identify all information submitted in their Proposals to facilitate review and evaluation. **Failure to provide all the information requested in the RFP process or failure to demonstrate that the Proposal satisfies all of the APS requirements will be grounds for disqualification.** Prior to the short-listing of Proposals, all correspondence and communications from the Respondent to APS must be made in writing through the Official Contact or via the e-mail address shown in Section 2.8.2.

2.2. Respondent's Qualifications

The capability and experience of the Respondent must be demonstrated to provide assurance that the Respondent (or parties involved in the Proposal) has the capacity to deliver on the Proposal. At a minimum the Respondent should include the following:

- Description of experience with the proposed technology
- Operating and maintenance experience
- List of other under-development and completed projects

Each Respondent shall respond fully and accurately to the Statement of Financial Conditions and Creditworthiness Qualifications included with the Response Package. In addition to that information, during the Proposal review process, APS may require each Respondent to provide further credit and financial information in order to assist APS in addressing and weighing the creditworthiness of each Respondent.

APS invites Proposals from all potential suppliers who are capable of meeting the conditions of the RFP, and APS will evaluate all responsive bids. Consistent with the Settlement, APS' affiliates will not be eligible to bid.

2.3. RFP Web Site and Communications

Public information associated with the RFP, including all RFP documents as issued and updates, are available at www.aps.com/RFP ("RFP Web Site").

Prior to the bid submission deadline, all communications should be directed to APS via the RFP Web Site or by sending an e-mail to renewableRFP@aps.com. Based upon the nature and frequency of the questions APS receives, APS will choose to either respond to individuals directly, post a response to the question on the RFP Web Site (without disclosing the Respondent's name) or address the question through the bidder's conference (see Section 2.5).

2.4. Schedule

The following schedule and deadlines apply to this RFP:

ACTIVITY	DATE
Issue Draft RFP	March 31, 2005
Pre-RFP Meeting (Bidder's Conference)	April 13, 2005
Issue RFP	May 11, 2005
Notice of Intent to Bid Due	May 25, 2005
RFP Responses Due	June 14, 2005, 2:00pm MST
Shortlist Notification	July 14, 2005
Selection Process Complete	September 12, 2005

2.5. Bidder's Conference

APS conducted a bidder's conference for interested Respondents on April 13, 2005. Relevant information from that bidder's conference is posted on the RFP Web Site.

2.6. Notice of Intent to Bid (NOIB)

In order to identify persons or entities interested in submitting a Proposal, and to assure that all those having such an interest receive any subsequent information distributed in the RFP Process, interested parties are requested to submit via Web form, e-mail or FAX, a non-binding NOIB on or before 5:00 P.M. MST on May 25, 2005. The form for the NOIB is part of this RFP Response Package and is located on the RFP Web Site.

2.7. Proposal Submittal Fee

A non-refundable fee of \$1,000 per Respondent will be required in order to qualify the Proposal(s) for consideration. The fee should be payable in a check made out to

“Arizona Public Service Company.” Proposal submittal fees must be paid by the bid submittal deadline (see Section 2.8.2).

2.8. Proposal Content and Submission Instructions

- 2.8.1. In addition to the information described elsewhere in this RFP, all Respondents must include as part of their Proposal all relevant information requested in the Response Package. Proposals that do not contain all required information or do not fully reflect the bid requirements may not be considered at APS’ sole discretion. In addition to the required information, Respondents should include with their Proposals any other information that may be needed for a thorough understanding or evaluation of their Proposals.
- 2.8.2. Complete Proposals, including all exhibits, must be received on or before 2:00 p.m. MST on June 14, 2005, by APS’ Official Contact at the address below. Respondents shall submit one hard copy of the original Proposal and one “wet” original signature demonstrating that the signatory has full authority to bind the Respondent to all of the terms and conditions contained in the Proposal. In addition, Respondents must submit one electronic version of their Response Package on a compact disc. **All Proposals must expressly confirm that the pricing and terms and conditions of the Proposal will be binding and held open in the manner described in Section 2.8.3. APS will not accept late Proposals or Proposals only delivered by e-mail, FAX or other electronic means. Only sealed Proposals will be accepted.** On the envelope, Respondent shall indicate **“Response to APS RFP re. Renewable Resources.”** Any Proposals received after the scheduled date and time will be disqualified and a notice will be sent to the Respondent.

