

ORIGINAL



0000089353

BEFORE THE ARIZONA CORPORATION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

COMMISSIONERS

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

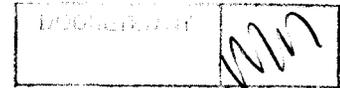
RECEIVED

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

OCT 10 2008



IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR APPROVAL OF ITS 2009
RENEWABLE ENERGY STANDARD
IMPLEMENTATION PLAN AND
DISTRIBUTED ENERGY
ADMINISTRATIVE PLAN AND REQUEST
FOR RESET OF RENEWABLE ENERGY
ADJUSTOR

Docket No. E-01345A-08-0331

**APS's SUPPLEMENTAL
INFORMATION TO IT'S 2009
RENEWABLE ENERGY
STANDARD IMPLEMENTATION
PLAN**

On July 1, 2008, Arizona Public Service ("APS" or "Company") filed its 2009 Implementation Plan pursuant to the Renewable Energy Standard and Tariff ("REST") Rules.¹ As the Company had indicated in its 2009 Implementation Plan, in this filing the Company is updating the record regarding the REST funding from the 2008 Implementation Plan that is not yet committed. In addition, APS is proposing an alternative regulatory approach related to Production Based Incentives ("PBIs") in response to concerns that have been raised regarding a contractual provision that addresses the allocation of risk in the event that there are future changes in law or regulation that precludes the Company's ability to fund REST customer incentive commitments ("Change in Law Provision"). Finally, APS is commenting on the recent extension of the federal investment tax credit for solar installations and the elimination of the \$2,000 cap for residential customer tax credits.

Update on 2008 RES Incentive Funding

At the time APS filed for approval of its 2009 Implementation Plan, the

¹ A.A.C. R14-2-1801 through 1816. R14-2-1813 requires the Company to file an Implementation Plan July 1st every year.

1 Company's 2008 Implementation Plan had only been in effect a few months.² In its 2009
2 Implementation Plan, APS indicated that 2008 incentive funds may not be fully
3 committed by the end of the year, and that the Company would provide an update in
4 October. Now, in the fourth quarter of 2008, APS is currently estimating that it will have
5 approximately \$12 million of uncommitted 2008 RES funds remaining at year end, which
6 can be rolled over to partially offset 2009 RES funding requirements.³ As a result, the
7 funding that is needed for full compliance with the 2009 Implementation Plan can be
8 reduced accordingly. The impact of 2008 rollover funding on the 2009 Implementation
9 Plan funding requests are reflected in the revised schedules that are attached. *See*
10 Attachment A, Updated APS RES Program Summary; Attachment B, Updated RES
11 Budget Summary; and Attachment C, Updated RES Adjustor Schedule. Should there be
12 a material change in this estimated amount of rollover funds in the intervening time, the
13 Company will update the record before the Commission makes a final determination in
14 this matter.

15 **Allocating Change in Law Risk**

16 Recently, concerns have been raised regarding the Change in Law Provision in
17 APS's Credit Purchase Agreement ("CPA").⁴ With large-scale distributed projects, APS
18 and its customer execute a CPA, a standard long-term agreement with terms of ten to
19 twenty years that addresses the commissioning of the system, interconnection with the
20 APS electric system, and terms and conditions for the sale and purchase of Renewable
21 Energy Credits⁵ ("RECs"), among other things.

22 The Change in Law Provision is relevant for distributed renewable projects that
23 will receive PBIs. The PBI is one of two general forms of incentives used in APS's

24 ² Decision No. 70313, which approved the 2008 Implementation Plan, was issued April 28, 2008.

25 ³ This figure is based on several assumptions for the last three months of the year and, therefore, could be
somewhat different when actual results are reported on April 1, 2009.

26 ⁴ The Solar Alliance filed comments in this docket (Aug. 29, 2008) that expressed their concerns with the
Change in Law provision, and Commissioner Mayes docketed a letter (Sept. 10, 2008) addressing similar
27 issues.

