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BEFORE THE ARIZONA CORPORATION

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Arizona Corporation Commission
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IN THE MATTER OF ARIZONA PUBLIC SERVICE COMPANY – REQUEST FOR A PARTIAL VARIANCE TO A.A.C. R14-2-1618 TO ALLOW RENEWABLE SOLAR THERMAL ENERGY THAT REPLACES NATURAL GAS USAGE TO BE RECOGNIZED FOR THE ENVIRONMENTAL PORTFOLIO STANDARD

Docket No. E-01345A-03-0660

CLARIFICATION THAT RENEWABLE ENERGY STANDARD RULES SUPERSEDE CERTAIN PROVISIONS OF DECISION NO. 66565

AND REQUEST FOR CONSOLIDATION

Arizona Public Service Company ("APS" or "Company") is making this filing in compliance with the Arizona Corporation Commission's ("Commission") comprehensive Renewable Energy Standard ("RES") Rules, A.A.C. R14-4-1801 *et. seq.* APS hereby files its Implementation Plan, as required by A.A.C. R-14-2-1813; its Uniform Credit Purchase Program, as required by A.A.C. R-14-2-1810, which the Company refers to as its Distributed Energy Administration Plan ("DEAP"); its Reset of the Company's authorized Renewable Energy Adjustor Rate Schedule, as required by A.A.C. R-14-2-1808(D); and its Customer Self-Directed Renewable Energy Resources Tariff, as required by A.A.C. R-14-2-1809.

The Company is seeking approval of its Implementation Plan and the DEAP, which reflect full compliance with all provisions of the recently adopted RES Rules. The Implementation Plan describes the Company's approach to fully implement the RES requirements for distributed generation, which would allow individuals and businesses to access funding to facilitate the widespread application of renewable resources, as well as the Company's approach

for acquiring the renewable generation resources necessary to meet the RES Rules' Renewable Energy Requirements.[1]

The RES Rules set out three approaches for a utility company to request funding to meet the requirement of the rules: by filing a tariff;[2] by filing a request to reset a previously- authorized renewable energy adjustor mechanism;[3] or by filing a rate case.[4] Because the Commission has previously authorized a renewable energy adjustor for APS ("Adjustor"), the Company is seeking to reset the current Adjustor mechanism. Under the current Adjustor, the Company would collect approximately $10 million in 2008, along with another $6 million in base rates. To fully comply with RES Rules, APS is estimating that it would require an additional $33.2 million, for a total of $49.2 million in 2008. Therefore, the current Adjustor must be reset to collect $43.2 million, which will result in an Adjustor rate of $0.004737 /kWh, with monthly caps of $1.89 for residential customers, $70.39 for commercial and industrial customers less than 3 MW, and $211.16 for commercial and industrial customers greater than 3 MW. These estimates assume the same proportionality between rate classes that is in place with the current Adjustor, as required by Decision No. 67744.

As part of this filing, the Company is also seeking clarification that the RES Rules are the standard that applies to renewable energy issues for APS, so that certain rulings that pertain to the former Environmental Portfolio Standard ("EPS") Rule,[5] are no longer applicable or legally binding. Specifically, the Company is seeking clarification that for APS, the RES Rules have superseded the EPS Rule, and that the partial variance of the EPS Rule granted in Decision No. 66565 has also been superseded.

The Company further requests that the Commission makes a determination on all these related issues, and requests that these matters be consolidated.

A. IMPLEMENTATION PLAN

The RES Rules require that the Company file an annual plan that describes how it intends

[1] *See,* A.A.C. R14-2-1804 and 1805.
[2] A.A.C. R-14-2-1808(A).
[3] A.A.C. R-14-2-1808(D).
[4] A.A.C. R-14-2-1808(E).
[5] A.A.C. R14-2-1618.

to comply with the RES Rules for the next calendar year for Commission review and approval. In compliance with that provision, APS hereby provides its Implementation Plan that describes, to the extent possible:

1. The Eligible Renewable Energy Resources[6] technology that the Company is proposing to be added each of the next five years and a description of the kW and kWh expected to be obtained from each of those resources;

