



OPEN MEETING AGENDA FILED



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RECEIVED

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September 4, 2009

ORIGINAL

2009 SEP - 4 10:25 AM
DOCKET CONTROL

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

RE: SolarCity's Application for a Determination That When it Provides Solar Service to Arizona Schools, Governments, and Non-Profit Entities, it is Not Acting As a Public Service Corporation
Docket No. E-20690A-09-0346

On September 4, 2009, Arizona Public Service (APS) filed a letter in response to requests made during the August 26, 2009 Open Meeting regarding APS's request to increase the recovery guarantee for Production Based Incentives ("PBIs") for distributed renewable generation projects (Docket No. E-01345A-09-0263).

For your convenience, APS is filing a courtesy copy of that letter in this matter.

If you have any questions, please call Jeff Johnson at 602-250-2661.

Leland R. Snook

LS/dt

CC: Parties of Record
Ernest Johnson
Ray Williamson
Steve Irvine
Terri Ford
Barbara Keene
Janet Wagner
Janice Alward

Arizona Corporation Commission
DOCKETED

SEP - 4 2009

DOCKETED BY

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Phoenix, AZ 85027

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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

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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
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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
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Sacaton Elementary District
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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
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Palo Verde, AZ 85383

Parker Unified School District
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Parker, AZ 85344

Mohawk Valley Elementary District
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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
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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
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Peoria Unified School District
P.O. Box 39
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Wickenburg Unified District
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Globe Unified District
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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
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Ft Thomas Unified District
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Fort Thomas, AZ 85536

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

Morenci Unified District
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Morenci, AZ 85540

Payson Unified District
P.O. Box 919
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Pima Unified District
P.O. Box 429
Pima, AZ 85543

Pine Strawberry Elementary District
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Pine, AZ 85544

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Klondyke Elementary District
921 Thatcher Blvd
Safford, AZ 85546

San Carlos Unified District
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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
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Forrest Elementary District
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McNeal, AZ 85617

McNeal Elementary District
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Naco Elementary District
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Naco, AZ 85620

Santa Cruz Elementary District
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Nogales, AZ 85621

Nogales Unified District
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Nogales, AZ 85621

Continental Elementary District
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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
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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
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Tombstone, AZ 85638

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

Bonita Elementary District
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Bonita, AZ 85643

Wilcox Unified District
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Tucson, AZ 85705

Flowing Wells Unified District
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Tucson, AZ 85705

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

Russell Jones
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Tucson, AZ 85711

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
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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
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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
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Winslow, AZ 86047

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

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Prescott, AZ 86305

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Crown King Elementary District
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Kingman, AZ 86401

Kingman Unified School District
3033 MacDonald Ave
Kingman, AZ 86401

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Lake Havasu City, AZ 86403

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Peach Springs Unified District
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Valentine Elementary District
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Topock Elementary District
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Yucca Elementary District
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Yucca, AZ 86438

Colorado River Union High School District
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Bullhead City, AZ 86439

Bullhead City School District
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Bullhead City, AZ 86442

Mohave Valley Elementary District
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Mohave Valley, AZ 86446

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

Ganado Unified School District
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Ganado, AZ 86505

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Red Mesa Unified District
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PINNACLE WEST
CAPITAL CORPORATION

LAW DEPARTMENT

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September 4, 2009

Kristen K. Mayes, Chairman
Commissioner Gary Pierce
Commissioner Paul Newman
Commissioner Sandra D. Kennedy
Commissioner Bob Stump
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Re: Arizona Public Service Company's Response to Open Meeting Issues
Regarding its Production Based Incentives for Distributed Renewable
Generation Projects -- Docket No. E-01345A-09-0263

Dear Commissioners:

Arizona Public Service Company ("APS" or "Company") is filing this letter in response to your requests that were made during the August 26, 2009 Open Meeting discussions regarding APS's request to increase the recovery guarantee for Production Based Incentives ("PBIs") for non-residential distributed renewable energy projects. Specifically, the Commission requested that APS provide the following information:

- An update on APS's PBI program, including additional information about the kinds of projects that are currently in the non-residential PBI queue; and
- A review of approaches that could be adopted to replenish funds allocated for residential distributed energy incentives, in the event that the Commission granted APS's request to allow schools to receive an upfront incentive paid by Renewable Energy Standard ("RES") funding that was budgeted for residential projects.

These items are discussed in detail below. In addition, in response to the Commissioners' concerns regarding customer participation in the residential distributed energy program, we have provided additional information regarding the Company's efforts to encourage residential customer participation.

