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BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission
DOCKETED
APR 14 2010
DOCKETED BY hr

IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY'S APPLICATION
FOR APPROVAL OF A DISTRIBUTED
ENERGY INITIATIVE: THE COMMUNITY
POWER PROJECT - FLAGSTAFF PILOT

DOCKET NO. E-01345A-09-0227
DECISION NO. 71646
ORDER

Open Meeting
March 31 and April 1, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS" or "Company") is certificated to provide electric service as a public service corporation in the State of Arizona.

I. Background

2. On May 11, 2009, APS filed an Application for approval of the Community Power Project - Flagstaff Pilot ("Project") which would promote residential and small commercial distributed energy ("DE") by making it possible for customers to obtain DE on their property without cost.

3. On October 29, 2009, APS made a Supplemental Filing requesting that utility-owned renewable energy produced at customers' homes and businesses be counted under the Renewable Energy Standard ("RES") Rules toward meeting the RES DE requirements. In the alternative, the Company requested a waiver of the applicable rules, if necessary, to allow this treatment.

1 4. The installation of photovoltaic ("PV") and solar water heating systems in APS'
2 service territory has increased significantly, yet meeting the RES DE requirement, particularly
3 residential, continues to be a challenge.

4 5. The Project would achieve a high penetration of DE resources in a localized
5 Flagstaff area and would allow APS to study of the effects of DE on the electrical distribution
6 system.

7 **II. The Community Power Project**

8 6. APS proposes to place distributed renewable energy resources, including
9 installations on customer premises and utility "stand-alone" PV arrays (approximately 200 systems
10 or up to 1,500 kilowatts ("kW")), solar water heaters (approximately 50 systems), and small-scale
11 stand-alone wind turbines (approximately six systems on utility-owned property) in a limited
12 distribution area in northeast Flagstaff. These renewable facilities would reduce the need for
13 conventional generation otherwise used to provide electricity to APS customers.

14 7. APS selected a portion of its Flagstaff service territory for the Community Power
15 Project where the Company was already intending to deploy smart distribution technologies in the
16 near future. The smart distribution grid includes intelligent diagnostics, automation technologies,
17 and central distribution information management systems. Smart grid technology provides APS
18 with the ability to measure and track the effects of weather, equipment failure, customer usage, and
19 other types of operational impacts on the distribution system. This will enable the Company to
20 observe and measure the impacts of DE on the distribution system.

21 8. One particular distribution circuit or "feeder" in northeast Flagstaff was determined
22 to be the most suitable for the deployment of the Community Power Project. Approximately 2,700
23 residential and 300 small commercial customers are served from APS' Sandvig-4 feeder. The
24 majority of the rooftops in the area are sufficient to support PV panels, and rooftop orientation is
25 generally appropriate for PV applications.

26 9. APS has found Flagstaff suitable for the pilot because of limited growth compared
27 to other areas and significant community support for renewable resources. APS believes that the
28 Project area reasonably reflects the overall demographics of Flagstaff.

1 10. APS also intends to provide solar water heating systems without cost to
2 approximately 50 low-income households located on the Sandvig-4 feeder. Local community
3 action agencies would select the low-income participants. Unlike the PV systems, customers
4 would assume ownership of the solar water heating systems. APS has indicated that utility
5 ownership is not appropriate for solar water heating systems since they are analogous to in-home
6 appliances, they have safeguards and warranties in place through APS' third-party partnerships,
7 and the systems do not generate electricity.

8 11. Since customers would own the solar water heating systems, operation and
9 maintenance of these systems would be customers' responsibility. The community action agencies
10 would provide customers with contact information for the installer to arrange for warranty service
11 when necessary.

12 12. The Project includes plans for a limited number of stand-alone PV and wind
13 installations to be installed on property not directly associated with an individual customer, and
14 these facilities would provide capacity and energy for use by customers in the distribution service
15 area. This would afford APS the opportunity to deploy systems promptly after Commission
16 approval, and would assure that the pilot field study includes some large-scale installations.