28 ⁵ A Renewable Energy Credit is the unit created to track the kWh derived from an Eligible Renewable
Energy Resource or kWh equivalent of Conventional Energy Resources displaced by Distributed
Renewable Energy Resources. A.A.C. Rule R14-2-1801(N).

1 Renewable Incentive Program for customer-owned distributed generation projects.⁶ Non-
2 residential renewable energy systems that are eligible for a sum of incentives greater than
3 \$75,000 receive PBI incentives, which are paid to the customer based on system energy
4 output. In return, the Company receives the RECs, which represent the environmental
5 benefits from the system. Payment for the RECs comes from funding pursuant to APS's
6 Commission-approved RES tariff.

7 The Change in Law Provision was intended to address the possibility of a change
8 in the applicable law that materially affects the provisions of the CPA to the detriment of
9 either party.⁷ Contractual provisions that address potential future regulatory changes are
10 neither unusual nor uncommon, particularly with transactions involving long tenure with
11 significant future financial exposure. The potential forward exposure to APS and its
12 customers for ongoing PBI obligations committed by 2013 could reach a notional amount
13 of approximately \$250 million.

14 While the Change in Law Provision has been a subject of discussion, to date,
15 several customers have executed CPAs with this provision and are proceeding with
16 renewable projects. However, the Company acknowledges that the uncertainty posed by
17 this provision has caused challenges for some customers to obtain financing for
18 renewable projects. The need for the Change in Law Provision, however, can be
19 mitigated if the Commission approves recovery of PBI payments either for each CPA, or,
20 as APS would propose, as part of the annual RES implementation plan. This is the
21 approach that other public utility commissions have taken.

22 For example, as part of its consideration of Public Service of Colorado's
23 renewable energy implementation filing, the Colorado Public Utilities Commission
24 ("CoPUC") reviewed standard contracts associated with solar electric generation systems.
25 The CoPUC approved the rebate provisions and REC prices in the standard contracts,
26 finding:

27 ⁶ The other form of incentive, the Up-Front Incentive ("UFI"), is paid to customers only once—upon
28 project completion. As a result, the agreement for UFIs does not have a Change in Law Provision as
there are no payments over time.

⁷ A copy of the actual contract provision is attached. See Attachment D.

1 Therefore, we grant limited approval of the standard contracts - those
2 aspects relating to the rebate provisions and the REC prices. This limited
3 approval also includes the associated cost recovery for the rebate
4 payments and REC prices through retail rates.⁸

5 Similarly, Nevada Power Company sought a determination of prudence and
6 assurance of cost recovery with respect to the "Solar Star" project at Nellis Air Force
7 Base. The Nevada Public Utilities Commission approved both prudence and future cost
8 recovery for the Nellis contract, specifically stating:

9 The Commission finds that the Agreement between Applicant and Solar
10 Star as set forth in the Stipulation is prudent and Applicant can recover
11 all costs that are prudently incurred in carrying out the Agreement. The
12 Commission also finds that the rates arising from the Agreement are just
13 and reasonable.⁹

14 APS believes that if the Arizona Commission were to adopt similar findings
15 regarding cost-recovery for payment of PBIs over the term of the CPA for the upcoming
16 program year (and for 2008 in the 2009 Implementation Plan order), that those findings
17 would mitigate the need for the current contractual Change in Law Provision. Should the
18 Commission determine that such an approach is warranted, APS proposes the following
19 finding:

20 The Commission finds that the Production Based Incentive Credit
21 Purchase Agreements that result from APS's 2008 and 2009
22 Implementation Plans, up to \$xx¹⁰ million, are consistent with the REST
23 Rules. Therefore, we approve recovery of such incentive payments that
24 are prudently incurred in meeting the Company's obligation under these
25 Production Based Incentive Agreements.