APS • APS Energy Services • SunCor • El Dorado

Law Department, 400 North Fifth Street, Mail Station 8695, Phoenix, AZ 85004-3992
Phone: (602) 250-3630 • Facsimile (602) 250-3393

Chairman Kristen K. Mayes
 Commissioner Gary Pierce
 Commissioner Paul Newman
 Commissioner Sandra D. Kennedy
 Commissioner Bob Stump
 September 4, 2009
 Page -2-

PBI Program Update – August 31, 2009

APS’s PBI process was developed as part of the Uniform Credit Purchase Program (“UCPP”) working group and has been approved by the Commission as part of APS’s Distributed Energy Administration Plan (“DEAP”). To help clarify the PBI process, APS has included an overview as Attachment 1, which covers eligibility, nomination periods, reservation selection and confirmation, and key project milestones.

The Commission raised several questions at the August 26th Open Meeting regarding the Project Type as used in the table entitled, “*Production Based Incentive Cap Analysis – Projected Through the End of 2009*” (“PBI Table”) that Staff included in its Staff Report.¹ The PBI Table is reproduced below.

Production Based Incentive Cap Analysis – As filed June 8, 2009				
Project Type	Number of Project	kWdc	Annual Incentive Impact	Lifetime Contract Commitment
Reserved and Installed	57	15,600	\$6,200,000	\$72,000,000
Received and Pending	16	14,500	\$3,800,000	\$55,000,000
In Development	5-10	12,000	\$4,000,000	\$63,000,000
Anticipated Based on Inquiries	5-15	6,000	\$2,000,000	\$30,000,000
Total	83-98	48,100	\$16,000,000	\$220,000,000

The PBI Table reflected the status of APS’s PBI program as of April 30, 2009. We have provided additional information regarding each Project Type below.

Reserved and Installed: This category reflects customer projects that have received confirmed reservations and which have resulted in commitments against APS approved lifetime PBI authorization. Some of these projects are already in operation and are currently receiving incentive payments. The remaining projects in this category are proceeding toward installation and have met all development milestones necessary to retain an active reservation.

Received and Pending: This category reflects customer applications that may receive incentive funding for eligible distributed energy projects; however, APS has not determined that these customer applications will receive confirmed reservations. Confirmation of reservations occurs after the applications have been prioritized using

¹ Staff Report dated August 11, 2009, at page 1.

Chairman Kristen K. Mayes
 Commissioner Gary Pierce
 Commissioner Paul Newman
 Commissioner Sandra D. Kennedy
 Commissioner Bob Stump
 September 4, 2009
 Page -3-

the methods described in APS's DEAP. Not all of these reservation requests will be qualified or approved.

In Development: As part of APS's ongoing dialogue with customers, the Company works collaboratively to support project development during the exploratory and scoping phase. While these efforts have not yet manifested in formal reservation requests, APS believes that customers will submit applications.

Anticipated Based on Inquiries: Substantial development activity occurs in the distributed energy market that does not directly involve APS in the exploratory and scoping phase. We do, however, anticipate this level of interest from customers and attempt to forecast that prospective future interest. This category is a forecast of reservations that are expected to result from that interest.

APS updated the PBI Table (shown below) to reflect the status of the non-residential PBI program at the end of August 2009. The categories of "In Development" and "Anticipated Based on Inquiries" are not forecast as part of this letter. While APS continues to work with customers toward development of distributed renewable energy projects, and while APS is keenly aware the additional projects are anticipated based on ongoing inquiries, those outcomes and budgetary implications have been discussed as part of APS's 2010 RES Implementation Plan, and APS has proposed a means to continue to support the development of non-residential distributed energy projects.²

Production Based Incentive Cap Analysis – As of August 31, 2009				
Project Type	Number of Project	kWdc	Annual Incentive Impact	Lifetime Contract Commitment
Reserved & Installed ¹	57	15,680	\$6,060,000	\$69,705,951
Received and Pending	56	40,440	\$15,286,331	\$226,642,985
In Development	n/a	n/a	n/a	n/a
Anticipated Based on Inquiries	n/a	n/a	n/a	n/a
Total	113	56,120	\$21,346,331	\$296,348,936

Note:

1. Eleven projects have been installed and are currently receiving quarterly incentives payments. The lifetime commitment to those projects is \$12 million.

² Docket No. E-01345A-09-0338.

Chairman Kristen K. Mayes
 Commissioner Gary Pierce
 Commissioner Paul Newman
 Commissioner Sandra D. Kennedy
 Commissioner Bob Stump
 September 4, 2009
 Page -4-

As indicated in the updated PBI Table above, as of the close of the July – August nomination period, APS has received a total of 113 applications for non-residential incentives, which would total approximately \$296 million in lifetime commitments.³

APS must evaluate the projects to determine which projects are the most cost-effective (those that make the best use of RES funds) based on the Ranking Calculator described in APS’s DEAP and available on www.aps.com.⁴ Because the total lifetime commitment of customers reservation requests exceeds the \$220 million authorized by the Commission at the August 26th Open Meeting, the Company will accept reservations for the most economical projects, up to the \$220 million authorized by the Commission.

