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BEFORE THE ARIZONA CORPORATION COMMISSION

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2009 JUL 30 A 9:05
AZ CORP COMMISSION
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IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY'S REQUEST FOR
AUTHORIZATION FOR INCREASE IN
RECOVERY GUARANTEE FOR
PRODUCTION BASED INCENTIVES FOR
DISTRIBUTED RENEWABLE
GENERATION PROJECTS

DOCKET NO. E-01345A-09-0263

**ARIZONA PUBLIC SERVICE
COMPANY'S SUPPLEMENTAL
FILING**

In this Supplemental Filing, Arizona Public Service Company ("APS" or "Company") is providing the Arizona Corporation Commission ("Commission") an update on the number of requests the Company has received for payment of Production Based Incentives ("PBIs") for non-residential distributed renewable energy installations and proposing another funding option for renewable energy projects for schools.

As of the end of June, APS has received requests resulting in \$254.5 million in total PBI program funding commitments, which exceeds the current authorization of \$77 million and the Company's requested authorization of \$220 million. Even though these requests exceed the current and requested authorizations, APS is not seeking to increase the Company's request at this time because \$220 million should allow APS to comply with the non-residential distributed energy portion of the Renewable Energy Standard ("RES") Rules¹ through 2010. APS is interested in pursuing non-residential distributed energy beyond compliance and has proposed a specific plan in its 2010 RES Implementation Plan² that is currently pending before the Commission.

Arizona Corporation Commission
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¹ A.A.C. R14-2-1801 *et seq.*
² Docket No. E-01345A-09-0338.

1 However, APS is aware that a number of reservation requests from schools will be
2 received in the coming months that will likely not be funded, due in part to the overwhelming
3 interest in the PBI program. In addition, APS's residential distributed energy program
4 currently is not receiving requests for incentives at a sufficient pace to commit all funds that
5 have been allocated for that purpose in 2009. As such, APS believes it is appropriate to
6 provide schools with an option in addition to the traditional PBI approach. APS is proposing
7 that school projects be classified as residential distributed energy projects, allowing schools to
8 receive up-front incentives paid by RES funding that has been allocated for residential
9 projects, and that the energy resulting from the school installations be applicable to the
10 residential distributed energy requirement.

11 **Background**

12 On December 18, 2008, the Commission issued Decision No. 70654, which approved
13 APS's 2009 RES Implementation Plan. As part of that Decision, the Commission approved
14 recovery of the costs for incentive payments that the Company will incur to meet APS's
15 obligation for PBIs for non-residential distributed renewable energy projects, up to a
16 maximum of \$77 million over the lifetime of the contracts.³

17 On May 26, 2009, APS filed an Application requesting that the Commission increase
18 the \$77 million PBI amount by \$143 million, for a total authorization of \$220 million for the
19 lifetime commitment of these contracts. The requested increase should allow APS to make
20 sufficient commitments to comply with the non-residential distributed energy requirement
21 through 2010, and allow for a significant number of reservations for additional projects to be
22 accepted this year.

23 **Update on Status of Customer Requests**

24 The customer interest for non-residential distributed energy incentives continues to be
25 strong and has already exceeded the Company's request for PBI authorization of \$220
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28 ³ When paying PBI incentives, the Company makes payments to the non-residential customer for a period of
between 10 and 20 years, depending on the terms of the Credit Purchase Agreement.

1 million. Through the close of the May-June nomination period,⁴ APS has received
2 reservation requests totaling \$254.5 million for the lifetime of the contracts. It is significant
3 to note that the current amount of reservation requests is not a static number; these numbers
4 may increase or decrease through the end of 2009, due to some customers withdrawing
5 requests and other customers submitting new requests.

6 Based on the Company's discussions with representatives of the renewable energy
7 industry, it is likely that there will be numerous requests for reservations from school districts
8 in the next few months, in addition to the several that have already submitted reservation
9 requests. This also was discussed in the July 16, 2009 procedural conference in the SolarCity
10 matter.⁵ Many of the school district projects are awaiting the outcome of the SolarCity
11 proceeding. A recent SolarCity Procedural Order allows the school district contracts with
12 solar providers to be processed by the Commission as special contracts on an expedited
13 basis.⁶ However, if the funding issue remains unaddressed, it is APS's understanding that
14 these school installations will not be completed in 2009.

15 The current PBI reservation requests of \$254.5 million include only a few of the
16 anticipated applications from the school districts. If such requests were received today, APS
17 would not be able to accept the reservations because the \$77 million for PBIs authorized by
18 the Commission has been depleted. Furthermore, even if the Commission were to approve
19 the additional \$143 million lifetime authorization the Company has requested in this docket
20 [for a total lifetime authorization of \$220 million for PBIs], it is uncertain if the school
21 requests would be funded. It would be dependent upon the incentive amounts requested, the
22 requested PBI contract terms, and, ultimately on the results of the Distributed Energy
23 Administration Plans prioritization process. (See Footnote no. 4.)