26 ⁸ Colorado Public Svc. Comm'n, Decision No. C07-0676 (August 8, 2007) at ¶ 105.

27 ⁹ Nevada Public Util. Comm'n, Docket No. 07-01035 (March 23, 2007) at ¶ 17.

28 ¹⁰ In its 2009 Implementation Plan, APS filed three funding options; the specific dollar amount would be dependent on the funding option selected by the Commission. The total commitment for the full term of the CPAs entered into through 2009 is forecasted to be \$77 million to fully comply with the RES requirements. If the Commission were to adopt the Alternative Funding option, the required cost recovery assurance is estimated to be \$110 million; under the Current Funding option, the estimate is \$90 million.

1 APS believes this approach would provide a comprehensive solution to this issue that is
2 acceptable to all interested stakeholders. APS anticipates that it will request approval of
3 a new limit for PBI CPAs each year in its implementation plan.

4 **Recent Changes to the Federal Investment Tax Credit**

5 Congress recently passed an eight year extension to the federal investment tax
6 credit for solar energy systems. As part of that extension, the current limit of \$2,000 on
7 the thirty percent personal income tax credit for residential installations was eliminated.
8 The elimination of this cap will allow residential program participants to recover a
9 greater portion of their investment in solar energy systems than had been originally
10 anticipated when the Uniform Credit Purchase Program Working Group developed
11 incentives for solar energy systems. APS believes that the elimination of the residential
12 cap will provide additional economic incentives for customers, which in turn, will help
13 achieve compliance with the REST distributed generation requirements. Therefore, APS
14 believes it is appropriate to retain the current solar incentives proposed in the Company's
15 2009 Implementation Plan.

16 **Conclusion**

17 Based upon the discussion above, APS requests that the Commission specifically
18 find that APS can recover all costs that are prudently incurred in carrying out the
19 distributed renewable energy agreements that are executed pursuant to its 2008 and 2009
20 Implementation Plans for the full term of these agreements. In the alternative, the
21 Company requests the Commission find that the Change in Law Provision in the Credit
22 Purchase Agreement is an appropriate and reasonable means to address the allocation of
23 risk in the event that there are future changes in law or regulation that precludes the
24 Company's ability to fund REST customer incentives.

25 Additionally, APS requests that the uncommitted 2008 REST incentive funds be
26 taken into consideration in setting the REST Adjustor for 2009. Should there be a
27 material change in the estimated amount of the rollover funds in the intervening time, the
28

1 Company will update the record before the Commission makes a final determination in
2 this matter.

3 RESPECTFULLY SUBMITTED this 10th day of October, 2008.

4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

By: 
Deborah R. Scott
Attorney for Arizona Public Service

ORIGINAL and 13 copies filed this
10th day of October, 2008, with

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85004

COPY of the foregoing sent via E-Mail,
U.S. Mail, or hand-delivered this 10th day of
October, 2008, to:

See attached list of parties.

Ernest Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Janice Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Ray Williamson
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Terri Ford
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

David L. Deibel
Principal Assistant City Attorney
City of Tucson – City Attorney's Office
P.O. Box 27210
Tucson, AZ 85726-7210

Fred Morse
Morse Associates, Inc.
236 Massachusetts Avenue NE
Suite 605
Washington, DC 20002

Daniel Pozefsky
Chief Counsel
RUCO
1110 West Washington, Suite 220
Phoenix, AZ 85007

Stephen Ahearn
Director
RUCO
1110 West Washington, Suite 220
Phoenix, AZ 85007

Jana Brandt
Kelly Barr
Regulatory Affairs and Contracts
Salt River Project
Mail Station PAB 221
P.O. Box 52025
Phoenix, AZ 85072-2025

Maria T. Courter
Future Forest, LLC
1630 East White Mountain Blvd.
Suite C-3
Pinetop, AZ 85935

Mark J. Skowronski, P.E.
Solargenix Energy, LLC
3501 Jamboree Road, Suite 606
Newport Beach, CA 92660

