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**BEFORE THE ARIZONA CORPORATION COMMISSION
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2010 MAR 26 P 4: 16
AZ CORP COMMISSION
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Arizona Corporation Commission
DOCKETED
MAR 26 2010

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7 IN THE MATTER OF THE APPLICATION
8 OF ARIZONA PUBLIC SERVICE
9 COMPANY FOR APPROVAL OF A
10 DISTRIBUTIVE ENERGY INITIATIVE:
11 THE COMMUNITY POWER PROJECT –
12 FLAGSTAFF PILOT

DOCKET NO. E-01345A-09-0227

PROPOSED AMENDMENTS

12 With this filing, Arizona Public Service Company (“APS” or “Company”) is
13 proposing two potential amendments to the Recommended Opinion and Order (“ROO”) that
14 would eliminate the use of residential and non-residential distributed energy incentives in the
15 Community Power Project – Flagstaff Pilot (“Pilot”).

16 In its original filing, APS proposed using funds collected through the Renewable
17 Energy Standard (“RES”) surcharge to pay customers and installers the appropriate incentive
18 for the system being installed. This had the benefit of deploying unallocated funds collected
19 through the RES in 2008 to reduce the amount of capital necessary for the Pilot. Since its
20 original filing on the Pilot, the Company used a portion of the 2008 carryover RES funds to
21 fund requested incentive payments to customers in 2009 that were over and above what had
22 been originally budgeted.

23 At the time of filing the Pilot Application, APS had envisioned that energy resulting
24 from photovoltaic systems installed as part of the Pilot on both residential and non-residential
25 customer rooftops would count toward the Company’s RES distributed energy requirement.
26 Following the Commission’s recent direction in Decision No. 71459,¹ the Company now
27

28 ¹ Issued January 29, 2010.

1 understands that energy resulting from non-residential installations will not count toward the
2 RES distributed energy requirement. Therefore, the Company no longer believes it is
3 appropriate to use non-residential incentives to offset the capital cost of installing non-
4 residential photovoltaic systems as part of this Pilot.

5 With this in mind, at the March 3, 2010 Open Meeting, the Company proposed that the
6 entire cost of the non-residential photovoltaic portion of the Pilot be financed through the use
7 of APS capital with recovery consistent with Section 15.7 of the Settlement Agreement
8 approved in Decision No. 71448.² This approach would have two primary benefits that are
9 worth considering. First, it would allow incentive dollars that APS has proposed to use
10 through this Pilot to be deployed by other customers for the development of additional
11 systems outside of this Pilot. Second, up-front incentives are entirely recovered from
12 ratepayers in the same year in which those commitments are made. Therefore, if APS were to
13 fund the majority of the Pilot from its own balance sheet and without the use of incentives, it
14 would help reduce the up-front impact to all ratepayers.³

15 Attachment A reflects this approach. It details the revised balance of APS capital
16 contribution towards this Pilot and the resulting revenue requirement to support the
17 investment in a manner similar to the Company's original filing, adjusted for the fact that
18 APS will not use incentives to fund non-residential systems. APS believes this alternate
19 approach is constructive and supportive of distributed energy development. The incentive
20 funds described as part of this Pilot would remain available for APS customers to install
21 renewable energy systems through the currently available non-residential incentive programs.
22 APS Proposed Amendment No. 1, which is attached, would modify the ROO as described.

23 In addition to the approach described above for non-residential installations, APS also
24 recognizes concerns of the solar industry over the use of residential RES incentive funds as
25 part of this Pilot. While those funds are indeed supporting residential distributed energy

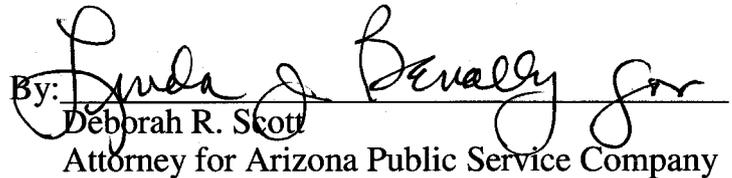
26 ² Transcript pp. 77-79.

