

ORIGINAL



OPEN MEETING AGENDA ITEM



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August 28, 2009

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

AUG 28 2009

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

DOCKETED
mn

RE: 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 ("APS") is providing notice to Arizona school districts, in particular, to school districts in its service territory, that APS has filed a request with the Arizona Corporation Commission ("Commission") to treat school distributed energy projects as residential projects for purposes of receiving incentives and meeting compliance under APS's Renewable Energy Incentive Program for the remainder of 2009. APS previously provided notice of its application to Arizona school districts on July 31, 2009. In its application, APS has proposed to provide up to \$20 million of the 2009 renewable energy standard residential distributed funding to eligible school projects. This will result in an increase in \$20 million in funding for distributed energy projects in schools. Under this proposal, schools would be eligible for up-front incentives as part of the reclassification from non-residential to residential.

APS is providing notice to the school districts so they will have an opportunity to provide their positions regarding APS's request to the Commission. To date, the Commission has received comments that are both in favor and opposed to APS' proposal. The Commission will hear this matter at the Open Meeting beginning September 9, 2009 at 9:00 a.m. at the Commission's offices located at 1200 W. Washington Street, Phoenix AZ 85007. APS recognizes there is a short timeframe for comment. However, school districts or other interested parties may file comments with the Commission's Docket, and will have the opportunity to discuss the issue and be heard by the Commission at the September 9, 2009 Open Meeting. Public comments will be taken at the beginning of the meeting. Written public comments may be submitted via email (visit http://www.azcc.gov/divisions/utilities/forms/public_comment.pdf for instructions) or by mailing a letter referencing Docket No. E-01345A-09-0263 to Arizona Corporation Commission, Consumer Services Section, 1200 W. Washington, Phoenix AZ 85007.

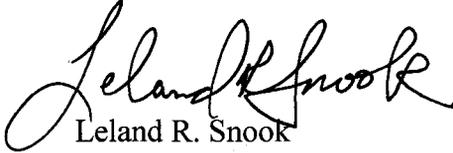
Docket Control

May 18, 2009

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APS is attaching a copy of its application and supplemental filing for your convenience. If you have any questions please contact Jeff Johnson at 602-250-2661.

Sincerely,



Leland R. Snook

Attachments

LS/dt

CC: Parties of Record
Arizona School Districts
Steve Olea
Janice Alward
Lyn Farmer

Copies of the foregoing mailed or emailed
this 28th day of August, 2009:

Jay Moyes
1850 N. Central Ave, Suite 100
Phoenix, AZ 85004

Phoenix Elementary District
1817 N. 7th St.
Phoenix, AZ 85006

Arizona State Board for Charter Schools
1700 W. Washington St. - 164
Phoenix, AZ 85007

Janice Alward
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Arizona Department of Education
1535 E. Jefferson St.
Phoenix, AZ 85007

Lyn Farmer
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Steve Olea
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Balsz Elementary District
4825 E. Roosevelt
Phoenix, AZ 85008

Wilson Elementary District
3025 E. Fillmore St
Phoenix, AZ 85008

Murphy Elementary District
2615 W. Buckeye Rd
Phoenix, AZ 85009

Isaac Elementary District
3348 W. McDowell Rd
Phoenix, AZ 85009

Phoenix Union High School District
4502 N. Central Ave
Phoenix, AZ 85012

Christopher Verde School District
4041 N. Central Ave., Suite 1100
Phoenix, AZ 85012

Osborn Elementary District
1226 W. Osborn Rd
Phoenix, AZ 85013

Madison Elementary District
5601 N. 16th Street
Phoenix, AZ 85016

Creighton Elementary District
2702 E. Flower St
Phoenix, AZ 85016

Scottsdale Unified District
3811 N. 44th Street
Phoenix, AZ 85018

Alhambra Elementary District
4510 N. 37th Ave
Phoenix, AZ 85019

Arizona Charter Schools Association
7500 N. Dreamy Draw Dr. #220
Phoenix, AZ 85020

