

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

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DOCKETED

TO: THE COMMISSION

AUG - 8 2008

AZ CORP COMMISSION
DOCKET CONTROL

FROM: Utilities Division

DATE: August 8, 2008

DOCKETED BY *MM*

RE: ARIZONA PUBLIC SERVICE COMPANY'S REQUEST FOR CLARIFICATION OF BIOMASS THERMAL ENERGY PURSUANT TO THE RENEWABLE ENERGY STANDARD RULES (DOCKET NO. E-01345A-08-0254)

On May 20, 2008, Arizona Public Service Company ("APS") filed a request for clarification of "Biomass Thermal System" as defined by the Arizona Corporation Commission's ("Commission") Renewable Energy Standard and Tariff ("REST") Rules, Arizona Administrative Code ("A.A.C.") R14-2-1802(B).

APS was recently approached by Drake Cement Company, LLC in Drake, Arizona, desiring to obtain an incentive under the APS distributed renewable energy incentive program for a biomass thermal system that would replace a portion of the coal used for heat in its cement operations. The cement plant plans to replace from 25-50 percent of the coal use with biomass. This would be the equivalent of 100,000 - 200,000 megawatt hours.

The biomass thermal energy project would use local renewable biomass resources and reduce air pollution by displacing coal combustion and thereby reducing air emissions.

The REST Rules define, in A.A.C. R14-2-1802(B), "Distributed Renewable Energy Resources" as applications "...that displace Conventional Energy Resources that would otherwise be used to provide electricity to Arizona customers." In this case, the Conventional Energy Resource (coal) would otherwise have been used to provide heat for cement production, not electricity.

APS further points out in its filing that, also in the REST Rules at A.A.C. R14-2-1802(D), the Commission allows for pilot programs which establish additional technologies as "...Eligible Renewable Energy Resources that produce electricity, replace electricity generated by conventional Energy Resources, or replace the use of fossil fuels with Renewable Energy Resources" (emphasis added).

APS is uncertain if the proposed biomass thermal energy project would be eligible for REST incentives and is requesting clarification by the Commission in this matter.

Staff has reviewed the application by APS and the appropriate sections of the REST Rules. Staff agrees with APS that the definition in A.A.C. R14-2-1802(B) appears to preclude the project as a Distributed Renewable Energy Resource because the Conventional Energy Resource displaced would not "...otherwise be used to provide electricity to Arizona customers." However, Staff believes that a pilot program, as allowed in A.A.C. R14-2-1802(D), would be one way to address the issue. The cement plant in Drake would use local biomass resources that would facilitate forest restoration and mitigation of fire hazards. Like the reduction of coal in a power plant, this biomass project would help reduce the pollution from conventional fossil fuels in Arizona.

Staff believes that projects such as the cement plant in Drake will help move Arizona away from the use of polluting conventional resources and toward a more widespread use of cleaner, renewable energy resources. In addition, the use of local biomass resources will benefit the local economy and reduce the local fuel inventory that could contribute to future devastating forest fires.

Staff notes that the Drake Cement project would provide APS the equivalent of up to 200,000 megawatt hours of Renewable Energy Credits ("RECs") each year. This is significantly more than the entire APS Distributed Renewable Energy requirements in 2009, 2010, and most of the 2011 requirement. The APS Distributed Renewable Energy requirements in those years are:

Year	Total DE Requirement (MWh)	Non-Residential Portion (MWh)
2009	88,595	44,297
2010	150,427	75,213
2011	232,210	116,105
2012	334,131	167,065
2013	392,518	196,259

Staff notes that this one project has the potential to "crowd out" all other non-residential distributed projects in 2009 through 2013. This result would thwart the Commission's intent of encouraging a broad list of distributed energy projects, spread throughout the APS Distribution System.

Staff has recommended that APS be limited to using RECs from the Pilot Program to meet no more than 50 percent of the non-residential Distributed Energy RECs used by APS in any given calendar year to meet its Distributed Renewable Energy Requirements. For example, APS would be limited to using 58,052 MWh of RECs from the Biomass Thermal Energy Pilot Program (50% of the Non-Residential requirement of 116,105 MWh is 58,052 MWh) to meet the Non-Residential portion of its Distributed Renewable Energy requirement in 2011. Any excess RECs in a given year could be banked by APS for future use, used to meet non-distributed REST requirements, or could be sold or traded to other utilities to meet their REST requirements.