APS Official Contact:

Patrick Dinkel
Arizona Public Service Company
400 N. 5th Street- MS 9909
Phoenix, AZ 85004
602/250-3399 FAX
e-mail: renewableRFP@aps.com

- 2.8.3. **Except as specified in this paragraph, all Proposals, including terms, conditions and pricing, are binding through the completion of the selection process, currently planned for the close of business (5:00 p.m. MST) on September 12, 2005. Any accepted Proposal will be binding in accordance with the executed definitive agreement (see Section 4.3), including through the Regulatory Approval Process described in Section 4.4.**
- 2.8.4. Respondents will be notified by July 14, 2005 if their bid has been selected for the short-list and further negotiation. This date may be advanced or delayed at APS' sole discretion. Respondents will be notified if the date is changed. Respondents with Proposals not selected for the short-list will be notified and such Proposals will no longer be considered firm or binding by APS. None of the material received by APS from Respondents in response to this RFP will be returned. All Proposals and exhibits will become the property of APS, subject to the confidentiality provisions of Section 2.9.
- 2.8.5. Prior to signing any asset sales contracts or agreements with an Unfinished Generator, Respondents will be required to submit to APS a written and executed assurance of the approval of its board of directors or similar governing body as to the binding nature of the Proposal.
- 2.8.6. Prices and dollar figures must be clearly stated in \$US.

2.9. Confidentiality

With each Respondent's Proposal, APS will require all parties to sign the Confidentiality Agreement, which is found in the Response Package. APS will sign and execute the Confidentiality Agreement upon receipt from each Respondent. APS will use commercially reasonable efforts, in a manner consistent with the Confidentiality Agreement, to protect any claimed proprietary and confidential information contained in a Proposal, provided that such information is clearly identified by the Respondent as "PROPRIETARY AND CONFIDENTIAL" on the page on which proprietary and confidential material appears.

3. EVALUATION PROCESS

3.1. Proposal Review

APS will use several stages in the evaluation process to review Proposals and to determine the best alternative(s). Respondents are advised that price will be a major factor in APS' evaluation, and that resources should be no more than 125% of the estimated market price of a conventional resource alternative. Consistent with the Settlement, APS will give preference to qualified in-state Proposals. APS will give due consideration to operational performance, resource reliability, firmness, deliverability, predictability, credit, environmental impacts, contract considerations and other criteria. Respondents shall include sufficient detail to evaluate all costs associated with the Proposal(s).

In its evaluation, APS will consider costs (price) components including but not limited to the following: ancillary service costs, imputed debt costs, delivery costs, energy costs and O&M costs. Proposals will be compared and evaluated in terms of non-price characteristics as well, including but not limited to the following: resource availability, deliverability, creditworthiness, performance guarantees and project viability. Therefore, the lowest price submittal may not be selected. The evaluation of Proposals will be based on the information provided by the Respondent, with special emphasis on APS being able to provide reliable service and maximize the economic value to APS' retail customers while minimizing the risk to those

customers.

The Respondent also is completely and solely responsible for securing financing for its project prior to any time at which APS would, if applicable, acquire and own the resource. APS may reject Proposals submitted by Respondents who are determined by APS to have insufficient creditworthiness, insufficient financial resources and/or insufficient technical qualifications to provide dependable or reliable service.

In reviewing and considering Proposals, APS will analyze potential credit and/or risk concerns in any comparison of Proposals. As part of its detailed evaluation phase, APS will specifically weigh the credit- and risk-related factors and/or costs underlying each of the Proposals. To assist APS in this review, and in an attempt to provide a levelized analysis of such credit and risk considerations, APS requires that each respondent include with its response package a detailed description of any proposed credit support. The pricing provided shall expressly include the costs of such credit support. APS will review and assess the sufficiency and adequacy of the proposed credit support, and if APS, in its sole discretion, determines such credit support is insufficient, it shall assess additional costs and/or expenses to any such Proposal to allow the levelized analysis referenced above. APS will include in each Proposal evaluation the cost of any credit requirements from APS.