C. Webb Crockett
Fennemore Craig
3003 North Central, Suite 2600
Phoenix, AZ 85012-2913
Attorneys for Arizonans Electric Choice
Competition, Phelps Dodge Mining
Company and ASARCO Incorporated

Major Allen G. Erickson
AFCES A/ULT
139 Barnes Drive, Suite 1
Tyndall AFB, FL 32403-5319
Attorney for Federal Executive Agencies

Michael L. Kurtz
Boehm, Kurt & Lowry
36 East Seventh Street, Suite 2110
Cincinnati, OH 45202
Attorneys for Kroger Company

Steven B. Bennett
City of Scottsdale
City Attorney's Office
3939 North Drinkwater Blvd.
Scottsdale, AZ 85251

Joe McGuirk
ME Consultants
10202 North 58th Place
Scottsdale, AZ 85253

Brian Hageman, President
Deluge, Inc.
4116 East Superior Avenue, D3
Phoenix, AZ 85040

Jerry Payne
USDA Forest Service
Southwestern Region
333 Broadway, SE
Albuquerque, NM 87102

John Wallace
Grand Canyon State Electric
Cooperative
120 North 44th Street, Suite 100
Phoenix, AZ 85034

Michael W. Patten
Raymond S. Heyman
Roshka, DeWulf & Patten
One Arizona Center
400 East Van Buren, Suite 800
Phoenix, AZ 85004
Attorneys for Tucson Electric Power and UNS
Electric, Inc.

Diane Vosick
Tom O'Halleran
Co-Chairs
Governor's Forest Health Oversight
Council
Office of the Governor
1700 West Washington
Phoenix, AZ 85007

Daniel Musgrove
Universal Entech, LLC
5501 N. Seventh Avenue, PMB 233
Phoenix, AZ 89013

Adam Browning
The Vote Solar Initiative
182 Second Street, Suite 400
San Francisco, CA 94105

Elizabeth C. Archuleta, Chairman
Coconino County Board of Supervisors
219 East Cherry Avenue
Flagstaff, AZ 86001-4695

Jerry Brownlow
County Supervisor District IV
Navajo County Board of Supervisors
P.O. Box 668
100 East Carter Drive
Holbrook, AZ 86025

Tom Alston
Sale, Government Relations
Amerecian Solar Electric
3008 North Civic Center Plaza
Scottsdale, AZ 85251

Michael Grant
Gallagher & Kennedy, P.A.
2575 East Camelback Road
Phoenix, AZ 85016
Attorneys for Arizona Electric Power
Cooperative, Duncan Valley Electric
Cooperative, Graham County Electric
Cooperative, Mohave Electric
Cooperative, Navopache Electric
Cooperative, Trico Electric Cooperative,
Sulphur Springs Valley Electric
Cooperative and Grand Canyon State
Electric Cooperative Assoc.

Jeff Deyette
Union of Concerned Scientists
2 Brattle Square
Cambridge, MA 02238-9015

Dianne E. Brown
Executive Director
Arizona PIRG Education Fund
130 North Central, Suite 311
Phoenix, AZ 85004

Kevin A. Davidson
3162 Courtney Avenue
Kingman, AZ 86401

Amy LeGere
President
NetGenuity
4850 Reata Road
Flagstaff, AZ 86004

Bruce Plenk
Renewable Energy Consultant
2958 North St. Augustine Place
Tucson, AZ 85712

Mike Billotte
United Dairymen of Arizona
P.O. Box 26877
Tempe, AZ 85285-6877

E. Kenneth May
President
Industrial Solar Technology Corporation
4420 McIntyre Street
Golden, CO 80403

Hiram B. Smith, President
Greater Flagstaff Forests Partnership
1300 South Milton Road, Suite 218
Flagstaff, AZ 86002

Valerie Rauluk, Director
Greater Tucson Coalition for Solar Energy
P.O. Box 42708
Tucson, AZ 85733