THE COMMISSION

August 8, 2008

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Staff recommends that the Commission direct APS to establish a Biomass Thermal Energy System Pilot Program as part of its Distributed Energy Administration Plan. Staff further recommends that a biomass thermal energy system at Drake Cement Company, LLC included in the Pilot Program, that only produces heat, be deemed eligible for Distributed Renewable Energy Resource incentives as approved in the APS 2008 REST Implementation Plan and in the future approved APS REST Plans. Staff has recommended that the eligibility of the Drake Cement Company project shall be valid for the life of the renewable energy system.

Staff has also recommended that APS be ordered to report on the output results of the Pilot Program as a separate item in the APS' Annual Compliance Report once the system has become operational. APS shall report the output results of the Pilot Program annually until further order of the Commission.

A handwritten signature in black ink, appearing to read "E. G. Johnson", with a long horizontal flourish extending to the right.

Ernest G. Johnson
Director
Utilities Division

EGJ:RTW:lhv\AH

ORIGINATOR: Ray T. Williamson

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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY'S REQUEST FOR
CLARIFICATION OF BIOMASS
THERMAL ENERGY PURSUANT TO THE
RENEWABLE ENERGY STANDARD
RULES

) DOCKET NO. E-01345A-08-0254
) DECISION NO. _____
) ORDER

Open Meeting
August 26 and 27, 2008
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS" or "Company") is engaged in providing electric power within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On May 20, 2008, APS filed a request for clarification of "Biomass Thermal System" as defined by the Commission's Renewable Energy Standard and Tariff ("REST") Rules, Arizona Administrative Code ("A.A.C.") R14-2-1802(B).

3. APS was recently approached by Drake Cement Company, LLC in Drake, Arizona, desiring to obtain an incentive under the APS distributed renewable energy incentive program for a biomass thermal system that would replace a portion of the coal used for heat in its cement operations. The cement plant plans to replace from 25-50 percent of the coal use with biomass. This would be the equivalent of 100,000 - 200,000 megawatt hours.

1 4. The biomass thermal energy project would use local renewable biomass resources
2 and reduce air pollution by displacing coal combustion and thereby reducing air emissions.

3 5. The REST Rules define, in A.A.C. R14-2-1802(B), “Distributed Renewable Energy
4 Resources” as applications “...that displace Conventional Energy Resources that would otherwise
5 be used to provide electricity to Arizona customers.” In this case, the Conventional Energy
6 Resource (coal) would otherwise have been used to provide heat for cement production, not
7 electricity.

8 6. APS further points out in its filing that, also in the REST Rules at A.A.C. R14-2-
9 1802(D), the Commission allows for pilot programs which establish additional technologies as
10 “...Eligible Renewable Energy Resources that produce electricity, replace electricity generated by
11 conventional Energy Resources, or replace the use of fossil fuels with Renewable Energy
12 Resources” (emphasis added).

13 7. APS is uncertain if the proposed biomass thermal energy project would be eligible
14 for REST incentives and is requesting clarification by the Commission in this matter.

15 8. Staff has reviewed the application by APS and the appropriate sections of the REST
16 Rules. Staff agrees with APS that the definition in A.A.C. R14-2-1802(B) appears to preclude the
17 project as a Distributed Renewable Energy Resource because the Conventional Energy Resource
18 displaced would not “...otherwise be used to provide electricity to Arizona customers.”

19 9. Staff believes that a pilot program, as allowed in A.A.C. R14-2-1802(D), would be
20 one way to address the issue. The cement plant in Drake would use local biomass resources that
21 would facilitate forest restoration and mitigation of fire hazards. Like the reduction of coal in a
22 power plant, this biomass project would help reduce the pollution from conventional fossil fuels in
23 Arizona.

24 10. Staff believes that projects such as the cement plant in Drake will help move
25 Arizona away from the use of polluting conventional resources and toward a more widespread use
26 of cleaner, renewable energy resources. In addition, the use of local biomass resources will benefit
27 the local economy and reduce the local fuel inventory that could contribute to future devastating
28 forest fires.