Non-Residential PBI Reservation by Technology					
(August 31, 2009)					
Type	Count	MW	MWh	Lifetime Commitment	
Photovoltaic (“PV”) ¹	98	55.83	102,756	\$275,172,092	93%
Solar Hot Water	3	0.00	5,681	\$5,016,029	2%
Solar Heating & Cooling	10	0.00	10,315	\$15,062,175	5%
Biogas CHP	2	0.29	3,929	\$1,098,640	0%
Total	113	56.12	122,681	\$296,348,936	100%

Note:

1. The PV projects range in size from 32 kWdc to 8,996 kWdc and include schools, municipal sites, retail stores, universities, hotels, grocery stores and manufacturing facilities.

APS received a large number of the customer reservation applications after June 30, 2009; many of those customers will have to resubmit their requests to reflect the reduced maximum PBI level for PV systems, which was reduced from \$0.180 to \$0.162 per kilowatt hour (“kWh”), as ordered by the Commission as a result of the August 26th Open Meeting. Also, customers who submitted requests for reservations prior to June 30th, but had not yet been confirmed, may choose to resubmit their reservation requests to increase the probability of selection. Because the incentive level changed and because many customers will need to modify their reservation requests, APS has extended the deadline for reservation application submittal for the July – August nomination period to September 14, 2009. Only amended reservation applications will be accepted during the extension period. APS will update the Commission regarding the number of projects that continue to meet key milestone requirements.

³ This is the total incentives that will be paid over the term of the contracts, which is typically ten or twenty years.

⁴ This ranking process was developed as part of the Commission’s UCPP working group and was approved as part of APS’s previous Implementation Plans.

Chairman Kristen K. Mayes
Commissioner Gary Pierce
Commissioner Paul Newman
Commissioner Sandra D. Kennedy
Commissioner Bob Stump
September 4, 2009
Page -5-

Effect of Reallocation of Residential Funding

In this docket, APS has requested that \$20 million of the RES residential funds be made available to provide schools with an upfront incentive. APS projects that even with an increased interest from homeowners in 2009, that \$20 million of available incentives will go uncommitted this year. By affording schools access to these funds it will allow them to take advantage of federal stimulus funding and federal tax treatment, making the installation of renewable projects attainable this year. APS has requested that energy resulting from such installations be counted towards the residential distributed energy requirement. With this approach, no increase in the RES budget or the RES surcharge is necessary. Further, APS commits that if it appears any residential projects may go unfilled as a result of this approach, APS will immediately file an application with the Commission to meet that funding need.

During the August 26th Open Meeting, the Commission raised concerns about the prospect of allowing energy resulting from distributed renewable energy installations at schools to count toward the residential distributed energy requirement in the RES. APS indicated that if approval was granted to make \$20 million of residential funds available to schools, but renewable energy credits ("RECs") did not count towards residential RES targets, additional funding would be necessary to accomplish residential compliance in the future. Each year (in its Implementation Plan) APS forecasts the number of kilowatts ("kW") of customer installed capacity⁵ needed to meet the residential distributed energy ("DE") RES requirement and, in turn, APS calculates the amount of incentive dollars required. If a portion of funds collected to fulfill the residential DE requirement is used for schools, but the RECs are not counted toward residential compliance, residential funds will need to be increased a like amount in the future to result in the same amount of total lifetime residential renewable energy.

Acknowledging APS's concern, the Commission asked the Company to provide alternative approaches to address the prospect of a shortfall in the funding necessary to achieve compliance with the residential DE requirement. The Company believes in this instance that it is appropriate for the renewable energy installations at schools to count toward the residential distributed energy requirement. This approach meets the short-term need of schools without an increase in funding in the RES surcharge. However, there are other approaches that the Commission might consider, including: deferral of the compliance requirement and, therefore, funding needed to comply with the residential targets; a waiver of a portion of the residential distributed energy requirement that would have resulted from monies spent on school installations; an increase in the 2010 residential distributed energy funds; or a reduction in future funding for non-residential projects.

⁵ In the case of solar water heating systems or other non-electric generating distributed technologies, that forecast is based on first-year energy production.

In each of the options presented below, APS assumed that the full \$20 million would be committed to schools projects. Should the number ultimately differ, funding increases and the total number of megawatt hours (“MWh”) required to be included in a waiver would change. As described, the options show both the maximum funding increase and largest potential target waiver resulting from this reallocation request. These options are discussed below.