Robert Baltes, President
Distributed Energy Association of Arizona
P.O. Box 10594
Phoenix, AZ 85064

Robert B. Liden
Executive Vice President/General Manager
Stirling Energy Systems
Biltmore Lakes Corporate Center
2920 East Camelback Road, Suite 150
Phoenix, AZ 85016

Douglas V. Fant
Distributed Energy Association of Arizona
3655 West Anthem Way
Suite A-109, PMB 411
Anthem, AZ 85086

Alberta Tippeconnic
Assistant Director
Inter Tribal Council of Arizona
2214 North Central, Suite 100
Phoenix, AZ 85004

Wayne Byrne
Managing Director
Foresight Energy Company
692 Haight Street, Suite B
San Francisco, CA 94117

Scott Higginson
Executive Vice President
New Mexico and Arizona Land
Company
3514 East Presidio Circle
Mesa, AZ 85213

Robert E. Walkup
Mayor
City of Tucson
P.O. Box 27210
Tucson, AZ 85726-7210

Arturo Riberta
Atlantis Energy Systems, Inc.
9275 Beatty Drive, Suite B
Sacramento, CA 95826

Jessia Youle
Sr. Staff Attorney
Mail Station PAB300
P.O. Box 52025
Phoenix, AZ 85072-2025

Robert S. Lynch
Arizona Transmission Dependent Utility
Group
340 East Palm Lane, Suite 140
Phoenix, AZ 85004-4529

Michael Neary
Ariseia
2034 North 13th Street
Phoenix, AZ 85001

David Berry
Western Resource Advocates
P.O. Box 1064
Scottsdale, AZ 85252-1064

Tim Hogan
Arizona Center for Law in the Public
Interest
202 East McDowell Road, Suite 153
Phoenix, AZ 85004

Jane Weissman
84 Richards St.
Boston, MA 02026-5844

Rick Gilliam
2260 Baseline Rd.-200
Boulder, CO 80302

Sandy Bahr
202 East McDowell Road, #277
Phoenix, AZ 85004

Phyllis Bigpond
2214 N. Central Ave., Suite 100
Phoenix, AZ 85004

Tom Lepley
4202 E. Evans Dr.
Phoenix, AZ 85032

Kenneth Saline
160 North Pasadina, Suite 101
Mesa, AZ 85201

Clyde Hostetter
3055-190 North Red Mountain
Mesa, AZ 85207

Jim Combs
40 West Baseline, Suite 112
Mesa, AZ 85210

Alphonse Bellac
8153 East Mohawk Lane
Scottsdale, AZ 85225

Michelle Hart
7681 East Gray Rd.
Scottsdale, AZ 85260

Robert Annan
The Annan Group
6605 East Evening Glow Dr.
Scottsdale, AZ 85262

Frederick Ench
Route 1 – Box 23-B
Parker, AZ 85334

Ben Hershey
8132 West Sherman St.
Tolleson, AZ 85353

David Couture
2260 West 6th St.
P.O. Box 711
Tucson, AZ 85702-0711

Jeff Schlegel
1167 West Samalayuca Dr.
Tucson, AZ 85704-3224

Vincent Hunt
4004 South Park Ave., Bldg 2
Tucson, AZ 85714

Mark Herrington
P.O. Box 669
St. Johns, AZ 85936

Jim Wheeler
211 W. Aspen Avenue
Flagstaff, AZ 86001

David Calley
1801 West Route 66
Flagstaff, AZ 86001-8532

Frank Brandt
1270 East Appalachian Rd.
Flagstaff, AZ 86004

Royce Jenkins
Director of Community Planning and
Economic Development
The Hopi Tribe
P.O. Box 123
Kykotsmovi, AZ 86039