27 ³ An analogy is that instead of collecting a down payment (incentives via APS's original proposal), APS would
28 borrow the money from its investors and collect a loan payment from customers helping to address the issue of
the up-front cost to ratepayers.

1 installations, APS recognizes it may be constructive to execute the Pilot without the use of
2 any RES incentives funds. Should the Commission choose to give APS such direction, the
3 APS capital contribution towards the Pilot would increase. Attachment B details the revised
4 balance of APS capital contribution towards this Pilot and the resulting revenue requirement
5 to support the investment under this optional approach. APS Proposed Amendment No. 2,
6 which is attached, would modify the ROO as described.

7 To provide additional funds for customer incentives outside of the Pilot, APS requests
8 that the Commission adopt Amendment No. 1 and Amendment No. 2.

9 RESPECTFULLY SUBMITTED this 26th day of March, 2010.

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12 By: 
13 Deborah R. Scott
Attorney for Arizona Public Service Company

14 ORIGINAL and thirteen (13) copies
15 of the foregoing filed this 26th day of
16 March, 2010, with:

17 Docket Control
18 ARIZONA CORPORATION COMMISSION
19 1200 West Washington Street
20 Phoenix, Arizona 85007

21 COPY of the foregoing hand-delivered,
22 e-mailed and/or mailed this 26th day
23 of March, 2010, to:

24 Lyn Farmer
25 Chief Administrative Law Judge
26 Hearing Division
27 Arizona Corporation Commission
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ATTACHMENT A

**Arizona Public Service
Attachment A
Community Power Project Budget Summary: Using Residential RES DE Incentives and APS Capital**

Renewable Energy Equipment - Capital Budget

Capital and Capital Offset (Incentives)	APS	RES¹	Total
	\$8,764,000	\$2,070,000	\$10,834,000

¹ RES incentive are drawn from current year RES funds.

Program Deployment and Ongoing Costs

	Total Launch and Installation (2009-2011)¹	Average Ongoing
Deployment and Customer Support	\$1,218,000	\$220,000
Smart Grid Interface and Data Acquisition	\$1,052,000	\$21,000
System O&M	\$222,000	\$135,000
Contingency Costs ²	\$1,332,000	\$38,000
Program Budget Total	\$3,824,000	\$414,000

¹ Deployment and Ongoing costs will be charged against the remaining \$5.4 million that was recovered from customers in 2008 through the RES adjustor, but not allocated to a specific renewable programs in the approved 2009 RES Implementation Plan.

² Contingency funds are broadly allocated to the program and applied only if necessary for full execution of the pilot program. Funds may either be applied towards incentives or toward deployment related expenses.

Additional Funding Supported by RES

	2010	2011	2012¹	2013	2014
Revenue Requirement	\$400,414	\$1,226,900	\$554,788	\$0	\$0

¹ Assumes completion of an APS rate case and allocation to rate case on 07/01/2012.

RES Adjustor

	2011	2012¹
Effect on Residential RES Cap	\$ -	\$ 0.04

¹ Assumes completion of an APS rate case and allocation to rate case on 07/01/2012.

NOTE: These numbers are being provided solely for purposes of the Community Power Project and are not to be used or relied upon for purposes of trading any security.

**Arizona Public Service
Attachment A**

Community Power Project Budget Summary: Using Residential RES DE Incentives and APS Capital

Community Power Project Expenses with remaining rollover budget	2010		2011		2012	
2010 RES Net Funds Available	\$	5.4	\$	2.5	\$	0.0
Program Cost	\$	(2.5)	\$	(1.3)	\$	-
Revenue Requirement	\$	(0.4)	\$	(1.2)	\$	(0.6)
Ongoing Program Costs	\$	-	\$	-	\$	(0.4)
2008 RES Net Funds Remaining	\$	2.5	\$	0.0	\$	(1.0)
Amount Funded through RES Adjustor	\$	-	\$	-	\$	1.0

NOTE:

These numbers are being provided solely for purposes of the Community Power Project and are not to be used or relied upon for purposes of trading any security.