2. The estimated cost of those Eligible Renewable Energy Resources, including cost per kWh and total cost per year;

3. A description of how each Eligible Renewable Energy Resource will be obtained;

4. A proposal that evaluates whether the Company's existing rates allow for the ongoing recovery of the reasonable and prudent costs of complying with the RES Rules; and

5. A line item budget that allocates specific funding.

The Company's Implementation Plan is attached as Exhibit A. (Because the Implementation Plan contains competitively confidential information, that information has been redacted in the version filed in Docket Control. The information will be provided to Commission Staff and other appropriate parties to this proceeding upon execution of a confidentiality agreement.)

The Company has addressed each of these provisions to the best of its ability at this time. It is expected that expansive provisions of the new RES Rules will spur the development of new and improved renewable energy technologies and applications. Because this is the first Implementation Plan to be filed under the recently adopted RES Rules, there remains much uncertainty as to renewable energy markets in the future. As a result, the Company has prepared its best estimate of technologies that may be available to the marketplace in the next five years, evaluating all the information that is available to it at this time.

In compliance with R14-2-1810(B), APS is filing its DEAP, which is the Company's Uniform Credit Purchase Program. The DEAP incorporates virtually all of the preliminary recommendations reached by an informal working group that was established by Commission Staff during 2006. The DEAP, which addresses the consumer participation process, budgets,

[6] *See,* A.A.C. R-14-2-1802.

incentive levels, eligible technologies, system requirements and installation requirements, provides a program that will encourage customer participation. The Company's DEAP is attached as Exhibit B.

B. MODIFICATION OF THE ADJUSTOR MECHANISM

APS is also seeking funding for recovery of its reasonable and prudent costs of implementation and compliance with the RES Rules, through a modification to its current Adjustor, as provided for in RES Rule R-14-2-1808(D). The Company is requesting that the Commission reset its current Adjustor[7] to $0.004737 /kWh to cover its costs for full compliance with the RES Rules. Although the Company has analyzed alternatives, the proposed RES Adjustor rates maintain the proportionality adopted in Decision No. 67744. The Company's Implementation Plan provides the data necessary to support the level of costs the Company believes will be incurred, and the data necessary to demonstrate that the proposed rate schedule is designed to recover only costs in excess of market cost of comparable generation. The proposed Renewable Energy Standard Rate Schedule is attached as Exhibit C.

C. APPROVAL OF SELF-DIRECT TARIFF

RES Rule R-14-2-1809(A) requires the Company to file a tariff under which an Eligible Customer[8] may apply to receive funds to install Distributed Renewable Energy Resources. Details regarding the Self-Direct program are included in the Company's DEAP. The proposed Customer Self-Directed Renewable Resources tariff is attached as Exhibit D.

D. NATURAL GAS DISPLACEMENT – PARTIAL VARIANCE

In Decision No. 66565, the Commission granted a partial variance to A.A.C. R14-2-1618 to allow for solar thermal energy that replaced natural gas usage to be recognized for the Environmental Portfolio Standard ("EPS"). A.A.C. R14-2-1618. That rule required utilities to derive a portion of their total retail energy sold from new solar resources or environmentally friendly renewable electricity technologies. The EPS rule[9] allowed up to 20 percent of the portfolio requirement to be met with solar water heating or solar air conditioning systems, and

[7] The Company's current Adjustor was authorized in Decision No. 67744 (April 7, 2005).

[8] Under the RES Rules, an "Eligible Customer" is an entity that pays tariff funds of at least $25,000 annually for any number of related accounts or services within an Affected Utility's service area. A.A.C. R-14-2-1801(H).

[9] A.A.C. R14-2-1618(K).

specified that solar water heaters must replace or supplement the use of electric water heaters. (Emphasis added.)