Steven Brown
530 E. Merritt
Prescott, AZ 86301

Mark Randall
P.O. Box 761
Clarksdale, AZ 86324

Cameron Danies
P.O. Box 179
Peach Springs, AZ 86434

Rex Kontz
P.O. Box 170
Ft. Defiance, AZ 86504

Andrew Bettwy
Southwest Gas Corporation
5241 Spring Mountain Rd.
Las Vegas, NV 98150

Lori A. Glover
Co-CEO
SOLID Energy, Inc.
10645 North Tatum Boulevard
Suite 200
Phoenix, AZ 85028

ATTACHMENT A

Exhibit 1: APS RES Program Summary - (October 2008 Update)

APS RES Targets						
	2009	2010	2011	2012	2013	
APS Estimated Retail Sales (MWh)	29,531,727	30,085,484	30,961,264	31,821,962	32,709,839	
APS RES Target - % of Retail Sales	2.00%	2.50%	3.00%	3.50%	4.00%	
APS Total RES Target (MWh)	590,635	752,137	928,838	1,113,769	1,308,394	
Renewable Generation % of RES Target	85%	80%	75%	70%	70%	
RES Generation Target	502,040	601,710	696,629	779,638	915,876	
Distributed Energy % of RES Target	15%	20%	25%	30%	30%	
Distributed Energy Target	88,595	150,427	232,210	334,131	392,518	
Renewable Generation (MWh)						
	2009	2010	2011	2012	2013	
Existing/Planned Generation Owned/Contracted	880,175	861,844	1,089,112	1,758,499	2,036,387	
RES Generation Target	502,040	601,710	696,629	779,638	915,876	
Projected Green Power Sales ⁽¹⁾	59,063	60,171	61,923	63,644	65,420	
Energy Applied To/(Withdrawn From) APS Bank for RES	319,072	199,963	330,560	915,217	1,055,091	
Distributed Energy (MWh)						
	2009	2010	2011	2012	2013	
Distributed Energy Target	88,595	150,427	232,210	334,131	392,518	
Estimated Existing/Planned Distributed Energy ⁽²⁾	26,033	88,595	150,427	232,210	334,131	
Incremental Energy To Be Acquired	62,562	61,832	81,783	101,921	58,387	
APS RES Budget Summary (\$ MM)						
	2009	2010	2011	2012	2013	
Total Renewable Generation	\$ 11.4	\$ 11.7	\$ 20.0	\$ 45.3	\$ 52.7	
Total Distributed Energy	\$ 65.5	\$ 63.8	\$ 75.2	\$ 92.6	\$ 59.5	
RDCL	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	
2008 Estimated Roll over ⁽³⁾	\$ (12.0)					
Total RES Program Budget	\$ 66.4	\$ 77.0	\$ 96.7	\$ 139.4	\$ 113.7	

Notes:

- (1) The Green Power (Rate Schedules GPS-1, GPS-2, Solar-3) is included only for procurement purposes. APS intends to procure enough energy to achieve RES compliance and Green Power purchased by customers. The Green Power sold to customers will not be counted towards RES compliance and the cost of those resources is not included in the Renewable Generation budget.
- (2) For 2009 the Estimated Existing Distributed Energy is the projected DE at the end of 2008 based on the best available information at the time of the filing. For the remaining years it is assumed APS achieves full compliance with the DE target.
- (3) APS has estimated the rollover amount as of the date of this filing. APS may provide additional updates if new information provides additional clarity or precision to the amount of uncommitted funding that will be available at year end.

