

**ORIGINAL**

**NEW APPLICATION**



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**BEFORE THE ARIZONA CORPORATION C  
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COMMISSIONERS

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2010 JUL 26 P 4: 26

AZ CORP COMMISSION  
DOCKET CONTROL

E-01345A-10-0314

IN THE MATTER OF THE APPLICATION  
OF ARIZONA PUBLIC SERVICE  
COMPANY FOR APPROVAL OF  
ARIZONA WIND POWER PURCHASE  
AGREEMENT

DOCKET NO. E-01345A-10-0314 Arizona Corporation Commission

**DOCKETED**

**APPLICATION**

JUL 26 2010

DOCKETED BY

*NR*

In compliance with Arizona Corporation Commission ("Commission") Decision No. 71448,<sup>1</sup> Arizona Public Service Company ("APS" or "Company") seeks approval associated with a Power Purchase Agreement ("PPA") to procure renewable energy from an Arizona wind project ("Perrin Ranch Wind Project" or "Project") from Perrin Ranch Wind LLC ("PR Wind LLC"), the project developer. The PPA will allow APS to procure the full 99 megawatts of wind energy for a 25-year period beginning in 2012. When completed, the Perrin Ranch plant will be the largest wind facility in Arizona. The Project is in compliance with APS's obligation under Decision No. 71448; will provide diversification of the Company's energy portfolio; and provides a renewable resource at a cost that is competitive as compared to other renewable technologies.

The successful development of the Perrin Ranch Wind Project is contingent upon several factors, including a Commission order in support of the PPA, as well as the successful siting, permitting and interconnection of the Project. Commission approval of the Project is necessary, both under the language of Decision No. 71448, and because of the impact on the APS resource portfolio and the significant financial expense of the Project. Additionally, a Commission determination on this transaction is needed with the current challenging

<sup>1</sup> Issued Dec. 30, 2009.

1 economic conditions; project developers are seeking assurances that there is regulatory  
2 support for projects before committing to the necessary debt and equity financing.

3 **I. Regulatory Background**

4 In Decision No. 71448, the Commission approved APS's most recent rate case  
5 settlement agreement ("Settlement Agreement"). Pursuant to the Settlement Agreement, APS  
6 was required to file for Commission approval of an Arizona wind project. Specifically,  
7 Section 15.2 requires the following:

8 APS shall issue a new request for proposals for in-state wind generation within  
9 90 days of Commission approval of the Agreement. After evaluating potential  
10 projects, APS will file a request for Commission approval of one or more such  
11 projects, within 180 days of issuance of the RFP.

12 The Settlement Agreement also requires APS to acquire new renewable energy  
13 generation resources of 1,700,000 megawatt hours that will be operational by December 31,  
14 2015, which will more than double APS's requirement under the Renewable Energy Standard  
15 ("RES") Rules in 2015.<sup>2</sup> Pursuant to Decision No. 71448, "all reasonable and prudent  
16 expenses incurred by APS pursuant to this Section [15] of the Agreement shall be recoverable  
17 through the Power Supply Adjustor, a renewable energy adjustment mechanism, or the  
18 Transmission Cost Adjustor, as appropriate".<sup>3</sup>

19 The Perrin Ranch Wind Project is an eligible renewable energy resource<sup>4</sup> that satisfies  
20 the commitment made in the Settlement Agreement, provides renewable energy to partially  
21 satisfy the 2015 renewable energy requirement, and helps the Company continue to achieve  
22 RES compliance.

23 **II. Description of the Project**

24 The Perrin Ranch Wind Project will be located 13 miles north of Williams in Coconino  
25 County, Arizona. The Project will use wind turbine generation to produce approximately 99  
26 megawatts of renewable energy when producing at full capability. The Project will deploy 62  
27 General Electric wind turbine generators, which will be located over approximately 20,000

28 <sup>2</sup> Decision No. 71448, Exhibit A at Section 15.1.

<sup>3</sup> Decision No. 71448 at 14, and Exhibit A (Settlement Agreement) at Section 15.7.