Deer Valley Unified District
20402 N. 15th Ave
Phoenix, AZ 85027

Paradise Valley Unified District
15002 N. 32nd Street
Phoenix, AZ 85032

Cartwright Elementary District
3401 N. 67th Ave
Phoenix, AZ 85033

Pendergast Elementary District
3802 N. 91st Ave
Phoenix, AZ 85037

Roosevelt Elementary District
6000 S. 7th Street
Phoenix, AZ 85042

Riverside Elementary District
1414 S. 51st Ave
Phoenix, AZ 85043

Fowler Elementary District
1617 S. 67th Ave
Phoenix, AZ 85043

Mesa Unified District
63 East Main Street
Mesa, AZ 85201

Apache Junction Unified District
1575 W. Southern Ave. #3
Apache Junction, AZ 85220

Casa Grande Union High School District
1362 N. Casa Grande Ave
Casa Grande, AZ 85222

Casa Grande Elementary District
220 W. Korsten Road
Casa Grande, AZ 85222

Chandler Unified District
1525 W. Frye Rd
Chandler, AZ 85224

Coolidge Unified District
221 W. Central Ave
Coolidge, AZ 85228

Eloy Elementary District
1011 Sunshine Blvd
Eloy, AZ 85231

Santa Cruz Valley Union High School District
900 N. Main St
Eloy, AZ 85231

Toltec Elementary District
3315 N. Toltec Road
Eloy, AZ 85231

Florence Unified School District
P.O. Box 2850
Florence, AZ 85232

Ray Unified District
P.O. Box 427
Kearny, AZ 85237

Mobile Elementary District
42798 S. 99th Ave
Maricopa, AZ 85239

Maricopa Unified School District
45012 W. Honeycutt Ave
Maricopa, AZ 85239

J O Combs Unified School District
301 E. Combs Rd
Queen Creek, AZ 85240

Picacho Elementary District
P.O. Box 8
Picacho, AZ 85241

Queen Creek Unified District
20740 S. Ellsworth Rd
Queen Creek, AZ 85242

Red Rock Elementary District
P.O. Box 1010
Red Rock, AZ 85245

Sacaton Elementary District
P.O. Box 98
Sacaton, AZ 85247

Fountain Hills Unified District
16000 E. Palisades Blvd
Fountain Hills, AZ 85268

Stanfield Elementary District
515 S. Stanfield Rd
Stanfield, AZ 85282

Superior Unified School District
1500 Sunset Drive 101
Superior, AZ 85273

Tempe Union High School District
500 W. Guadalupe Rd
Tempe, AZ 85283

Kyrene Elementary District
8700 S. Kyrene Road
Tempe, AZ 85284

Tempe School District
P.O. Box 27708
Tempe, AZ 85285

Hayden-Winkelman Unified District
P.O. Box 409
Winkelman, AZ 85292

Gilbert Unified District
140 S. Gilbert Rd
Gilbert, AZ 85296

Higley Unified School District
2935 S. Recker Road
Gilbert, AZ 85297

Glendale Elementary District
7301 N. 58th Ave
Glendale, AZ 85301

Glendale Union High School District
7650 N. 43rd Ave
Glendale, AZ 85301

Washington Elementary School District
4650 W. Sweetwater
Glendale, AZ 85304

Aqua Fria Union High School District
750 E. Riley Dr
Avondale, AZ 85320

Aguila Elementary District
P.O. Box 218
Aguila, AZ 85320

Arlington Elementary District
9410 S. 355th Ave
Arlington, AZ 85322

Littleton Elementary District
1252 S. Avondale Blvd
Avondale, AZ 85323

Liberty Elementary District
19871 W. Fremont Rd
Buckeye, AZ 85326

Buckeye Union High School District
902 E. Eason Ave
Buckeye, AZ 85326

Buckeye Elementary District
25555 West Durango St
Buckeye, AZ 85326

Cave Creek Unified District
P.O. Box 426
Cave Creek, AZ 85327

Congress Elementary District
P.O. Box 68
Congress, AZ 85332

Hyder Elementary District
P.O. Box 3001
Dateland, AZ 85333

Sentinel Elementary District
HC-1 Box 57
Dateland, AZ 85333

Quartzsite Elementary District
P.O. Box 130
Ehrenberg, AZ 85334

Paloma School District
38739 W. I-8
Gila Bend, AZ 85337

Gila Bend Unified District
P.O. Box V
Gila Bend, AZ 85337

Laveen Elementary District
P.O. Box 29
Laveen, AZ 85339

Litchfield Elementary District
553 Plaza Circle Suite A
Litchfield Park, AZ 85340