Option	Waiver of Residential DE Target ¹	Total Increase to RES Budget (all affected yrs)	RES Surcharge Increase Cap Increase ²	Years of Adjustor Increase ³
Count Schools as Residential	No	None	None	None
Limited Waiver	Yes	None	None	None
Target Deferral	Yes	\$18 million	~\$0.21 ⁴	~3.5 years (2010 to ~June 2013)
One Time Increase	No	\$20 million	\$0.86	1 year (2010)
Non-Residential Reduction	Yes	None	None	None

Note:

1. A waiver of A.C.C. R14-2-1805 is required.
2. Total budgets and billing determinants used to develop the rates are forecasted.
3. Above the level described in APS’s 2010 RES Implementation Plan.
4. This increase reflects an approximation of the increase necessary to collect \$5 million in additional funding. In 2010 to 2012 and \$3 million in 2013. For details of the RES Surcharge Analysis, please refer to Attachment 2.

Limited Waiver:

This option would allow the schools to be funded from RES residential funds, but have the energy produced by the schools’ renewable energy systems counted toward the non-residential distributed requirement. This approach would require the Commission to grant APS a permanent waiver of the residential distributed energy requirement that would have resulted from these incentive funds, or 12,900 MWh. This option required a waiver of the residential DE requirement. There would be no increase necessary in the RES budget or the RES surcharge.

Target Deferral of Compliance Requirement:

With this approach, the residential distributed renewable energy requirement that would have been met with the reallocated \$20 million in 2009 (“Residential Shortfall”) would be deferred to the future. Based upon APS’s proposed 2010 Implementation Plan, customer incentives will decrease by 10 percent in 2011 and again by 10 percent in 2013. These reductions afford the opportunity to realize some cost savings by deferring the energy target that would have resulted from \$20 million applied toward residential incentives. In this option,

Chairman Kristen K. Mayes
Commissioner Gary Pierce
Commissioner Paul Newman
Commissioner Sandra D. Kennedy
Commissioner Bob Stump
September 4, 2009
Page -7-

APS's RES budget could be increased by \$5 million in each year from 2010 to 2012 and by \$3 million in 2013. While costing customers \$2 million less, the resulting residential energy would be the same as would result from a \$20 increase in 2010. Using this approach and based on budgets projected in APS's 2010 RES Implementation Plan, the average residential customer's RES surcharge cap would increase by approximately \$0.21 for 3.5 years; details on the specific increases by year are included as Attachment 2.

This option requires a waiver of the residential distributed energy requirement for three years. In 2010, the waiver would be for 9,700 MWh of the residential renewable energy target; in 2011 for 6,100 MWh of the residential renewable energy target; and in 2012 for 2,200 MWh of the residential renewable energy target.

One Time Increase in 2010 Residential Distributed Energy Funds:

Most directly the Commission could choose to increase APS's 2010 RES funding by \$20 million for residential distributed energy incentives. This method, while easily communicated, has the greatest direct economic impact on customers when compared to the other options. This would increase the average residential customer's RES surcharge cap by \$0.86 per month in 2010.

Non-Residential Projects Reduction in Future Funding:

An additional option discussed during the August 26th Open Meeting was a reallocation of proposed future funding for non-residential installations to residential projects. In this option, APS would reduce funding for new non-residential projects by half until the residential shortfall is replenished. This option would require APS to reduce available funding for new projects proposed in APS's 2010 Implementation Plan by one half through 2013. As a result, in each year through 2013, non-residential up-front incentive funding and non-residential PBI funding would be reduced by half from the levels described in APS's 2010 Implementation Plan. In effect, the additional annual increases in lifetime authorization would be reduced to \$50 million per year.⁶ As a result of this option, less than 13 MW on new non-residential distributed energy capacity could be installed each year of the reduction relative to the nearly 56 MW expected to result for activity in 2009.

This option requires a waiver of the residential distributed energy requirement for three years. In 2010, the waiver would be for 11,400 MWh of the residential renewable energy target;

⁶ In APS's 2010 RES Implementation Plan, APS has proposed increasing the lifetime authorization by \$100 million in each year of the Plan.

Chairman Kristen K. Mayes
Commissioner Gary Pierce
Commissioner Paul Newman
Commissioner Sandra D. Kennedy
Commissioner Bob Stump
September 4, 2009
Page -8-

in 2011 for 7,600 MWh of the residential renewable energy target; and in 2012 for 1,900 MWh of the residential renewable energy target.

While APS's proposed 2010 Implementation Plan budget for non-residential distributed energy is \$18.6 million in 2010, approximately \$14 million is committed to customer projects under the current PBI authorization. APS does not believe that limiting the development of distributed energy markets in this manner is in the best interest of either residential or non-residential customers.