17 13. The proposed Community Power Project would include a field study providing
18 specific, detailed information on the interaction of two emerging technologies: a high
19 concentration of distributed renewable resources, and an intelligent energy distribution network
20 (smart grid).

21 14. The PV facilities on customer premises would provide eligible customers with the
22 benefits of a renewable system on their premises, including a price for the renewable energy that
23 would remain unchanged for 20 years. The participating customers would have no financing,
24 operation, or maintenance costs because the renewable system would be owned by APS. Third-
25 party professionals would be used for installation of systems and ongoing maintenance.

26 15. The Community Power Project pilot would provide APS with valuable technical
27 information. The Company would evaluate the impacts and effectiveness of the program to learn
28 how best to facilitate the deployment of additional DE systems in the future. APS considers the

1 Project to be a pilot because of the limited laboratory-type study of a new business model designed
2 to maximize system and customer benefits of DE systems and to gain insight on operational
3 challenges before determining whether to expand it into other areas.

4 16. APS intends to include Project progress reports with its annual reports filed with the
5 Commission in compliance with the RES rules. Reporting would include program participation,
6 energy production or savings, program cost summaries, and observations on system impacts.

7 17. The Company states that the Project involves many complex components. As a
8 result, there is a chance that because of unforeseen circumstances including customer response,
9 safety, reliability, administrative or economic considerations, the Company may need to modify,
10 freeze, or discontinue some or all aspects of the pilot program. It further states that discontinuance
11 could include halting the program prior to completing the entire installation on target or unwinding
12 the project and removal of assets. APS requests that it be allowed to modify or discontinue the
13 Project, if necessary, with 30 days notice to the Commission. Staff has recommended that the
14 notice should be filed with the Commission at least 120 days before modifying or discontinuing
15 the Project unless there is a safety or reliability consideration, and any such notice should include a
16 complete detailed discussion of the need for modification or discontinuance. The notice should
17 also be provided to Project participants.

18 **III. Customer Impacts**

19 18. There would be several eligibility requirements that must be satisfied for customers
20 to participate in the program. The property owner must provide a utility easement for the rooftop
21 PV system. Structural parameters related to the rooftop itself would be taken into consideration.
22 Customers must occupy the property for a minimum of six months each year. Residential
23 customers must have energy consumption greater than 4,800 kWh per year; non-residential
24 customers must have loads greater than 50 kW.

25 19. In addition to providing PV facilities at no cost to the customer, Rate Schedule
26 CMPW-01 would be available to those eligible customers who participate in the Project. Under
27 this rate schedule, APS would guarantee participating customers a pre-determined amount of
28 energy for a 20-year period at a fixed cost based on the amount of kWh the customer's DE system

1 would generate in an average month. This would provide the customer with cost certainty for a set
2 amount of kWhs based on the specific system installed for that customer. CMPW-01 would be
3 used in conjunction with the customer's otherwise applicable rate schedule (the "parent rate").

4 20. For this pilot, participants must be served under rate schedules E-12, ET-2, E-32, or
5 E-32TOU as the parent rate. The majority of Flagstaff customers served from the SANDVIG-4
6 feeder are billed on one of these four eligible rate schedules. However, if an eligible customer is
7 billed under a different rate schedule, that customer may participate if a switch to one of these
8 parent rate schedules is made. This is a pilot program, and limiting participation to these four rate
9 schedules eases implementation and administration while maintaining eligibility for nearly all
10 SANDVIG-4 customers.

11 21. Rate Schedule CMPW-01 would provide the participating customer with a
12 guaranteed amount of monthly kWhs as a proxy for the kWhs received if the system was owned
13 and operated by the customer. The calculation methodology of these proxy kWhs would place any
14 operating risk of the DE system directly on the Company, and relieve the customer from the
15 variations in kWhs generated caused by annual and seasonal variances and weather conditions or
16 maintenance needs. This guarantee is a benefit to the customer, and APS believes that the
17 Company's assumption of this risk will help create a strong case for customer participation in the
18 pilot program.