ATTACHMENT B

Exhibit 2: APS RES Budget Summary (\$ MM) - (October 2008 Update)

	2009	2010	2011	2012	2013	2009-2013 Total
Renewable Generation:						
Energy Purchase	\$ 10.4	\$ 10.7	\$ 19.0	\$ 44.2	\$ 51.7	\$ 136.0
Administration	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.8	\$ 4.0
Implementation	\$ 0.8	\$ 0.8	\$ 0.8	\$ 0.9	\$ 0.9	\$ 4.2
Renewable Generation - Subtotal	\$ 12.0	\$ 12.3	\$ 20.6	\$ 45.9	\$ 53.4	\$ 144.2
Estimated Green Power Revenue Credit	\$ (0.6)	\$ (0.6)	\$ (0.6)	\$ (0.6)	\$ (0.7)	\$ (3.1)
Renewable Generation - RES	\$ 11.4	\$ 11.7	\$ 20.0	\$ 45.3	\$ 52.7	\$ 141.1
Distributed Energy:						
Contracts:						
Existing Production Based Contracts	\$ 3.3	\$ 5.4	\$ 8.1	\$ 11.3	\$ 15.2	\$ 43.3
Wholesale ⁽¹⁾	\$ 0.2	\$ 0.4	\$ 0.6	\$ 0.9	\$ 1.0	\$ 3.1
Total Contracts	\$ 3.5	\$ 5.8	\$ 8.7	\$ 12.2	\$ 16.2	\$ 46.4
Incentives:						
Residential Up-front	\$ 49.3	\$ 44.9	\$ 53.5	\$ 66.6	\$ 32.5	\$ 246.8
Non-Residential Up-front	\$ 1.3	\$ 1.6	\$ 1.9	\$ 2.3	\$ 1.1	\$ 8.2
Non-Residential Production Based ⁽²⁾	\$ 1.1	\$ 1.3	\$ 1.6	\$ 2.0	\$ 1.0	\$ 7.0
Customer Self-Directed ⁽³⁾	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Incentives	\$ 51.7	\$ 47.8	\$ 57.0	\$ 70.9	\$ 34.6	\$ 262.0
Public Assistance Program	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 1.5
Administration	\$ 1.2	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.4	\$ 6.5
Implementation	\$ 2.8	\$ 2.8	\$ 3.2	\$ 3.6	\$ 3.0	\$ 15.4
Information Technology	\$ 0.6	\$ 0.6	\$ 0.1	\$ 0.1	\$ 0.1	\$ 1.5
Marketing & Outreach	\$ 5.4	\$ 5.2	\$ 4.6	\$ 4.2	\$ 3.9	\$ 23.3
Distributed Energy - Subtotal	\$ 65.5	\$ 63.8	\$ 75.2	\$ 92.6	\$ 59.5	\$ 356.6
Research, Development, Commercialization, & Integration	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 7.5
2008 Estimated Rollover ⁽⁴⁾	\$ (12.0)					\$ (12.0)
TOTAL	\$ 66.4	\$ 77.0	\$ 96.7	\$ 139.4	\$ 113.7	\$ 493.2

Notes:
 (1) This line item is made up of a project (Snowflake White Mountain Power) that is split between Renewable Generation and Distributed Energy. The split is based on the amount of the wholesale component in a given year.
 (2) As can be seen in Exhibit 4D, this is only the portion of the new PBI incentives that would be expected to be paid in a given year assuming a half year convention. The annual liability after the first partial year is twice what is shown on this line.
 (3) As discussed in the Implementation Plan no customers have requested self-direction and therefore no allocation has been made.
 (4) APS has estimated the rollover amount as of the date of this filing. APS may provide additional updates if new information provides additional clarity or precision to the amount of uncommitted funding that will be available at year end.

ATTACHMENT C



ADJUSTMENT SCHEDULE RES
RENEWABLE ENERGY STANDARD

APPLICATION

The Renewable Energy Standard ("RES") Adjustor shall apply to all retail Standard Offer or Direct Access service, excluding kWhs served in accordance with rate schedules SP-1 (Solar Partners), Solar-2, Solar-3, and Adjustment Schedules GPS-1 and GPS-2. All provisions of the customer's current applicable rate schedule will apply in addition to the RES Adjustor. From time to time, the RES program spending requirements will be evaluated and if necessary the charge and/or caps may be modified by the Commission. Any new charges/caps will be applied in billing cycle 1 beginning in the month following Commission approval and will not be prorated. Details regarding the administration of this Adjustor can be found in A.A.C. R14-2-1808. The RES Adjustor and the Demand Side Management Adjustor may be combined on the customer's bill and shown on the "Environmental Benefits Surcharge" line.