Residential Distributed Energy Program Initiatives

APS reassures the Commission that the Company is dedicated to achieving compliance with the RES requirements and, more specifically, its residential distributed generation requirement.⁷ At the August 26th Open Meeting, the Commission raised a number of questions regarding the participation of residential customers in the incentive programs, and APS's efforts to reach those customers. The following information further responds to that subject.

APS believes its programs and strategies are key contributors to the increase in the residential distributed energy program participation; however, APS also recognizes that continued evolution of the program demands adjustments in the efforts used to raise customer awareness and promote residential customer participation. In response to Commissioner concerns regarding the marketing of the residential DE program and to gain a greater understanding of what others are doing to market to their residential customers, APS contacted various utilities to survey what outreach programs seem to be the most effective in increasing customer awareness. Additionally, APS has scheduled a stakeholder meeting on September 22, 2009 to receive feedback from industry participants and to discuss current barriers to reaching and informing the residential customer on APS's distributed generation programs and ways to overcome them. APS has invited a nationally renowned leader in this area to facilitate this discussion, drive an open review of strategies, and to work to find opportunities for collaboration.

Additionally, APS's marketing initiatives were recently recognized in the Smart Solar Marketing Strategies Report, prepared by the Clean Energy Group and SmartPower.⁸ This report

⁷ In 2009, APS paid its residential customers incentives which allowed for the installation of more than 1,400 systems. By year end, participation in the Company's incentive programs will have increased by over 150 percent over 2008. Residential systems installed in 2009, account for more than four megawatts of distributed renewable generation, for a total of more than 11 megawatts since 2002. In addition, there are over 1,100 reservations for residential projects.

⁸ Smart Solar Marketing Strategies-Clean Energy State Program Guide, Clean Energy Group and SmartPower, August 2009. http://www.cleanegroup.org/Reports/CEG_Solar_Marketing_Report_August2009.pdf.

Chairman Kristen K. Mayes
Commissioner Gary Pierce
Commissioner Paul Newman
Commissioner Sandra D. Kennedy
Commissioner Bob Stump
September 4, 2009
Page -9-

highlighted marketing initiatives by various utilities within the United States to demonstrate leading marketing strategies effective in targeting the residential consumer. An overview of APS's marketing and outreach efforts is provided in Attachment 3.

I hope the information provided responds to your requests and provides you with an overview of the success of the RES distributed energy program. I look forward to further discussions on these issues at the September 9th Open Meeting.

Sincerely,


Deborah R. Scott

DRS/rlj

Attachments

cc: See attached list of Parties of Record

Copies of the foregoing mailed or emailed
this 4 day of September, 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
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Fort Thomas, AZ 85536

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

Morenci Unified District
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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
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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
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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