19 22. For residential customers, Rate Schedule CMPW-01 may be used in conjunction
20 with the low-income rate riders E-3 and E-4. For these customers, any calculated low-income
21 discount would be applied to total metered usage prior to any CMPW-01 Solar Energy
22 computations.

23 23. Proposed Rate Schedule CMPW-01 is included with APS' application as
24 Attachment C. Also included are comparative bill calculations that show the revenue neutral
25 impact of the rate rider on the customer's annual bills for each of the eligible parent rates.

26 24. The calculated fixed monthly output for the PV systems would be different for
27 residential and non-residential customers due to differences in system size and expected rooftop
28 orientation. The kWh guarantee for Rate Schedule CMPW-01 for standardized 2, 3, or 4 kW

1 residential systems would be 105 kWh-AC per kW-DC¹ per month, while the guarantee for non-
 2 residential systems would be 90 kWh-AC per kW-DC per month. These kWh would comprise the
 3 "Solar Energy" referred to in the rate schedule.

4 25. The goal of Rate Schedule CMPW-01 would be to provide the customer with rate
 5 certainty for the portion of the customer usage that is attributable to the output of the rooftop PV
 6 system. Those kWh have been assigned a dollar charge specific to the customer's rate schedule,
 7 and will not change over the life of the program. In the rate schedule, this charge is referred to as
 8 the "Solar Charge." This certainty is a hedge against increasing fuel prices and overall rate
 9 increases.

10 26. The Solar Charge was designed specifically to achieve revenue neutrality at the
 11 time the program begins; that is, the charge would replicate the amount the customer would
 12 otherwise pay for that same amount of usage under today's rates. Due to the different rate designs
 13 employed for the "parent" rates (E-12, ET-2, E-32 and E-32TOU), each parent rate schedule Solar
 14 Charge must be unique to realize revenue neutrality.

15 27. The Solar Charge for each of the rate schedules available to program participants
 16 would be as follows:

17 Solar Charge per kWh

18 Residential E-12	\$0.11242
19 Residential Time of Use ET-2	\$0.13480
20 General Service E-32	\$0.09293
General Service Time of Use E-32TOU	\$0.05855

21 28. Staff finds the Company's rate design proposals to be reasonable and in the public
 22 interest.

23 29. The Solar Charge would be shown on the customer's monthly bill as a separate
 24 charge. As other electric prices change over time, the Solar Charge would not; thus the customer
 25 would see that a solar DE system can truly impact the price of electricity in the long term. As an
 26

27 ¹ The PV system generates electricity in the form of direct current ("DC"). The DC is converted into alternating
 28 current ("AC") by a DC to AC inverter. The AC matches the utility-generated power and is therefore usable by the
 customer. The capacity of the generating unit is measured in kilowatts ("kW"), and the energy that it produces is
 measured in kilowatt-hours ("kWh").

1 example for a residential E-12 customer using an average 1,169 kWh per month and with a 3 kW
 2 PV system installed, the customer would pay \$141.41 under the proposed CMPW-01. A detailed
 3 bill comparison is shown below.

		Residential E-12	
		<u>Current Rates</u>	<u>Current Rate with Proposed CMPW-01 Rider</u>
<i>Base Rates</i>			
7	Basic Service Charge	\$ 8.55	\$ 8.55
8	Per kWh Charge	\$ 131.79	\$ 95.35
<i>Adjustors</i>			
10	Total PSA	\$ -5.25	\$ -3.83
	TCA	\$ 2.64	\$ 1.93
11	CRCC	\$ 0.40	\$ 0.29
	EIS	\$ 0.19	\$ 0.14
12	RES	\$ 3.46	\$ 3.46
13	DSMAC	\$ 0.71	\$ 0.52
14	<i>Subtotal</i>	\$ 142.49	\$ 106.41
	Solar Charge	\$ -	\$ 35.00
15	<i>Total bill before taxes and fees</i>	<u>\$ 142.49</u>	<u>\$ 141.41</u>

17 **IV. Costs and Funding**

18 30. APS forecasts capital expenditures of \$10.8 million, deployment costs of \$3.8
 19 million, and ongoing expenses of \$410,000 per year. The average costs of individual systems are
 20 given by APS as follows.