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25 ⁴ There are six nomination periods in a year. At the close of each nomination period, APS analyzes the
26 requests for reservations and determines which projects are the most cost-effective (those that make the best
27 use of RES funds). APS prioritizes projects based on the Rank Calculator described in APS's Distributed
28 Energy Administration Plan (made available on www.aps.com), and accepts reservations for the most
economical projects. This process has been approved by the Commission as part of APS's previous
Implementation Plan.

⁵ Docket No. E-20690A-09-0346.

⁶ See Procedural Order dated July 23, 2009, Docket No. E-020690A-09-0346.

1 **Schools as Residential**

2 Schools are assets of the residential community and are supported by property taxes of
3 residential homeowners. Schools educate the next generation of Arizonans who will in turn
4 become homeowners. The RES Rules do not provide a definition of either “residential” or
5 “non-residential” applications. APS believes that it is reasonable and appropriate to define
6 schools as residential for compliance and funding purposes. By allowing schools to qualify
7 as residential applications and by providing access to residential funding allocated toward
8 residential installation, the schools would have additional funding available for these projects,
9 which in turn should facilitate the construction of additional projects.

10 **Proposed Funding Approach**

11 Because APS projects that the current request for lifetime authorization should allow
12 the Company to comply with the non-residential distributed energy requirements of the RES
13 Rules through 2010,⁷ APS is not seeking additional PBI authorization above the \$220 million
14 previously requested.⁸ However, APS recognizes the value of renewable energy systems for
15 Arizona schools, and for that reason is recommending that energy produced by school
16 installations be allowed to qualify as residential distributed energy for compliance and
17 funding purposes. APS currently projects that significant residential funding will be unused
18 in 2009. Based on the current requests from residential customers, the Company currently
19 anticipates that there will be approximately \$20 to \$25 million of these funds remaining at
20 year-end. Allowing school projects to qualify as residential applications with access to
21 residential funding would enable the schools to proceed with their renewable projects this
22 year.

23 As part of this proposal, several modifications must be made to the current
24 administration of residential funds. APS is proposing the following for this special school
25 allocation:

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27 ⁷ A.A.C. R14-2-1805.

28 ⁸ In the Company’s 2010 RES Implementation Plan, which is currently pending before the Commission, APS has proposed a specific plan to pursue non-residential distributed energy above and beyond the requirements of the RES Rules.

1 • Schools for purposes of this proposal would include publically-funded kindergarten
2 through 12th grade schools, including charter schools.

3 • Up to \$20 million of the 2009 RES residential distributed energy funding would be
4 made available for school projects. If school projects have exhausted the \$20 million
5 allocation and additional residential funds remain unexpended and unreserved at the end of
6 the year (12/31/2009), additional school projects may be funded up to the total residential
7 funds remaining. (Residential requests for incentives will continue to be processed on a first-
8 come, first-served basis up to the total amount of residential funds available, less any
9 commitments made to schools.)

10 • School projects would be provided an up-front incentive of \$2.25 per watt on a
11 first-come, first-reserved basis.⁹

12 • The current maximum up-front incentive cap of \$75,000 would be waived for
13 schools.¹⁰

14 • The renewable energy and associated Renewable Energy Credits from school
15 projects would be counted toward compliance with the RES residential distributed energy
16 requirement.

17 APS believes that treating school projects as residential projects is an equitable
18 approach that meets with the spirit of the RES Rules and addresses the growing customer
19 demand for renewable energy. APS will provide a supplement to its pending 2010 RES
20 Implementation Plan to address school funding in 2010.

21 For all of the above reasons, APS requests that the Commission adopt its proposal to
22 deem schools' renewable energy projects as residential distributed energy for purposes of
23 compliance with the RES Rules for 2009 and beyond, and approve the modifications
24 described above.

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27 ⁹ Subject to derating, which is based on a photovoltaic systems orientation, tilt-angle and shading. This is
28 consistent with programs rules in the most recently approved Distributed Energy Administration Plan. See
Decision No. 70654 (December 18, 2008).

¹⁰ The current \$75,000 cap was approved in Decision No. 70654.

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RESPECTFULLY SUBMITTED this 30th day of July, 2009.

PINNACLE WEST CAPITAL CORPORATION
LAW DEPARTMENT

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ORIGINAL and thirteen (13) copies
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COPY of the foregoing mailed and/or emailed
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