Champie Elementary District
HCR 1 Castle Hot Springs
Morristown, AZ 85342

Morristown Elementary District
P.O. Box 98
Morristown, AZ 85342

Palo Verde Elementary District
P.O. Box 108
Palo Verde, AZ 85383

Parker Unified School District
P.O. Box 1090
Parker, AZ 85344

Mohawk Valley Elementary District
5151 S. Ave 39E
Roll, AZ 85347

Salome Consolidated Elementary District
P.O. Box 339
Salome, AZ 85348

Gadsden Elementary District
P.O. Box 6870
San Luis, AZ 85349

Somerton Elementary District
P.O. Box 3200
Somerton, AZ 85350

Union Elementary District
3834 S. 91st Ave
Tolleson, AZ 85353

Tolleson Elementary District
9261 W. Van Buren
Tolleson, AZ 85353

Tolleson Union High School District
9801 W. Van Buren Street
Tolleson, AZ 85353

Saddle Mountain Unified School District
38201 W. Indian School Road
Tonopah, AZ 85354

Antelope Union High School District
9168 Ave 36 E
Wellton, AZ 85356

Wellton Elementary District
P.O. Box 517
Wellton, AZ 85356

Wenden Elementary District
P.O. Box 8
Wenden, AZ 85357

Owens-Whitney Elementary District
P.O. Box 38
Wikieup, AZ 85360

Nadaburg Unified School District
32919 Center St
Wittmann, AZ 85361

Yarnell Elementary District
P.O. Box 575
Yarnell, AZ 85362

Yuma Elementary District
450 West 6th Street
Yuma, AZ 85364

Crane Elementary District
4250 W. 16th Street
Yuma, AZ 85364

Dysart Unified District
15802 N. Parkview Place
Surprise, AZ 85374

Peoria Unified School District
P.O. Box 39
Peoria, AZ 85380

Wickenburg Unified District
40 West Yavapai St
Wickenburg, AZ 85390

Globe Unified District
455 N. Willow
Globe, AZ 85501

Eagle Elementary District
P.O. Box 1566
Clifton, AZ 85533

Clifton Unified District
P.O. Box 1567
Clifton, AZ 85533

Duncan Unified District
P.O. Box 710
Duncan, AZ 85534

Ft Thomas Unified District
P.O. Box 300
Fort Thomas, AZ 85536

Miami Unified District
P.O. Drawer H
Miami, AZ 85539

Morenci Unified District
P.O. Box 1060
Morenci, AZ 85540

Payson Unified District
P.O. Box 919
Payson, AZ 85541

Pima Unified District
P.O. Box 429
Pima, AZ 85543

Pine Strawberry Elementary District
P.O. Box 1150
Pine, AZ 85544

Safford Unified District
734 11th Street
Safford, AZ 85546

Klondyke Elementary District
921 Thatcher Blvd
Safford, AZ 85546

San Carlos Unified District
P.O. Box 207
San Carlos, AZ 85550

Solomon Elementary District
P.O. Box 167
Solomon, AZ 85551

Thatcher Unified District
P.O. Box 610
Thatcher, AZ 85552

Tonto Bason Elementary District
P.O. Box 337
Tonto Basin, AZ 85553

Young Elementary District
P.O. Box 3890
Young, AZ 85554

Benson Unified School District
360 S. Patagonia St
Benson, AZ 85602

Bisbee Unified District
100 Old Douglas Rd
Bisbee, AZ 85603

Bowie Unified District
P.O. Box 157
Bowie, AZ 85605

Cochise Elementary District
P.O. Box 1088
Cochise, AZ 85606

Douglas Unified District
1132 12th Street
Douglas, AZ 85607

Valley Union High School District
P.O. Box 158
Elfrida, AZ 85610

Elfrida Elementary District
P.O. Box 328
Elfrida, AZ 85610

Rucker Elementary District
P.O. Box 618
Elfrida, AZ 85610

Sonoita Elementary District
HC 1 Box 36
Elgin, AZ 85611

Palominas Elementary District
P.O. Box 38
Hereford, AZ 85615

Forrest Elementary District
P.O. Box 122
McNeal, AZ 85617

McNeal Elementary District
P.O. Box 8
McNeal, AZ 85617

Double Adobe Elementary District
7081 N. Central Hwy.
McNeal, AZ 85617

Naco Elementary District
P.O. Box 397