21 APS Budgeted System Costs

22	Residential Rooftop PV	\$7,750/kW
23	Commercial PV	\$6,500/kW
	Stand-Alone PV	\$6,500/kW
24	Solar water heater	\$5,400/kW
25	Small wind turbine	\$6,000/kW

26 31. APS proposes that a portion of the capital costs for the PV facilities would be paid
 27 from REST funds through standard incentives. APS proposes that the remaining capital costs of
 28 ...

1 the PV facilities and the full capital cost of wind turbines would be included in rate base in the
2 next APS rate case consistent with traditional cost recovery for generating resources. However,
3 the Commission believes that standard incentives should be preserved to address the continued
4 demand for non-residential distributed incentives; therefore, APS should not be permitted to utilize
5 \$2.25 million in non-residential RES incentives under the Project for utility-owned PV systems.
6 The Commission also believes that standard incentives should be preserved to address the
7 continued demand for residential distributed incentives; therefore, APS should not be permitted to
8 utilize \$1.8 million in residential RES incentives under the Project for utility-owned PV systems.

9 32. APS proposes that program costs such as solar water heater capital cost, operation
10 and maintenance expense, customer communication cost, data collection equipment cost, and all
11 other program expenses be recovered through the RES adjustment mechanism. APS also proposes
12 that carrying costs on capital expenditures would be recovered through the RES adjustment
13 mechanism, but only until the next rate case, when the Company would include those expenditures
14 in rate base and would recover costs in the same manner as other APS generating resources.

15 33. APS states that no increase in the 2010 RES adjustor rate would be necessary for
16 the Project. It states that this program leverages existing RES program parameters. APS proposes
17 two sources of RES funding: \$4.3 million from the 2009 RES incentive budget and \$3.8 million
18 from remaining 2008 funds.

19 34. In Decision No. 71488, the Commission approved the Settlement Agreement
20 ("SA") between the parties in the Company's last rate case. Section XV of the SA involved
21 additional commitments by the Company to invest in renewable energy projects. APS witness
22 Lockwood testified that the new renewable resources required by the SA are in addition to existing
23 resources or commitments as of the end of 2008 as identified in APS' 2008 annual RES
24 Compliance Report.

25 35. Subsection 15.7 of the SA provides in part as follows:

26 All reasonable and prudent expenses incurred by APS pursuant to
27 this Section of the Agreement shall be recoverable through the
28 Power Supply Adjustor, a renewable energy adjustment mechanism,
or the Transmission Cost Adjustor, as appropriate. To encourage

1 least cost renewable resources to benefit customers, these expenses
2 would also include the capital carrying costs of any capital
3 investments by APS in renewable energy projects (depreciation
4 expenses at rates established by the Commission, property taxes, and
return on both debt and equity at the pre-tax weighted average cost
of capital).

5 36. Staff believes that the Company's proposals are consistent with any of the SA,
6 subject to the understanding that the reasonableness and prudence of such costs shall be
7 determined at the Company's next rate case, and that the Company shall be required to refund any
8 amounts that are determined to be unreasonable or not prudent.

9 **V. Renewable Energy Standard Rules**

10 37. APS is seeking the Commission's interpretation of the RES Rules regarding
11 distributed generation and the Distributed Renewable Energy Requirements.²

12 38. APS made a Supplemental Filing in this Docket proposing that the RES Rules be
13 interpreted with respect to DE on customer premises, to allow utility-owned solar units on the
14 rooftops of customer homes and businesses to be counted as DE under the RES Rules.