APS reserves the right to accept or reject any or all Proposals for any reason at any time after submittal without explanation to the Respondent, or to make an award at any time to a Respondent who, in the sole opinion and discretion of APS, provides a Proposal APS deems favorable. APS also reserves the right to make an award to other than the lowest price offer, if APS determines that to do so would result in the greatest value to APS' retail customers.

Those Respondents who submit Proposals do so without legal recourse against APS or its directors, management, employees, agents or contractors based on APS' rejection, in whole or in part, of their Proposal or for failure to execute any agreement

tendered by APS. APS shall not be liable to any Respondent or to any other party, in law or equity, for any reason whatsoever relating to APS' acts or omissions arising out of or in connection with the RFP.

3.2. Proposal Threshold Requirements

APS will use several steps in the evaluation process to review Proposals and to determine the best alternative(s). The initial stage of the evaluation process employed by APS will include a review of each Proposal's compliance with the "Threshold Requirements" described below. The Respondent should provide complete and accurate information to ensure that its Proposal satisfies the Threshold Requirements listed below. APS, at its sole discretion, may reject a Proposal for further consideration if the Proposal fails to meet the Threshold Requirements or provides incomplete and/or inaccurate responses. APS may seek clarification and/or remedy of a Respondent's Proposal.

3.2.1. General Threshold Requirements

- The Proposal is received on time and complies with the submission instructions.
- The Proposal is bona fide, and the Respondent (or its guarantor) has sufficient financial capacity to support the Proposal.
- Complete and accurate answers are provided to all questions in the Response Package.
- The Proposal Submittal Fee is included.
- Capacity is available for delivery by 2006.
- The capacity is available and deliverable to the APS network.
- Production from any individual resource is at least 20,000 MWh annually.
- The production is from one of the eligible technologies as defined in Section 1.2.
- If a PPA, the proposed term is for a minimum of five years.

3.2.2. Operating Performance Thresholds

- The Respondent must certify that it has or will have all necessary permits in effect.
- The Respondent must certify that any identified generating unit is or will be built and maintained in good working order, free of material defects and has been and will be operated in accordance with good utility practice and applicable maintenance schedules and in compliance with all applicable laws and regulations.
- If a PPA, the Respondent must be willing to coordinate the generating unit's maintenance scheduling with APS.

3.2.3 Transmission Threshold

- A map (Attachment 1) illustrating the projected 2007/2008 APS Transmission System has been included to assist the Respondents in determining possible points of delivery.
- Deliverability to APS native load customers will be taken into account.
- If the generating unit(s) is or will be located outside of APS' transmission system, the Respondent must provide a transmission plan for wheeling services from those utilities that would be required to wheel the generating unit's power to APS. The complete terms of the wheeling agreement must be provided to APS. Transmission costs to get to the APS system are the responsibility of the Respondent.
- If the generating unit is not in service but has a completed Generator Interconnection Study, a copy of this agreement must accompany the Respondent's Proposal.

- If the generating unit is not yet operational and will be interconnected to APS' transmission or distribution system, the Respondent must complete an Application for Generator Interconnection. A copy of this request must accompany the Respondent's Proposal. To request interconnection of a generating project to APS' system please contact:

Rex Stulting
(602) 250-1644
e-mail: Rex.Stulting@aps.com
or visit <http://www.oatioasis.com/azps/index.html> (click on link entitled Applications)

3.3. Screening Process

In addition to the Threshold Requirements, APS will perform quantitative and qualitative analyses to identify those Proposals that will be short-listed. APS will compare the levelized busbar cost of the renewable resource to 125% of the market price of a conventional resource alternative, i.e., APS' Total Avoided Cost.