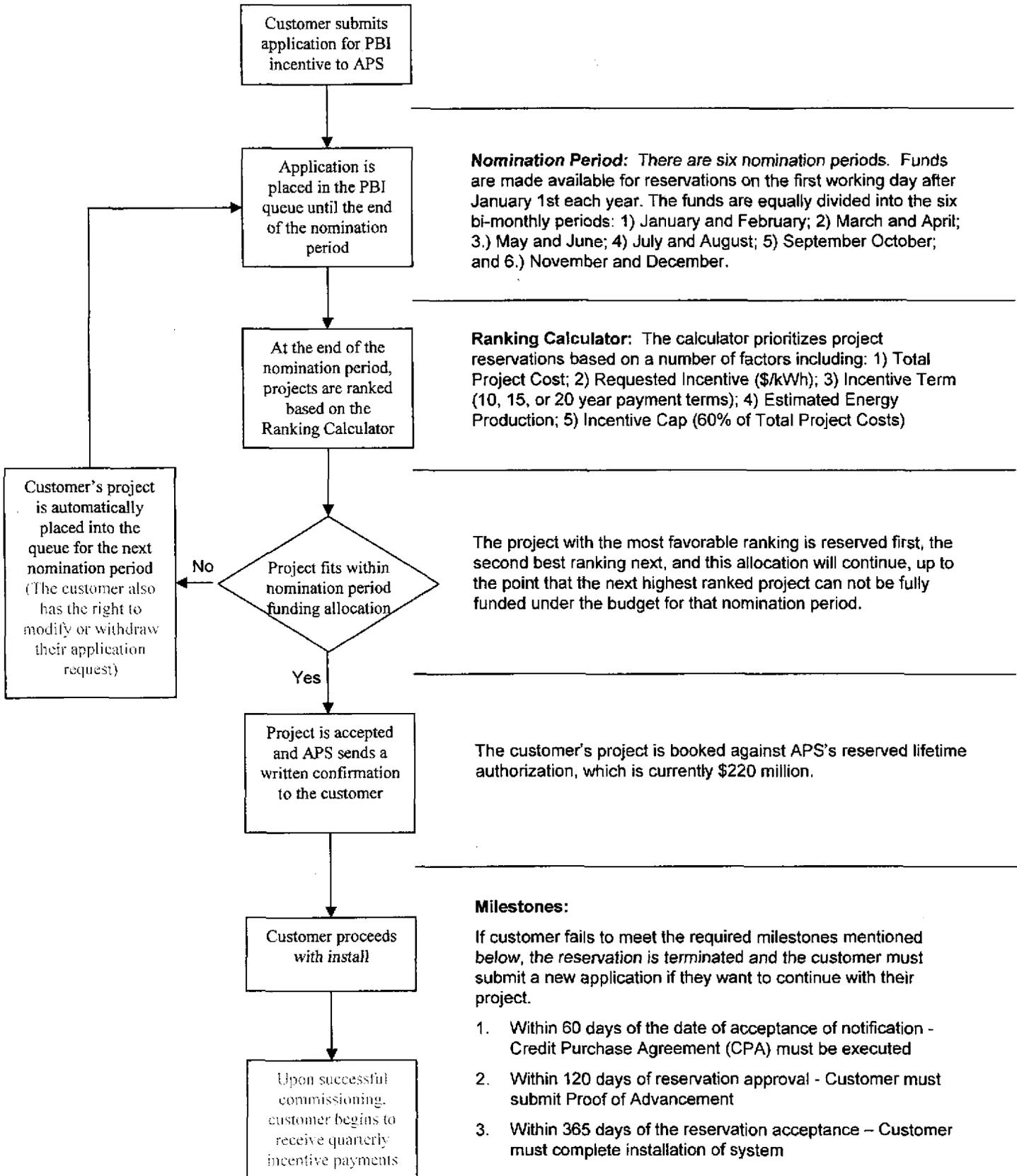
Pinon Unified District
P.O. Box 839
Pinon, AZ 86510

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

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

Attachment 1

Production Based Incentive Overview



Attachment 1

APS Renewable Energy Incentive Program Production Based Incentives

Concept

Production Based Incentives (“PBIs”) are offered to APS’s non-residential customers who install qualifying renewable energy technologies. Another type of incentive APS offers is the Up Front Incentives (“UFIs”), which are one-time payments paid upon the successful commissioning of the system and offered to residential customers and non-residential customers who install smaller scale technologies. PBIs differ from UFIs in that they are designed to be paid over time rather than at the time of installation and they are based on the system’s production of the renewable energy.

Options

Customers have the option to apply for one of four different contract offerings; 1) 10-years of incentive payments in exchange for a 10-year commitment to deliver renewable energy credits (“RECs”); 2) 15-years of incentive payments and 15-year REC commitment; 3) 10-year of incentive payment and 20-year REC commitment, and 4) 20-years of incentive payments and 20-year REC commitment. The agreement between APS and the customer obligates the customer to provide APS with all the RECs associated with the actual production from their system during that calendar quarter, in exchange for a quarterly incentive payment. In the case of contract option three (3) above, the 10/20 contract option, the customer will be paid quarterly for the first 10 years; however, they are obligated to provide APS the RECs for entire 20 year term of the agreement. Projects cannot receive incentive payment in excess of 60 percent of the total project cost. If the total of the incentives hits that limit anytime during the contract term, APS will stop paying additional incentives; however, the customer is still obligated to provide APS the RECs through the remaining term of the agreement.

Process

Customers may apply for a PBI during any of the six bi-monthly nomination periods (Jan-Feb, March-April, May-June, July-Aug, Sept-Oct, and Nov-Dec). At the time of their submission, they may request an incentive level up to the published maximum level, as defined in APS’s Distributed Energy Administration Plan, for that technology and contract term. At the close of each nomination period, APS will allocate the funds to customer projects on a competitive basis through the use of the PBI Ranking Calculator. If funds requested during that period are less than the funds available, all projects are accepted. If funds requested exceed the funds available, projects will be accepted based on their calculated rank. The project with the most favorable ranking will receive funding first, the second best ranking will receive funding next, and this allocation will continue, up to the point that the next highest ranked project can not be fully funded under the budget for that period. Once funding for the current nomination period is exhausted, any remaining projects will be automatically moved into the next nomination period. Customers can leave their request as originally filed, modify it and resubmit, or withdraw their application completely. At the end of each period, the process repeats itself.