15 39. With respect to this Project, APS is requesting that the Commission find that the
16 renewable energy produced by the APS owned Community Power Project facilities (both
17 residential and non-residential) counts toward compliance with the distributed renewable energy
18 requirements of the RES Rules. R14-2-1805 states:

19 D. An Affected Utility shall meet one-half of its annual Distributed
20 Renewable Energy Requirement from residential applications and the
21 remaining one-half from non-residential, non-utility applications.

22 40. APS' argument in support of including utility owned projects is twofold. First it
23 states that the definition section (R14-2-1801) defines distributed generation as that located at the
24 customer's premises. [See sections (E) and (G)]. APS, therefore, believes that the language does
25 not preclude utility-owned distributed generation.

26 ...

27
28 ² APS cites to what it believes to be the relevant RES rules: A.A.C. R14-2-1801(E), (G) and (R) and R14-2-1805.

1 41. Second, APS believes that the intent of the distributed energy requirements is to
2 incent the installation of renewable energy systems that would provide direct benefit to customers
3 and serve their load. The Flagstaff Pilot was developed to meet those criteria.

4 42. The Commission has already ruled on the portion of the Company's request dealing
5 with non-residential projects. During the Open Meeting on APS' 2010 REST Implementation
6 Plan, the following amendment was proposed and adopted by the Commission: "IT IS FURTHER
7 ORDERED that Arizona Public Service Company shall be, consistent with the Renewable Energy
8 Standard rules, prohibited from utilizing utility-owned facilities for purposes of meeting the *non-*
9 *residential* portion of its distributed generation requirement." [italics added]

10 43. Staff believes that residential utility-owned DE is not precluded by the RES Rules
11 (R14-2-1805(D)).

12 **VI. Staff Analysis**

13 44. Staff believes that the APS Community Power Project:

- 14 ▪ Provides the benefits of renewable energy to customers,
- 15 ▪ Helps meet the Commission's goal of bringing more renewable resources to
16 Arizona,
- 17 ▪ Will increase recognition of the value of DE,
- 18 ▪ Will increase understanding of system impacts from large scale deployment of
19 DE, and
- 20 ▪ Is a reasonable means of achieving RES targets.

21 45. Staff has analyzed APS' Application in terms of whether there were fair value
22 implications. Compared to APS' total revenues, any impact from this Project would be de
23 minimus, and any impact on APS' fair value rate base and earned rate of return would also be de
24 minimus.

25 **VII. Summary of Recommendations**

26 46. Staff has recommended that the Community Power Project and Rate Schedule
27 CMPW-01 be approved by the Commission as discussed herein.

28 ...

1 47. Staff has recommended that the Commission find that the allocation of RES
2 funding for the operation, maintenance, deployment, and carrying costs of the Community Power
3 Project as proposed by APS is appropriate and reasonable. Staff has further recommended that the
4 determination as to the reasonableness and prudence of these costs be reviewed as part of the
5 Company's next rate case.

6 48. Staff has recommended that the Commission find that the renewable energy
7 produced by utility-owned Community Power Project facilities not count toward compliance with
8 the non-residential portion of the distributed renewable energy requirements of the RES Rules.

9 49. Staff has recommended that APS be allowed to modify or discontinue the Project
10 with 120 days written notice to the Commission before modifying or discontinuing the Project
11 unless there is a safety or reliability consideration, and any such notice should include a complete
12 detailed discussion of the need for modification or discontinuance. The notice should also be
13 provided to Project participants.

14 50. Staff has recommended that APS file its CMPW-01 tariff consistent with the
15 Commission Decision approving the Project within 15 days of the effective date of that Decision.

16 **VIII. Commission Discussion**

17 51. The Commission recognizes the value of pursuing the Flagstaff Pilot Project as a
18 means for further demonstrating the utility of distributed technologies. We believe that distributed
19 technologies require cooperation from both utility companies and third party installers and both
20 play important roles.