ATTACHMENT B

**Arizona Public Service
Attachment B**

Community Power Project Budget Summary: No Incentives Applied to the Reduction of System Capital Cost

Renewable Energy Equipment - Capital Budget

Capital and Capital Offset (Incentives)	<u>APS</u>	<u>RES</u> ¹	<u>Total</u>
	\$10,564,000	\$270,000	\$10,834,000

¹ RES incentive are drawn from current year RES funds.

Program Deployment and Ongoing Costs

	<u>Total Launch and Installation (2009-2011)</u> ¹	<u>Average Ongoing</u>
Deployment and Customer Support	\$1,218,000	\$220,000
Smart Grid Interface and Data Acquisition	\$1,052,000	\$21,000
System O&M	\$222,000	\$135,000
Contingency Costs ²	\$1,332,000	\$38,000
Program Budget Total	\$3,824,000	\$414,000

¹ Deployment and Ongoing costs will be charged against the remaining \$5.4 million that was recovered from customers in 2008 through the RES adjustor, but not allocated to a specific renewable programs in the approved 2009 RES Implementation Plan.

² Contingency funds are broadly allocated to the program and applied only if necessary for full execution of the pilot program. Funds may either be applied towards incentives or toward deployment related expenses.

Additional Funding Supported by RES

Revenue Requirement	<u>2010</u>	<u>2011</u>	<u>2012</u> ¹	<u>2013</u>	<u>2014</u>
	\$517,525	\$1,457,515	\$667,542	\$0	\$0

¹ Assumes completion of an APS rate case and allocation to rate case on 07/01/2012.

RES Adjustor

Effect on Residential RES Cap	<u>2011</u>	<u>2012</u> ¹
	\$ 0.02	\$ 0.04

¹ Assumes completion of an APS rate case and allocation to rate case on 07/01/2012.

NOTE: These numbers are being provided solely for purposes of the Community Power Project and are not to be used or relied upon for purposes of trading any security.

**Arizona Public Service
Attachment B**

Community Power Project Budget Summary: No Incentives Applied to the Reduction of System Capital Cost

	Community Power Project Expenses with remaining rollover budget	
	2010	2011
	2010	2012
2010 RES Net Funds Available	\$ 5.4	\$ 2.4
Program Cost	\$ (2.5)	\$ (1.3)
Revenue Requirement	\$ (0.5)	\$ (1.5)
Ongoing Program Costs	\$ -	\$ -
2008 RES Net Funds Remaining	\$ 2.4	\$ (0.5)
Amount Funded through RES Adjustor	\$ -	\$ 0.5
		\$ 1.1

NOTE:

These numbers are being provided solely for purposes of the Community Power Project and are not to be used or relied upon for purposes of trading any security.

**PROPOSED
AMENDMENTS**

Arizona Public Service Company Proposed Amendment No. 1
Docket No. E-01345A-09-0227

Pg. 8, line 2, after "generating resources."

ADD: However, the Commission believes that standard incentives should be preserved to address the continued demand for non-residential distributed incentives; therefore, APS should not be permitted to utilize \$2.25 million in non-residential RES incentives under the Project for utility-owned PV systems.

Page 11, line 22 after "appropriate and reasonable"

ADD: except that APS shall not utilize the \$2.25 million in non-residential RES incentives under the Project for utility-owned PV systems.

Make conforming changes as necessary.

Arizona Public Service Company Proposed Amendment No. 2
Docket No. E-01345A-09-0227

Pg. 8, line 2, after "generating resources."

ADD: The Commission also believes that standard incentives should be preserved to address the continued demand for residential distributed incentives; therefore, APS should not be permitted to utilize \$1.8 million in residential RES incentives under the Project for utility-owned PV systems.

Page 11, line 22 after "appropriate and reasonable"

ADD: and APS shall not utilize the \$1.8 million in residential RES incentives under the Project for utility-owned PV systems.

Make conforming changes as necessary.