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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

Arizona Corporation Commission

DOCKETED

SEP 30 2008

DOCKETED BY 

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. 70532

ORDER

Open Meeting
September 23 and 24, 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

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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 16. While R14-2-1802(D) appears to grant the Commission the latitude to approve pilot
8 projects that would displace fossil fuels with renewable energy resources, even if the project would
9 not produce electricity from renewable sources or displace conventionally-generated electricity,
10 we fail to see how converting a plant to use biomass instead of coal as fuel for cement making
11 furthers the core purposes of the REST rules which, as expressed in R14-2-1804 and R14-2-1805
12 are "to ensure reliable electric service at reasonable rates" and "to improve system reliability."
13 This view is further enhanced by the context within which R14-2-1802(D) is found – in rules that
14 apply only to retail electric service providers and which otherwise allow only technologies that
15 either generate electricity from renewable sources or that displace conventionally-generated
16 electricity. And while there are clear ancillary benefits associated with the Drake Biomass Project,
17 including pollution control and economic development, the proposed project would not result in a
18 net increase in the amount of electricity generated by renewable energy in Arizona – the primary
19 driver behind the REST Rules. In addition, by usurping so much of APS' Distributed Energy
20 funding, the Biomass Project could actually result in stifling competition among different forms of
21 distributed generation, which would also conflict with a goal of the REST Rules.

22 17. For the foregoing reasons, we find that the proposed Biomass Thermal Energy
23 System Pilot Program, including a biomass thermal energy system at Drake Cement Company,
24 LLC, is not an eligible Distributed Energy Resource and is therefore not eligible for Distributed
25 Renewable Energy Resource incentives as approved in APS' 2008 Rest Implementation Plan.

26 CONCLUSIONS OF LAW

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

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

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