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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

Arizona Corporation Commission

DOCKETED

FEB 23 2006

DOCKETED BY	
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IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR AUTHORIZATION TO
ACQUIRE OUT-OF-STATE RENEWABLE
RESOURCES

DOCKET NO. E-01345A-05-0675
DECISION NO. 68486
ORDER

Open Meeting
February 14 and 15, 2006
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS") is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On September 22, 2005, APS filed an application seeking authorization to acquire 144 MWs of out-of-state renewable resources ("Application").
3. In Decision No. 62896 (November 14, 2005), the Commission approved that Application, but ordered APS to work with Staff to reconsider whether two other potentially price-competitive Arizona-based projects should be included in a subsequent application for Commission consideration.
4. On January 12, 2006, APS made a Compliance Filing with the results of its economic analysis. APS rejected both bids because neither project offered an economic resource for its customers.

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1 Background

2 3. Under Commission Decision No. 67744, APS was required to issue a Renewables
3 Request for Proposals ("RFP") seeking at least 100 MWs, and at least 250,000 MWh, per year of
4 renewable energy resources for delivery beginning in 2006. On May 11, 2005, APS issued the
5 Renewables RFP. APS sought proposals from solar, biomass/biogas, small hydro, hydrogen, and
6 geothermal projects. Decision No. 67744 imposes certain significant conditions upon the
7 resources solicited by APS' RFP: 1) individual resources must be capable of providing at least
8 20,000 MWh of renewable energy annually; 2) renewable resources must be no more costly, on a
9 levelized cost per MWh basis, than 125 percent of the reasonably estimated market price of
10 conventional resource alternatives; 3) resources must be deliverable to APS' system, either directly
11 or through displacement; 4) purchased power agreements must offer a minimum term of five
12 years, but may be for terms of as long as thirty years; and 5) responses to the RFP must offer
13 products with either fixed prices or relatively stable prices that do not vary with either the price of
14 natural gas or electricity. APS opened the Renewables RFP to both in-state and out-of-state
15 renewable resources, and no APS affiliate was allowed to participate.

16
17 Response to Renewables RFP

18 4. Twenty-four (24) proposals were received from twelve (12) different respondents.
19 The proposals consisted of twenty-two (22) proposed purchased power agreements ("PPAs") and
20 two (2) proposed asset sales. Five (5) of the six (6) renewable technologies were represented:
21 wind, geothermal, solar, biogas/biomass and small hydro. Fourteen (14) of the proposals were for
22 in-state projects, and ten (10) of the proposals were for out-of-state projects. A total of 787 MWs
23 was proposed in response to the Renewables RFP.

24
25 APS Renewable RFP Bid Evaluation

26 5. The APS evaluation of the 24 proposals identified five proposals (two in-state
27 biogas projects, one out-of-state wind project, and two out-of-state geothermal projects) that would
28 be in-service before the end of 2007 and would be priced at or below 125 percent of APS' total

1 avoided cost. On September 22, 2005, APS filed the Application with the Commission seeking
2 approval to acquire the out-of-state geothermal and wind resources. Decision No. 68296 on
3 November 14, 2005 approved the acquisition of the out-of-state geothermal and wind resources.
4 In addition to approving APS' Application, Decision No. 68296 directed APS to work with Staff
5 to reconsider two potentially cost-effective Arizona-based wind projects.

6 7 Arizona Wind Project Reconsideration

8 7. APS invited the two potentially cost-effective Arizona wind projects to update their
9 proposals for further consideration. One project modified its initial response by downsizing the
10 project, changing wind-turbines, and refreshing its pricing. The other project withdrew its original
11 proposal and submitted for consideration a downsized alternate project at a different location with
12 new pricing. APS evaluated both projects using the same fundamental approach that it had
13 employed to evaluate responses to the Renewables RFP. By using a simple cycle combustion
14 turbine as the conventional resource alternative for determining avoided capacity cost, and using
15 the latest forward price curves available at the time of evaluation for determining avoided energy
16 costs, APS set the total avoided cost benchmark as high as possible. This provided the bidders the
17 maximum opportunity to compete with the most expensive conventional resource available to
18 APS.

19 8. The key variables in calculating the APS total avoided cost are forward price curves
20 and firm available transmission capacity ("ATC").

21 9. Prior to the November 8, 2005 open meeting, APS had not made Staff aware of the
22 amount of firm ATC that had been allocated to certain recently executed PPAs. Subsequent to
23 APS' September 22, 2005 renewable filing but before the October 8, 2005 open meeting, APS
24 entered into contracts resulting from its Reliability RFP and its Environmental Portfolio Standard
25 RFP. The execution of these PPAs diminishes the availability of firm ATC, which
26 correspondingly impacts the cost effectiveness of the two Arizona-based wind projects that APS
27 has been required to reevaluate. In retrospect, it is likely that adequate firm ATC for the two
28 potentially cost-effective, Arizona-based wind projects was not available when the Commission

1 ordered APS to reevaluate them. Nonetheless, APS' evaluation specifically considered the cost-
2 effectiveness of these projects both with and without firm ATC.

3 10. APS performed for comparison purposes the calculations of APS' total avoided
4 costs assuming adequate firm ATC and no available firm ATC. The purpose was to illustrate the
5 increased costs associated with lack of firm ATC. Both projects cost out at a significant premium
6 to 125 percent of APS' total avoided cost benchmark, with or without firm ATC.

7 11. In summary, APS utilized the latest forward price curves and transmission
8 availability in determining the relative cost of these projects. Both projects are in excess of 125
9 percent of APS' total avoided cost, both with and without availability of firm transmission
10 required for power delivery. Throughout the reconsideration, APS coordinated with Commission
11 Staff and provided regular updates on the progress of discussions with the two projects. APS met
12 with Staff on several occasions to review the projects and seek Staff input on the reconsideration
13 process.

14 12 Staff concludes that the reconsideration process was fair, was consistent with the
15 original evaluation process, and was performed in conformance with the selection and evaluation
16 criteria outlined in Decision Nos. 67744 and 68296.

17 13. Staff concludes that the APS evaluation accurately reflects the extent to which both
18 projects exceed 125 percent of APS' total avoided cost, and recommends that the Commission
19 impose no further requirements upon APS in connection with these projects.

20 CONCLUSIONS OF LAW

21 1. APS is certificated to provide electric service as a public service corporation in the
22 State of Arizona.

23 2. The Commission has jurisdiction over APS and over the subject matter of the
24 application.

25 3. Staff's recommendation, as set forth in Finding of Fact No. 13, is reasonable and
26 should be adopted.

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28 ...

ORDER

IT IS THEREFORE ORDERED that because both potentially cost-effective Arizona wind projects, referenced in Decision No. 68296, exceed 125 percent of APS' total avoided cost, no further requirements shall be imposed upon APS in connection with these projects.

IT IS FURTHER ORDERED that this decision should become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION


CHAIRMAN


COMMISSIONER


COMMISSIONER


COMMISSIONER


COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 23rd day of February, 2006.


BRIAN C. McNEIL
Executive Director

DISSENT: 

DISSENT: 

EGJ:WPG:lhmfJFW

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