RATES

The bill shall be calculated at the following rates:

All kWh \$0.006613 per kWh

SURCHARGE LIMITS

The monthly total of the Renewable Energy Standard Adjustment Charge shall not exceed the following limits:

Residential Customers	\$2.65	per service per month
Non-residential Customers	\$98.24	per service per month
Non-residential Customers with demand of 3,000 kW or higher per month for three consecutive months	\$294.73	per service per month

ATTACHMENT D

Standard Change in Law Provision

Change in Law and Termination. The Parties recognize and understand that the trading of RECs is dependent upon laws, regulations, permits and authorizations existing as of the Effective Date of this Agreement ("Applicable Law"). The Parties further acknowledge that it is possible, though unlikely, that, after the Effective Date, there could occur a material change (including by promulgation, enactment, repeal or amendment) in the application of any such Applicable Law, including any material change by any state governmental authority regarding a Party's authority to sell or purchase RECs (the foregoing a "Change in Applicable Law"), and such Change in Applicable Law could possibly either: (i) render this Agreement illegal or unenforceable; (ii) render performance by a Party illegal or unenforceable; (iii) eliminate, abolish or make illegal the trading or transferring of RECs; or (iv) eliminates or modifies the RES in such a way that the distributed requirement in Arizona (or the RECs relating thereto) materially changes to the detriment of either Party under the terms of this Agreement (any of the foregoing being referred to hereafter as an "Adverse Change in Applicable Law"). APS agrees that if, in its commercially reasonable judgment, it becomes aware of such a potential Adverse Change in Applicable Law, it will take such reasonable steps before the Arizona Corporation Commission ("ACC") as it deems necessary in order to prevent the adoption of such Adverse Change in Applicable Law. Such steps may include, but shall not be limited to: notifying the ACC of the consequences of such Adverse Change in Applicable Law, both for the Parties and for APS ratepayers; providing written or oral testimony to the ACC, in accordance with ACC request, or as otherwise deemed appropriate by APS; and meeting with ACC Staff to provide any information that could result in a Staff recommendation that would permit the Parties to fulfill their obligations under this Agreement as written. Developer/Participant agrees that it shall cooperate in good faith with any APS efforts undertaken in accordance with this provision including, as may be requested by APS or the ACC: providing written or oral testimony to the ACC; responding to ACC Staff inquiries; and supporting, in any other public forum, APS's challenge to any potential Adverse Change in Applicable Law.

If, despite the above-mentioned efforts by APS, the Adverse Change in Applicable Law goes into effect, then promptly after such Adverse Change in Applicable Law occurs, APS agrees to continue making commercially reasonable efforts to minimize the impact of such a change on the ability of APS and the Developer/Participant to perform their obligations under this Agreement as written, which efforts may include, but shall not be limited to, those set forth in the preceding paragraph. Developer/Participant agrees to cooperate in good faith with APS's efforts, as also set forth above. In addition, if APS is able, through commercially reasonable efforts to timely recover the costs associated with its obligations under this Agreement through another regulatory mechanism notwithstanding the Adverse Change in Applicable Law, then the Parties shall continue to be bound by the terms of this Agreement as if the Adverse Change in Applicable Law had not occurred.

Finally, in the event that the Adverse Change in Applicable Law remains in effect, the Parties shall use their commercially reasonable efforts to reform this Agreement in order to give effect to the original intention of the Parties. If such commercially reasonable efforts do not result in a reformation acceptable to both Parties within a commercially reasonable period of time, either Party shall have the right to terminate the Agreement upon Notice to the other. Upon such termination, neither Party shall owe any further obligation to the other nor shall such termination be with penalty to either Party.