Budget

Program funding is based on two separate budgets; lifetime commitment authorization and annual incentive payment obligations. The lifetime commitment authorization is the total of all the payments committed to all the customers under contract, for the entire term of their contract (20 years worth of payments). APS’s current lifetime commitment authorization is \$220 million. The annual incentive payment obligation is the amount APS is liable to pay all customers under contract

Attachment 1

APS Renewable Energy Incentive Program Production Based Incentives

for all quarterly payments for a given calendar year. Based on the project mix currently proposed under the \$220 million authorization, APS's estimated annual payment obligation is approximately \$15.4 million once all projects are fully operational.

Attachment 2

Attachment 2

Recovery Options for the \$20 Million Residential Shortfall

Targeted Deferral of Compliance Option 2010 to 2013

	2010 RES Budget			2011 RES Budget			2011 RES Budget			2011 RES Budget		
	2010 RES Budget ¹	With Additional \$5 M Compliance Cost	% Change	2011 RES Budget ¹	With Additional \$5 M Compliance Cost	% Change	2011 RES Budget ¹	With Additional \$5 M Compliance Cost	% Change	\$ Change	% Change	
RES BUDGET												
RES Budget	\$ 85,500,000	\$ 90,500,000	5.8%	\$ 116,200,000	\$ 121,200,000	4.3%	\$ 116,200,000	\$ 121,200,000	4.3%	\$ 5,000,000	4.3%	
Base Rate Recovery	\$ 6,000,000	\$ 6,000,000		\$ 6,000,000	\$ 6,000,000		\$ 6,000,000	\$ 6,000,000		\$ -		
RES Surcharge Recovery	\$ 79,500,000	\$ 84,500,000	6.3%	\$ 110,200,000	\$ 115,200,000	4.5%	\$ 110,200,000	\$ 115,200,000	4.5%	\$ 5,000,000	4.5%	
RES CHARGES²												
Surcharge (\$/kWh)	\$ 0.008532	\$ 0.009063	6.2%	\$ 0.011453	\$ 0.011969	4.5%	\$ 0.011453	\$ 0.011969	4.5%	\$ 0.000516	4.5%	
Residential Cap (\$/month)	\$ 3.41	\$ 3.63	6.5%	\$ 4.58	\$ 4.79	4.6%	\$ 4.58	\$ 4.79	4.6%	\$ 0.21	4.6%	
Non-Residential Cap (\$/month)	\$ 126.75	\$ 134.64	6.2%	\$ 170.15	\$ 177.82	4.5%	\$ 170.15	\$ 177.82	4.5%	\$ 7.67	4.5%	
3,000 kW or higher Cap (\$/month)	\$ 380.26	\$ 403.93	6.2%	\$ 510.46	\$ 533.46	4.5%	\$ 510.46	\$ 533.46	4.5%	\$ 23.00	4.5%	

2012 RES Budget

	2012 RES Budget			2013 RES Budget			2013 RES Budget		
	2012 RES Budget ¹	With Additional \$5 M Compliance Cost	% Change	2013 RES Budget ¹	With Additional \$3 M Compliance Cost	% Change	2013 RES Budget ¹	With Additional \$3 M Compliance Cost	% Change
RES BUDGET									
RES Budget	\$ 149,800,000	\$ 154,800,000	3.3%	\$ 170,000,000	\$ 173,000,000	1.8%	\$ 170,000,000	\$ 173,000,000	1.8%
Base Rate Recovery	\$ 6,000,000	\$ 6,000,000		\$ 6,000,000	\$ 6,000,000		\$ 6,000,000	\$ 6,000,000	
RES Surcharge Recovery	\$ 143,800,000	\$ 148,800,000	3.5%	\$ 164,000,000	\$ 167,000,000	1.8%	\$ 164,000,000	\$ 167,000,000	1.8%
RES CHARGES²									
Surcharge (\$/kWh)	\$ 0.014492	\$ 0.014999	3.5%	\$ 0.016046	\$ 0.016338	1.8%	\$ 0.016046	\$ 0.016338	1.8%
Residential Cap (\$/month)	\$ 5.80	\$ 6.00	3.4%	\$ 6.42	\$ 6.54	1.9%	\$ 6.42	\$ 6.54	1.9%
Non-Residential Cap (\$/month)	\$ 215.32	\$ 222.85	3.5%	\$ 238.39	\$ 242.73	1.8%	\$ 238.39	\$ 242.73	1.8%
3,000 kW or higher Cap (\$/month)	\$ 645.95	\$ 668.54	3.5%	\$ 715.17	\$ 728.19	1.8%	\$ 715.17	\$ 728.19	1.8%