<sup>4</sup> A.A.C. R14-2-1802.

1 acres. The turbines will capture wind resources and transfer electricity to a collector  
2 substation, which will be located at a central point of the wind turbine array. The proposed  
3 wind turbine structures utilize the latest technology and have been deployed in other utility-  
4 scale generation projects across the nation. The Perrin Ranch Wind Project is projected to  
5 provide approximately 282,000 megawatt hours of renewable energy for APS's customers  
6 each year. This energy is sufficient to meet the electricity needs of over 25,000 Arizona  
7 homes.

8 A 230 kilovolt ("kV") transmission line approximately three and a half miles long will  
9 be constructed on the Project site from the collector substation to a new 500/230 kV  
10 switchyard that will be constructed along an existing APS 500 kV transmission line. From  
11 this point, energy developed by the Project will be delivered into the APS electric system.  
12 The geographic location of the Project site and the proposed arrangement of wind turbines on  
13 the site are intended to maximize wind collection. The analysis of wind conditions project an  
14 expected net capacity factor of approximately 30 percent, which compares favorably with  
15 other wind projects submitted as part of the Arizona wind solicitation.

16 Construction of the Perrin Ranch Wind Project is expected to begin in the second half  
17 of 2011, with commercial operation expected in either late 2011 or 2012. It is anticipated that  
18 approximately 250 workers will be needed to construct the Project, and approximately 10  
19 employees will be required to operate the plant after it becomes commercially operable. A  
20 site map of the proposed Project is attached as Exhibit A.

21 **A. Description of Project Developers**

22 PR Wind LLC is a special purpose entity formed to develop, construct and own Perrin  
23 Ranch Wind Project, and is part of a family of companies that has extensive experience in the  
24 electric industry. PR Wind LLC is a subsidiary of NextEra Energy Resources LLC  
25 ("NextEra"), which is the largest generator of renewable energy from wind and solar  
26 resources in North America, with approximately ninety facilities and more than 18,000  
27 megawatts of renewable and conventional generation in operation. NextEra is a principal  
28 subsidiary of NextEra Energy, Inc., a leading clean energy company with 2009 revenues of

1 more than \$15 billion, approximately 43,000 megawatts of generating capacity, and more  
2 than 15,000 employees in twenty-seven states and Canada.

3 The participation of these entities in the financing, construction, and operation of the  
4 Perrin Ranch Wind Project provides APS and its customers with a strong developer and  
5 funding partner that has the necessary experience and financial capabilities to complete this  
6 project. PR Wind LLC will leverage the skills and experience of NextEra, which was gained  
7 through the construction of more than 7,600 megawatts of wind in North America, as well as  
8 the financial stability and resources of FPL Group Capital to successfully fund the  
9 development and implementation of the Project.

### 10 **III. Purchase Power Agreement**

#### 11 **A. Project Selection Process**

12 To meet the Company's obligations under the Settlement Agreement, on January 27,  
13 2010, APS issued its Request for Proposal ("Wind RFP") seeking competitive proposals for  
14 15 to 100 megawatts of wind located within the State of Arizona. The Wind RFP solicited  
15 proposals for either PPAs or "turnkey" options where APS would ultimately own the  
16 facilities. APS sought projects that would be in operation no later than December 31, 2012.

17 The Company hosted a bidder's teleconference to provide developers with an overview  
18 of the Wind RFP process, including the schedule, the bid submittal requirements,  
19 performance requirements, and the interconnection process. On April 14, 2010, APS received  
20 a total of 14 proposals from the seven entities, all of which were for PPA projects. Each  
21 project ranged in size from 20 to 100 megawatts, and all proposed projects were located in  
22 northern Arizona.

23 In order to determine the most viable projects, APS's evaluation process consisted of  
24 threshold screening and detailed evaluation regarding both the quantitative and qualitative  
25 factors for each project. In addition to other factors that APS takes into account when  
26 considering the viability of projects, a fundamental consideration was the financial strength  
27 and experience of potential counterparties. As part of the threshold evaluation, APS sought  
28 commercially demonstrated technologies that would deliver capacity and energy to meet

1 customers' needs. Qualified bidders were "shortlisted," based upon both the economic and  
2 qualitative evaluations.