In Decision No. 66565, the Commission granted APS a partial variance to that rule, which allowed a limited amount of renewable solar thermal energy that replaced natural gas usage to be recognized for the EPS. Specifically, no more than two customer installations per calendar year, with a total displacement of natural gas not to exceed 60,000 therms per calendar year would be applicable to the EPS requirements. The installations pursuant to this partial variance were limited to the displacement of existing natural gas water heating systems, and could not utilize the EPS funding for the displacement of natural gas in new construction. In addition, any supplemental or backup water heating system using gas was required to use natural gas to be eligible to receive EPS funding for solar hot water system conversion.

The RES Rules are silent regarding a requirement that solar energy must replace or supplement of the use of electricity. Therefore, but for the mandate of Decision No. 66565, APS believes that solar appliances that displace natural gas can be claimed as a credit toward meeting the annual renewable energy requirement of the RES Rules. It is for that reason that the Company is requesting that the Commission clarify that the partial variance provisions of Decision No. 66565 are superseded by the RES Rules.

E. CLARIFICATION THAT RES RULES SUPERSEDE THE EPS RULES.

The Company believes that it was the intent of the Commission that the RES Rules replace and supersede the EPS Rule, yet there is no specific provision in the RES Rules to that effect. The RES Rules allow for a wider variety of renewable resources, which results in conflict with the narrow provisions of the EPS Rule.[10]. The RES Rules also include comprehensive annual reporting requirements, such as requiring a Company to report: the actual kWh of energy obtained from Eligible Renewable Energy Resources;[11] the kW of generation capacity, disaggregated by technology type;[12] the cost information regarding cents per actual kWh of

[10] The EPS Rule limited renewable resources to solar resources and in-state landfill gas generators, wind generators and biomass generators. A.A.C. R14-2-1618. The RES Rules have significantly broadened the kinds of renewable resources that qualify, and allow for out-of-state resources. A.A.C. R14-2-2-1802.

[11] A.A.C. R14-2-1812(B)(1).

[12] A.A.C. R14-2-1812(B)(3).

energy obtained from Eligible Renewable Energy Resources and cents per kW of generation capacity, disaggregated by technology type;[13] and the breakdown of Renewable Energy Credits ("RECs") used to satisfy both the Annual Renewable Energy Requirement and the Distributed Renewable Energy Requirement and appropriate documentation of the Affected Utility's receipt of those RECs.[14] APS believes that the RES Rules reporting requirements have subsumed similar reporting requirements in other dockets, but unless this position is acknowledged by the Commission, the Company will have to comply with both EPS and RES requirements. Similarly, the Company has reporting requirements related to renewable energy resources from other previous Commission dockets, such as the 1994 Integrated Resource Planning docket,[15] which the Company believes are appropriately subsumed in the RES Rules reporting requirements. [*See,* attached Exhibit E, which reflects the Company's current reporting requirements.] For these reasons, APS requests that the Commission clarify that the EPS Rule has been rendered unnecessary with the adoption of the RES Rules, and that APS must comply only with the requirements of the RES Rules, rendering reporting requirements in other dockets unnecessary.

F. REQUEST FOR CONSOLIDATION

All the issues raised herein are substantially the same, and interested parties will suffer no prejudice in having these cases consolidated. Therefore, for purposes of administrative efficiency, the Company requests that the Commission consolidate these matters.

G. CONCLUSION

For the reasons discussed above, APS requests that the Commission consolidate these matters for determination and issue an order that:

1. Approves the Company's Implementation Plan;
2. Approves the Company's Distributed Energy Administration Plan;
3. Approves the reset of Company's renewable energy adjustor rate;
4. Approves the Company's Self-Directed Renewable Resources tariff;

[13] A.A.C. R14-2-1812(B)(4).
[14] A.A.C. R14-2-1812(B)(5).
[15] Docket No. U-0000-93-052.

5. Clarifies that the RES Rules supersede the partial variance provisions of Decision No. 66565 related to the displacement of natural gas usage by solar thermal energy; and

6. Clarifies that for APS, the RES Rules supersede the provisions of the EPS Rule and other reporting requirements related to renewable energy resources.

RESPECTFULLY SUBMITTED this 7th day of August, 2007.

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