One Time Increase Option 2010

	2010 RES Budget			2010 RES Budget		
	2010 RES Budget ¹	With Additional \$20 M Compliance Cost	% Change	2010 RES Budget ¹	With Additional \$20 M Compliance Cost	% Change
RES BUDGET						
RES Budget	\$ 85,500,000	\$ 105,500,000	23.4%	\$ 20,000,000	\$ 20,000,000	23.4%
Base Rate Recovery	\$ 6,000,000	\$ 6,000,000		\$ -	\$ -	
RES Surcharge Recovery	\$ 79,500,000	\$ 99,500,000	25.2%	\$ 20,000,000	\$ 20,000,000	25.2%
RES CHARGES²						
Surcharge (\$/kWh)	\$ 0.008532	\$ 0.010875	25.1%	\$ 0.002143	\$ 0.002143	25.1%
Residential Cap (\$/month)	\$ 3.41	\$ 4.27	25.2%	\$ 0.86	\$ 0.86	25.2%
Non-Residential Cap (\$/month)	\$ 126.75	\$ 158.59	25.1%	\$ 31.84	\$ 31.84	25.1%
3,000 kW or higher Cap (\$/month)	\$ 380.26	\$ 475.78	25.1%	\$ 95.52	\$ 95.52	25.1%

¹As filed in APS's 2010 RES Implementation Plan in Docket No. E-01345A-09-0338

² The RES surcharge is collected on a cents per kWh basis that is capped at various levels depending on customer category. RES surcharges will not exceed the cap. Total budgets and billing determinants used to develop the rates are forecasted.

Attachment 3

Attachment 3

APS Marketing Initiatives

In June 2009, APS conducted a Residential Awareness Survey to determine the effectiveness of its marketing outreach initiatives. That survey demonstrated a 120 percent increase in overall consumer awareness of the available renewable energy incentives from our 2007 benchmark. APS attributes that success and the parallel increase in customer installations and reservations on the Company's marketing and outreach. Those efforts are focused in four main categories: 1) Media, Website and APS Sponsored Advertising; 2) Direct Customer Outreach; 3) Cooperative Advertising and Education; and 4) Customer Programs.

Media, Website and APS Sponsored Advertising

- Since January 2009 APS has featured over 3,600 paid radio and television commercials, which translates to almost 17 commercials per day, targeted towards residential consumers. Since 2008 that number is over 6,700 paid radio and television commercials.
- APS has sponsored other paid advertising that also includes renewable energy program that is estimated to have reached approximately 75% of the market in the last seven months.
- APS's website dedicated to distributed energy incentives has received over 260,000 visits through July 2009.

Direct Customer Outreach

- Since 2008, APS has sent over 1.6 million direct mail pieces informing customers of their options regarding renewable energy. Many of these letters were highly customized for individual customers with specific program information and a clear call to action. Typically, successful response rates on direct mail campaigns are about 1%. APS's overall response was 1.9%.
- APS has participated in numerous community initiated and community sponsored events to speak directly with customers and other key program participants.
- APS has facilitated and participated in over fifty renewable energy seminars targeted towards customer groups, civic organizations, trade groups and the general public.

Cooperative Advertising and Education

- Cooperative advertising leverages the opportunity to partner with installers and other stakeholders active in the distributed energy market. APS marketing funds are provided to increase the reach and facilitate opportunities for the efforts of our partners. APS has facilitated cooperative advertising and other paid advertising that is estimated to have reached approximately 75% of the market in the last seven months.
- APS has met with numerous homebuilders and held multiple customer workshops on solar technology and educational workshops targeted towards specific communities. Many of these have been in collaboration with local installers.

Attachment 3

- APS has conducted over a dozen contractor training sessions to educate municipal code officials, installers and developers on photovoltaic and solar water heater installation requirements as well as APS's overall renewable program.

Customer Programs

- APS has developed programs specifically aimed at its residential distributed energy target. In April 2009, APS launched the APS Solar Homes Program in conjunction with the APS Energy Star Homes program to help stimulate the development of solar communities.
- APS launched its Distributed Public Assistance Program in 2009 and in the Company's 2010 Implementation Plan is seeking approval to increase program funding. The program supports installations of distributed energy systems for limited income and non-profit customers.
- In June 2009, APS applied for funding available to utilities under the American Recovery and Reinvestment Act of 2009 ("ARRA"). The Arizona Department of Commerce is issuing about \$10 million to Arizona utilities. APS anticipated it will use over \$2.6 million of this ARRA funding to install solar water heaters and photovoltaic ("PV") systems in low income residential housing. RES incentives will help increase the total funding available for these projects.
- APS has requested Commission approval to implement its proposed Community Power Project – Flagstaff Pilot. The Pilot would provide Flagstaff-area customers with distributed energy systems including photovoltaic arrays, solar water heaters, and small scale wind turbines.