21 52. We believe that the Flagstaff project can be structured to offer opportunities for
22 both utility and installer participation. APS has projected that approximately 200 systems will be
23 developed as part of the pilot project. In order to provide for both utility and installer
24 participation, we believe that APS should immediately move forward with 100 of the projected
25 200 systems, with APS having sole control over these systems. For the balance of systems, or the
26 remaining 100, APS should offer installers a limited 100 day window from the date APS files a
27 notice in Docket Control of its technical specifications for the project in which installers can seek
28 out the additional participants.

1 IT IS FURTHER ORDERED that the allocation of RES funding for the operation,
2 maintenance, deployment, and carrying costs of the Community Power Project as proposed by
3 Arizona Public Service Company is appropriate and reasonable, except that APS shall not utilize
4 the \$2.25 million in nonresidential RES incentives under the Project for utility-owned PV systems
5 and APS shall not utilize the \$1.8 million in residential RES incentives under the Project for
6 utility-owned PV systems.

7 IT IS FURTHER ORDERED that the determination as to the reasonableness and prudence
8 of these costs be reviewed as part of Arizona Public Service Company's next rate case.

9 IT IS FURTHER ORDERED that the renewable energy produced by utility-owned
10 Community Power Project facilities not count toward compliance with the non-residential portion
11 of the distributed renewable energy requirements of the RES Rules.

12 IT IS FURTHER ORDERED that prior to discontinuing or modifying the Project, Arizona
13 Public Service Company shall provide notice to the Commission and obtain approval from the
14 Commission to do so, however, such approval shall not be required if there is an imminent safety
15 or reliability issue.

16 IT IS FURTHER ORDERED that Arizona Public Service Company file in Docket Control
17 a revised Rate Schedule CMPW-01 Tariff in compliance with the Decision in this case within 15
18 days of the effective date of the Decision.

19 IT IS FURTHER ORDERED that Arizona Public Service Company shall include the
20 Project progress reports with its annual reports filed with the Commission in compliance with the
21 RES rules.


22 IT IS FURTHER ORDERED that the Commission limits its findings in this docket to this
23 Flagstaff Pilot Project, in particular the finding that the energy procured from the residences that
24 receive solar systems will count toward Arizona Public Service Company's distributed energy
25 requirement under R14-2-1805; and make no determination regarding whether future utility-
26 owned, residential customer-sited distributed generation projects will be eligible for meeting a
27 utility's distributed energy requirement.

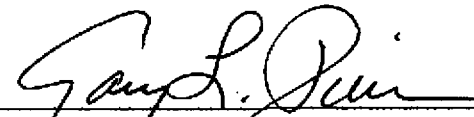
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1 IT IS FURTHER ORDERED that Arizona Public Service Company shall immediately
 2 move forward with 100 systems, but offer third party installers a limited 120 day window from the
 3 date Arizona Public Service Company files a notice in Docket Control of its technical
 4 specifications for the project to develop the balance of systems. Third party systems shall comply
 5 with the same technical and system requirements as the Arizona Public Service Company
 6 controlled systems. At the conclusion of the 120 day window, Arizona Public Service Company
 7 will be authorized to develop any remaining systems up to the full complement required for the
 8 proposed pilot project.


9 IT IS FURTHER ORDERED that this Decision shall become effective immediately.


10
 11 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

12 
 13 CHAIRMAN

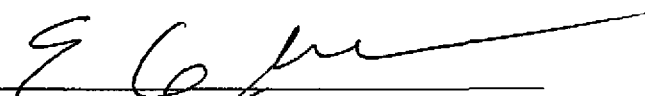
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 15 COMMISSIONER

16  COMMISSIONER

17  COMMISSIONER

18  COMMISSIONER

19 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
 20 Executive Director of the Arizona Corporation Commission,
 21 have hereunto, set my hand and caused the official seal of
 22 this Commission to be affixed at the Capitol, in the City of
 23 Phoenix, this 14th day of April, 2010.

24 
 25 ERNEST G. JOHNSON
 26 EXECUTIVE DIRECTOR

27 DISSENT: _____

28 DISSENT: _____

SMO:JJP:lhM\MAS

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