Naco, AZ 85620

Santa Cruz Elementary District
HC2 Box 50
Nogales, AZ 85621

Nogales Unified District
310 W. Plum St
Nogales, AZ 85621

Continental Elementary District
P.O. Box 547
Green Valley, AZ 85622

Oracle Elementary District
725 N. Carpenter Drive
Oracle, AZ 85623

Patagonia Union High School District
P.O. Box 254
Patagonia, AZ 85624

Patagonia Elementary District
P.O. Box 254
Patagonia, AZ 85624

Ash Creek Elementary District
6460 E. Hwy 181
Pearce, AZ 85625

Pearce Elementary District
1487 E. School Rd
Pearce, AZ 85625

Pomerene Elementary District
P.O. Box 7
Pomerene, AZ 85627

Sahuarita Unified District
350 W. Sahuarita Rd
Sahuarita, AZ 85629

St. David Unified District
P.O. Box 70
St David, AZ 85630

Mammoth-San Manuel Unified District
P.O. Box 406
San Manuel, AZ 85631

San Simon Unified District
P.O. Box 38
San Simon, AZ 85632

San Fernando Elementary District
P.O. Box 80
Sasabe, AZ 85633

Indian Oasis-Baboquivari Unified District
P.O. Box 248
Sells, AZ 85634

Sierra Vista Unified District
3555 Fry Blvd
Sierra Vista, AZ 85635

Empire Elementary District
HC1 Box 1100
Sonoita, AZ 85637

Tombstone Unified District
P.O. Box 1000
Tombstone, AZ 85638

Vail Unified District
P.O. Box 800
Vail, AZ 85641

Bonita Elementary District
18008 S. Ft Grand Rd
Bonita, AZ 85643

Wilcox Unified District
480 N. Bisbee
Wilcox, AZ 85643

Santa Cruz Valley Unified District
1374 W. Frontage Rd
Rio Rico, AZ 85641

Marana Unified District
11279 W. Grier Rd., Suite 115A
Marana, AZ 85653

Redington Elementary District
130 W. Congress St., 4th Floor
Tucson, AZ 85701

Amphitheater Unified District
701 W. Wetmore
Tucson, AZ 85705

Flowing Wells Unified District
1556 W. Prince Rd
Tucson, AZ 85705

Sunnyside Unified District
2238 E. Ginter Rd
Tucson, AZ 85706

Catalina Foothills Unified District
2101 E. River Rd
Tucson, AZ 85718

Tucson Unified District
1010 E. 10th Street
Tucson, AZ 85719

Tanque Verde Unified District
11150 E. Tanque Verde Rd
Tucson, AZ 85749

Show Low Unified District
500 W. Old Linden Rd
Show Low, AZ 85901

Concho Elementary District
P.O. Box 200
Concho, AZ 85924

Heber-Over Unified District
P.O. Box 547
Heber, AZ 85928

Blue Ridge Unified District
1200 W. White Mountain Blvd
Lakeside, AZ 85929

McNary Elementary District
P.O. Box 598
McNary, AZ 85930

Chevelon Butte School District
P.O. Box 1574
Forest Lakes, AZ 85931

St Johns Unified District
P.O. Box 3030
St Johns, AZ 85936

Snowflake Unified District
682 School Bus LN.
Snowflake, AZ 85937

Round Valley Unified District
P.O. Box 610
Springerville, AZ 85938

Vernon Elementary District
P.O. Box 89
Vernon, AZ 85940

Whiteriver Unified District
P.O. Box 190
Whiteriver, AZ 85941

Flagstaff Unified District
3285 E. Sparrow
Flagstaff, AZ 86004

Maine Consolidated School District
P.O. Box 50010
Parks, AZ 86018

Colorado City Unified District
P.O. Box 309
Colorado City, AZ 86021

Fredonia-Moccasin Unified District
P.O. Box 214
Fredonia, AZ 86022

Grand Canyon Unified District
P.O. Box 519
Grand Canyon, AZ 86023

Holbrook Unified District
P.O. Box 640
Holbrook, AZ 86025

Joseph City Unified District
P.O. Box 8
Joseph City, AZ 86032

Kayenta Unified District
P.O. Box 337
Kayenta, AZ 86033

Cedar Unified District
P.O. Box 367
Keams Canyon, AZ 86034

Page Unified District
P.O. Box 1927
Page, AZ 86040

Tuba City Unified District
P.O. Box 67
Tuba City, AZ 86045