Specifically the market price valuation will be determined as follows:

(Respondent's Proposal Price + APS Integration Costs) ≤ 125% of "APS' Total Avoided Cost"

- Integration Costs includes other costs incurred by APS such as ancillary services costs and credit impacts.
- "APS' Total Avoided Cost" = (APS' Avoided Capacity Cost + APS' Avoided Energy Costs)
 - APS' Avoided Capacity Cost equals the savings from displaced generation capacity recognizing the seasonality of capacity value and hourly load patterns.
 - APS' Avoided Energy Cost is based on forward electric prices and long-term incremental energy cost.

On or before July 14, 2005, APS intends to select Proposals that will be included on a short-list. Similarly, APS' intent is to notify Respondents of those Proposals that are

eliminated from further consideration within a reasonable amount of time. Proposals that are included on the short-list will be subjected to a more detailed assessment. APS will use production cost models in its final evaluation of the Proposals. This analysis will incorporate information that has been acquired through a due diligence process. APS will perform (a) a facility operational due diligence review of the short-listed Respondents' in-service facilities and (b) an operational and engineering review of any generating facilities that are not yet operational. Similarly, APS will witness any pre-commercial operation testing of any short-listed generating facilities that are not yet operational. The detailed evaluation will assess the impact of each Proposal on the APS system as well as verifying that the Proposal(s) are no more than the 125% of the market comparison.

APS may elect to schedule meetings or conference calls with each short-listed Respondent to review and clarify its Proposal. APS reserves the right to seek clarification or additional information from each Respondent regarding its Proposal. In addition, Respondents will be required to facilitate due diligence efforts by APS, including through immediate site access and the Respondents' compilation and production of related necessary documents. After the selection of the short-listed Proposal(s), APS will begin contract finalization with such Respondent(s).

4. CONTRACTS and REGULATORY APPROVAL

4.1. General

The Respondent(s) whose Proposal is selected will be responsible for acquiring and/or verifying that they are in compliance with all necessary licenses, permits, certifications, reporting requirements and approvals required by federal, state and local government laws, regulations and policies, including if applicable, for the design, construction and operation of the project. In addition, the Respondent shall fully support all of APS' regulatory requirements associated with any potential acquisition or power supply arrangement.

Respondent shall be liable for all of its costs and APS shall not be responsible for any of Respondent's costs incurred to prepare, submit or negotiate its Proposal, a contract or any other related activity.

4.2. Contract Modifications

The contract format for this RFP will be based upon either (a) the Asset Purchase Agreement, included in the Response Package, or (b) for a PPA, the Proposed Edison Electric Institute ("EEI") Purchase Power Agreement, included in the Response Package, or (c) for a generating unit that is not yet fully commercially operational, the Unfinished Generating Facility Development Agreement that is included in the Response Package. Although APS strongly prefers to use the documents provided with this RFP, Respondents may expressly identify and include proposed changes to those agreements in their Response Packages. Such proposed revisions will allow APS to assess in its evaluation process the significance and/or impact to any Proposal of the changes requested by the Respondents.

4.3. Definitive Agreement

As soon as practicable after APS completes negotiations, APS expects the selected Respondent(s) to execute a definitive Asset Purchase Agreement or PPA or Unfinished Generating Facility Development Agreement, whichever is appropriate. Failure of the Respondent(s) to promptly execute a definitive written agreement after notification of a winning bid will result in rejection of the Proposal.

4.4. Regulatory Approval Process

With respect to (1) all out-of-state resources; (2) in-state resources priced above 125% of the estimated market price of a comparably structured conventional resource alternative; or (3) in cases where regulatory approval is otherwise required by APS (e.g., if additional financing authority is needed), a final negotiated contract is specifically conditioned upon the authorization or approval of the ACC. For asset purchases with a value of greater than Thirty Million Dollars (\$30,000,000), APS

may condition such transactions on ACC-approved cost recovery order(s), which shall be in form and substance acceptable to APS.