1 11. Staff notes that the Drake Cement project would provide APS the equivalent of up
2 to 200,000 megawatt hours of Renewable Energy Credits ("RECs") each year. This is
3 significantly more than the entire APS Distributed Renewable Energy requirements in 2009, 2010,
4 and most of the 2011 requirement. The APS Distributed Renewable Energy requirements in those
5 years are:

Year	Total DE Requirement (MWh)	Non-Residential Portion (MWh)
2009	88,595	44,297
2010	150,427	75,213
2011	232,210	116,105
2012	334,131	167,065
2013	392,518	196,259

11 12. Staff notes that this one project has the potential to "crowd out" all other non-
12 residential distributed projects in 2009 through 2013. This result would thwart the Commission's
13 intent of encouraging a broad list of distributed energy projects, spread throughout the APS
14 Distribution System.

15 13. Staff has recommended that APS be limited to using RECs from the Pilot Program
16 to meet no more than 50 percent of the non-residential Distributed Energy RECs used by APS in
17 any given calendar year to meet its Distributed Renewable Energy Requirements. For example,
18 APS would be limited to using 58,052 MWh of RECs from the Biomass Thermal Energy Pilot
19 Program (50% of the Non-Residential requirement of 116,105 MWh is 58,052 MWh) to meet the
20 Non-Residential portion of its Distributed Renewable Energy requirement in 2011. Any excess
21 RECs in a given year could be banked by APS for future use, used to meet non-distributed REST
22 requirements, or could be sold or traded to other utilities to meet their REST requirements.

23 14. Staff has recommended that the Commission direct APS to establish a Biomass
24 Thermal Energy System Pilot Program as part of its Distributed Energy Administration Plan. Staff
25 further recommends that a biomass thermal energy system at Drake Cement Company, LLC
26 included in the Pilot Program that only produces heat be deemed eligible for Distributed
27 Renewable Energy Resource incentives as approved in the APS 2008 REST Implementation Plan

28

1 and in the future approved APS REST Plans. Staff has recommended that the eligibility of the
2 Drake Cement Company project shall be valid for the life of the renewable energy system.

3 15. Staff has also recommended that APS be ordered to report on the output results of
4 the Pilot Program as a separate item in the APS' Annual Compliance Report once the system has
5 become operational. APS shall report the output results of the Pilot Program annually until further
6 order of the Commission.

7 CONCLUSIONS OF LAW

8 1. Arizona Public Service Company is an Arizona public service corporation within
9 the meaning of Article XV, Section 2, of the Arizona Constitution.

10 2. The Commission has jurisdiction over Arizona Public Service Company and over
11 the subject matter of the application.

12 ORDER

13 IT IS THEREFORE ORDERED that Arizona Public Service Company is directed to
14 establish a Biomass Thermal Energy System Pilot Program as part of its Distributed Energy
15 Administration Plan and that a biomass thermal energy system at Drake Cement Company, LLC
16 included in the Pilot Program, that only produces heat, shall be considered eligible for Distributed
17 Renewable Energy Resource incentives as approved in the APS 2008 REST Implementation Plan
18 and future APS REST Plans. The eligibility of the Drake Cement Company project shall be valid
19 for the life of the renewable energy system.

20 IT IS FURTHER ORDERED that the output results of the project in the Pilot Program
21 shall be described as a separate item in APS' Annual Compliance Report once the system has
22 become operational. APS shall report the output results of the Pilot Program annually until further
23 order of the Commission.

24 IT IS FURTHER ORDERED that the RECs from the Pilot Program may only be used by
25 APS to meet up to 50 percent of the non-residential Distributed Energy Requirement in any
26 calendar year.

27 ...

28 ...

1 IT IS FURTHER ORDERED that any excess RECs purchased by Arizona Public Service
 2 Company, but not useable in a given year due to this Commission-imposed cap, may be banked by
 3 Arizona Public Service Company for future use, may be used to meet non-distributed REST
 4 requirements, or may be sold or traded to other utilities to meet their REST requirements.

5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

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CHAIRMAN

COMMISSIONER

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COMMISSIONER

COMMISSIONER

COMMISSIONER

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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 _____ day of _____, 2008.

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 BRIAN C. McNEIL
 EXECUTIVE DIRECTOR

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DISSENT: _____

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DISSENT: _____

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EGJ:RTW:lhm\AH

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1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO. E-01345A-08-0254

3 Ms. Deborah Scott
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5 Phoenix, Arizona 85004-2202

6 Mr. Ernest G. Johnson
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