Williams Unified District
P.O. Box 427
Williams, AZ 86046

Winslow Unified District
P.O. Box 580
Winslow, AZ 86047

Prescott Unified District
146 S. Granite St
Prescott, AZ 86303

Williams Valley Elementary School District
7295 N. Bridle Path
Prescott, AZ 86305

Humboldt Unified District
8766 E. Hwy 69
Prescott Valley, AZ 86314

Bagdad Unified District
P.O. Box 427
Bagdad, AZ 86321

Hillside Elementary District
HC 01 Box 3056
Bagdad, AZ 86321

Camp Verde Unified District
410 Camp Lincoln
Camp Verde, AZ 86322

Chino Valley Unified District
P.O. Box 225
Chino Valley, AZ 86323

Clarkdale-Jerome Elementary District
P.O. Box 248
Clarkdale, AZ 86324

Mingus Union High School District
1801 E. First
Cottonwood, AZ 86326

Cottonwood - Oak Creek Elementary District
One North Willard St
Cottonwood, AZ 86326

Kirkland Elementary District
P.O. Box 120
Kirkland, AZ 86332

Walnut Grove Elementary District
P.O. Box 912
Kirkland, AZ 86332

Mayer Unified School District
P.O. Box 1059
Mayer, AZ 86333

Beaver Creek Elementary District
4810 E. Beaver Creek Rd
Rimrock, AZ 86335

Sedona-Oak Creek USD #9
221 Brewer Rd., Suite 100
Sedona, AZ 86336

Seligman Unified District
P.O. Box 650
Seligman, AZ 86337

Skull Valley Elementary District
P.O. Box 127
Skull Valley, AZ 86338

Crown King Elementary District
P.O. Box 188
Crown King, AZ 86343

Hackberry School District
HC 30 Box 300
Kingman, AZ 86401

Kingman Unified School District
3033 MacDonald Ave
Kingman, AZ 86401

Lake Havasu Unified District
2200 Havasupai Blvd
Lake Havasu City, AZ 86403

Littlefield Unified District
P.O. Box 730
Beaver Dam, AZ 86432

Peach Springs Unified District
P.O. Box 360
Peach Springs, AZ 86434

Valentine Elementary District
HC 35 Box 50
Peach Springs, AZ 86535

Topock Elementary District
P.O. Box 370
Topock, AZ 86436

Yucca Elementary District
P.O. Box 128
Yucca, AZ 86438

Colorado River Union High School District
P.O. Box 21479
Bullhead City, AZ 86439

Bullhead City School District
1004 Hancock Rd
Bullhead City, AZ 86442

Mohave Valley Elementary District
P.O. Box 5070
Mohave Valley, AZ 86446

Chinle Unified District
P.O. Box 587
Chinle, AZ 86503

Window Rock Unified District
P.O. Box 559
Fort Defiance, AZ 86504

Ganado Unified School District
P.O. Box 1757
Ganado, AZ 86505

Pinon Unified District
P.O. Box 839
Pinon, AZ 86510

Sanders Unified District
P.O. Box 250
Sanders, AZ 86512

Red Mesa Unified District
HC 61 Box 40
Teec Nos Pos, AZ 86514

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

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2009 MAY 26 P 4: 37 RECEIVED

CORP COMMISSION DOCKET CONTROL MAY 26 2009

APR 26 2009

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-_____

APPLICATION

Expedited Treatment Requested

On December 18, 2008, the Arizona Corporation Commission ("Commission") issued Decision No. 70654, which approved Arizona Public Service Company's ("APS" or "Company") 2009 Renewable Energy Standard Implementation Plan. In that Decision, the Commission approved recovery of the costs of incentive payments that the Company will incur to meet APS's obligation for Production Based Incentives ("PBI") that are paid to customers for non-residential distributed renewable energy projects. The Commission approved cost recovery for all contracts entered into with customers, up to a maximum of \$77 million over the lifetime of the contract.¹