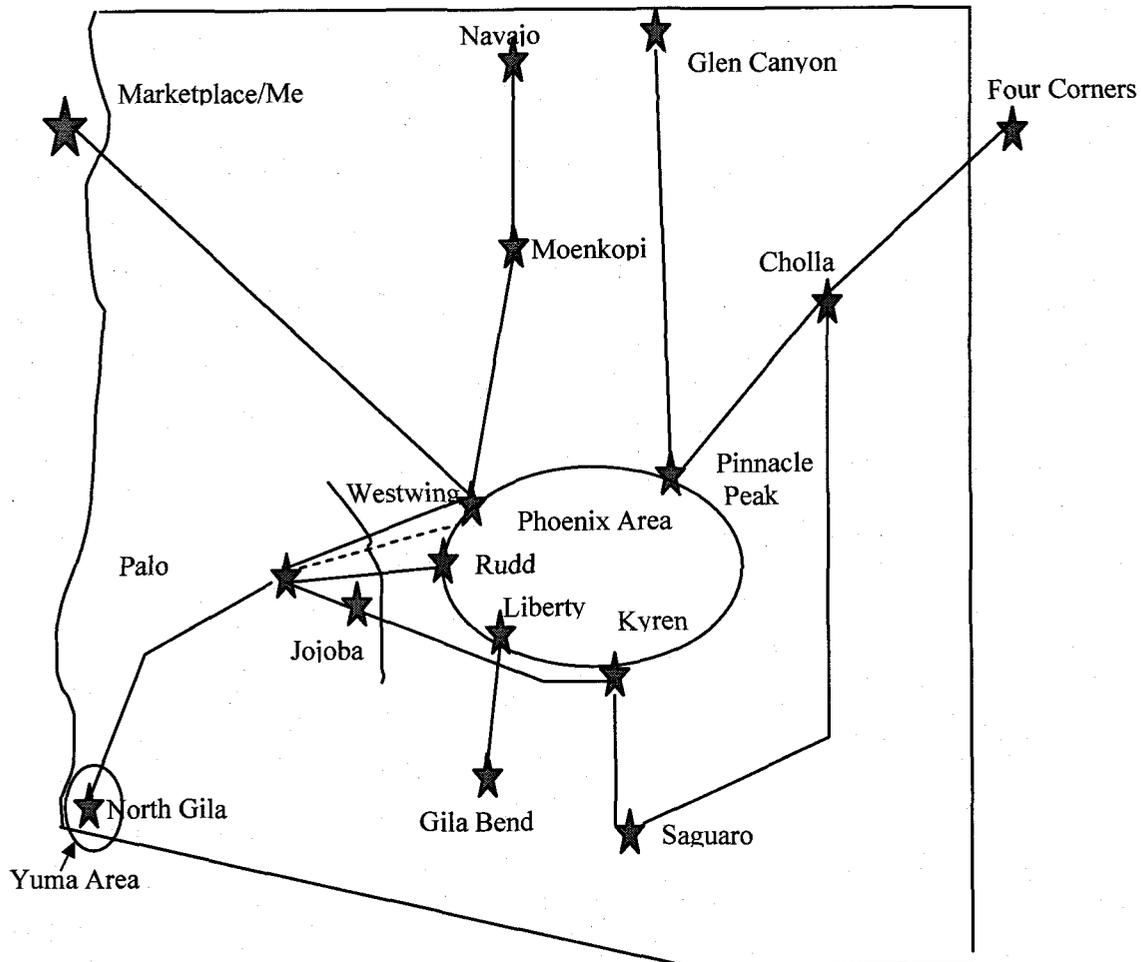
4.5. Collusion

By submitting a Proposal for APS in response to this RFP, the Respondent certifies that the Respondent has not divulged, discussed or compared its Proposal with other Respondents and has not colluded whatsoever with any other Respondent or parties with respect to this or other Proposals.

ATTACHMENT 1

2007/2008 APS Transmission System

(Primary Delivery Points and High Voltage Interconnections)



Internal Delivery Points That Will Also Be Considered:

- Westwing 230 kV
- Kyrene 230 kV
- Rudd 230 kV
- Liberty 230 kV
- Pinnacle Peak 230 kV
- Yuma Area

2007/08 Future Line -----

Note: It is the Respondent's responsibility to verify and acquire transmission data through the Westtrans Oasis site.