In this filing, the Company is requesting that the Commission increase the \$77 million PBI amount by \$143 million (for a total of \$220 million) to accommodate increasing customer demand that supports APS's compliance with the non-residential portion of the distributed energy component of the Renewable Energy Standard and Tariff ("REST") Rules.² The increase in the amount of cost recovery guarantee will not impact customers' bills in 2009, because many of these large renewable projects will not be operational this

¹ Decision No. 70654 at pg. 12.

² A.A.C. R14-2-1805.

1 year, and those that will operate in 2009 will only have been operational for a short period of
2 time.³ Without Commission action, the APS non-residential PBI program will be unable to
3 continue to take reservations for these distributed energy projects. For that reason, the
4 Company is requesting that the Commission make its determination on this matter on an
5 expedited basis.

6 **BACKGROUND**

7 The REST Rules require that electric utilities meet an annual renewable energy
8 requirement, of which a certain percentage must be provided from distributed renewable
9 energy resources.⁴ The Commission has approved two types of incentives that APS may use
10 to encourage customers to install distributed energy systems. Residential customers are paid
11 up-front incentives. Small scale non-residential renewable systems may also receive up-front
12 incentives, but large scale non-residential renewable systems that are eligible for incentives
13 greater than \$75,000 receive a PBI, an incentive based on system energy output. Unlike the
14 up-front incentives, which are paid out in a single year, the PBI commits the Company to
15 making quarterly payments to the non-residential customer for a period of between 10 and 20
16 years. This filing addresses only the PBI incentives.

17 For large-scale distributed projects, a customer will request in advance of system
18 installation that APS reserve funding to pay incentives once the system is operational. These
19 transactions can be complex: APS must review and approve the customer proposal, and the
20 customer must often obtain financing, as well as engage a renewable energy installer to
21 construct the system. Because it can take many months before the system is actually
22 producing electricity, a customer can reserve funds up to one year before commissioning the
23 system. Therefore, reservations for funding that the Company accepts in 2009 may not be
24 paid out until 2010. Likewise, this delay between the time of the reservation request and

25 ³ PBIs are paid to the customer based on actual system production; therefore, while considerable capacity will
26 be added or committed to in 2009, only a relatively small number of kilowatt hours ("kWh") of energy will
27 actually be produced, for which customers will receive an incentive payment.

28 ⁴ A.A.C. R14-2-1804 requires that APS obtain 2.00% of renewable energy in 2009, and 2.50% in 2010. In
addition, in 2009, 15% of that renewable energy must be obtained through distributed renewable energy; that
percentage increases to 20% in 2010. A.A.C. R14-2-1805.

1 actual operations of the renewable system requires the Company to take into consideration the
2 REST distributed requirements for the future years, in order to assure compliance with the
3 rules.

4 As noted above, the PBI incentives are paid to customers over time pursuant to
5 contracts, which are known as Credit Purchase Agreements (“CPAs”). In the past, APS had
6 included a “Change in Law Provision” in its CPAs, which was a contractual provision that
7 addressed the possibility that future changes in law may affect provisions of the CPAs to the
8 detriment of either party. As the Commission recognized in Decision No. 70654, there is risk
9 involving renewable energy systems that receive PBIs because the transaction extends into
10 the future and could be affected by a change in law.⁵ The Commission also recognized that
11 the uncertainty regarding PBI payments as well as the inclusion of a Change in Law Provision
12 in the Company’s CPAs may negatively affect renewable projects and may cause customers
13 to have difficulty in obtaining financing for the projects. To address these concerns and to
14 moot the need for a change in law provision, the Commission approved cost recovery of the
15 PBI obligations that APS incurs for all CPAs entered into up to \$77 million.⁶

16 **NEED TO INCREASE THE \$77 MILLION PBI CAP**

17 During the deliberations that resulted in Decision No. 70654, APS anticipated at that
18 time the \$77 million cap for cost recovery of PBIs would be adequate to provide PBIs to non-
19 residential customers through all of 2009. The \$77 million in cumulative lifetime PBI
20 commitments for 2009 included in APS’s 2009 Implementation Plan was modeled based on a
21 variety of assumptions, including a diversified resource mix, and varying terms of the PBI
22 contracts. In 2009, APS has seen a stronger than expected number of reservations for non-
23 residential systems,⁷ and the vast majority of non-residential customer interest is for the

24 _____
⁵ Decision No. 70654 at pg. 9.

25 ⁶ *Id.*

26 ⁷ Thirty-seven new reservations were received for the nomination period ending April 29, 2009; the large
27 majority were received in the last week of the nomination period. Each nomination period represents a two-
28 month window during which customers can request incentive funding. After close of the nomination period,
the projects are prioritized based on the Rank Calculator described in APS’s Distributed Energy
Administration Plan. Projects are affirmed or denied a reservation in the two weeks following each
nomination period.

1 installation of photovoltaic systems⁸ which qualify for the PBI payments. As a result of the
2 surge in customer requests for PBI reservations, the \$77 million dollar cap on PBI is now
3 insufficient for APS to be able to support the number and type of distributed energy projects
4 that customers are pursuing under APS's 2009 Renewable Energy Incentive Program. With a
5 cap of \$77 million, the Company cannot accept all the reservations it has received, and will be
6 unable to accept any further reservations until the Commission makes a determination on this
7 application.

8 Upon receiving the unprecedented volume of requests, APS undertook extensive
9 analysis and modeling to forecast anticipated incentive demand based on the current
10 environment. The Company has updated its assumptions, including a resource mix that is
11 more heavily weighted towards PV systems, and varied lengths of time for CPAs to better
12 reflect expected requests for the remainder of the year.⁹ APS regularly communicates with
13 customers interested in these large renewable systems and has attempted to quantify
14 reservation requests that could be received in the near future. Based on this analysis, the
15 Company has determined that to pay PBI incentives for all currently approved reservations, to
16 accept all pending reservations, and to provide accommodations for the expected market
17 demand through the end of 2009 (which includes systems that will be installed in 2010), APS
18 will need Commission authorization for cost recovery of an additional \$143 million (for a
19 total authorized amount of \$220 million). APS believes that the requested increased
20 authorization would allow APS to approve sufficient reservations to support customer interest
21 in distributed energy through 2009, and will allow sufficient installations necessary to meet
22 both the 2009 and 2010 REST non-residential distributed energy requirements.

24 ⁸ PBIs for photovoltaic systems are the most costly incentives, as compared to other eligible distributed energy
25 technologies. A higher proportion of photovoltaic reservation requests results in a higher total PBI
26 commitment than would otherwise result, had customers chosen to install variety of eligible renewable
27 technology applications.

26 ⁹ These contracts can have terms of ten years and twenty years, and the payment of PBIs can vary. The
27 Company has contracts that are for ten years and twenty years, and the PBIs are paid for that same period.
28 There is also a "hybrid" ten-year contract which pairs 10 years of PBI payments with a 20-year Renewable
Energy Credit agreement. In Decision No. 70654, the Commission specifically determined that APS should
not eliminate the latter option at that time. *See* pg. 10.

1 ORIGINAL and thirteen (13) copies
2 of the foregoing filed this 26th day of
3 May, 2009, with:

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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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- GARY PIERCE
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- SANDRA D. KENNEDY
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2009 JUL 30 A 9 05
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 ARIZONA CORPORATION COMMISSION
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 Director Utilities

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.

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
26

27 _____
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.)

24 _____
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:

26 _____

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.

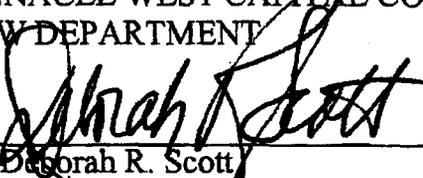
25 ///

26 _____
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.

1 RESPECTFULLY SUBMITTED this 30th day of July, 2009.

2 PINNACLE WEST CAPITAL CORPORATION
3 LAW DEPARTMENT

4
5 By: 

6 Deborah R. Scott

7 Attorney for Arizona Public Service Company

8 ORIGINAL and thirteen (13) copies
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10 July, 2009, with:

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