3 To assure fairness and transparency, the Company retained an independent monitor,  
4 Merrimack Energy Group, Inc. ("Merrimack"), to assess the process and to certify that the  
5 competitive procurement process was conducted in accordance with APS's procedures and in  
6 an equitable manner. In evaluating the Wind RFP process, Merrimack concluded that the  
7 Wind RFP procedures and subsequent bid evaluation and selection process were consistent  
8 with industry standards and represented a "fair, consistent and unbiased evaluation and  
9 selection process."<sup>5</sup>

## 10 **B. The Agreement**

11 On July 22, 2010, APS executed a twenty-five year PPA for the Perrin Ranch Wind  
12 Project with PR Wind LLC. The PPA provides APS with the full output of the facility, which  
13 has 99 megawatts capacity and is expected to produce 282,000 megawatt hours annually.

14 The contract includes energy-based pricing, with APS only paying for the actual  
15 energy produced. The PPA includes performance guarantees and termination rights if the  
16 plant fails to produce over a period of several years. The PPA pricing is a flat, fixed price  
17 over the term of the agreement, eliminating any uncertainty in cost. Additionally, the Project  
18 is free of carbon emissions, and like all the projects in APS's renewable energy portfolio,  
19 reduces exposure to prospective carbon legislation. Over the term of the contract, the cost is  
20 approximately 16 percent greater than the cost of the conventional energy, which is  
21 competitive with other renewable energy projects.

22 An overview of the terms of the PPA is set forth in the Summary, which is attached as  
23 Exhibit B. The full contract, along with the Company's economic analysis, will be provided  
24 to the Commission pursuant to a protective agreement.

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26  
27  
28 <sup>5</sup> APS 2010 Request for Proposal for Arizona Wind Generation Resources, Final Report of the Independent Monitor, Merrimack Energy Group, Inc. (July 2010) at pg. 24.

1           **C.     Benefits of the Perrin Ranch Wind Project**

2           There are a number of factors that have influenced the Company's decision to pursue  
3 the Perrin Ranch Wind Project. APS continues to believe that the diversification of energy  
4 resources is critical to maintaining a reliable, cost-effective renewable energy portfolio. The  
5 Perrin Ranch Wind Project will allow APS to meet its Settlement Agreement commitments,  
6 and is consistent with the 2011 RES Implementation Plan, which includes the phased  
7 deployment of more than 1,000 megawatts of renewable generation during the next five  
8 years. In addition, the location of the Project in Arizona and adjacent existing high-voltage  
9 transmission infrastructure with available capacity offers an opportunity to cultivate an in-  
10 state renewable resource without the need for expensive transmission system upgrades.

11           The long-term commitment of the PPA and the associated fixed-pricing will provide  
12 APS's customers with price stability in the future. APS estimates that this project will  
13 significantly reduce the Company's incremental natural gas consumption costs, which  
14 provides the added benefit of acting as a hedge against natural gas price fluctuations.

15           The responses to the APS solicitation that yielded the Perrin Ranch Wind Project have  
16 allowed the Company to compare cost trends for both wind and solar technologies. APS is  
17 encouraged to see that the price offered for this Project is highly competitive as compared to  
18 other renewable resource technologies, and that the costs per megawatt hour of wind projects  
19 in Arizona have decreased over the last three years. The Perrin Ranch Wind Project  
20 compares favorably against other renewable technologies relevant to avoided costs, and  
21 represents a strong investment of customer resources towards the Company's RES  
22 compliance objectives.

23           **IV.    Conclusion**

24           The Perrin Ranch Wind Project provides an opportunity for APS to diversify its energy  
25 resources, and to meet its 2015 renewable energy obligation under the Settlement Agreement.  
26 The Project also complies with the Company's obligation under Decision No. 71448 to file a  
27 request for Commission approval of an in-state wind generation project. For these reasons,  
28 APS respectfully requests that the Commission find that:

- 1           1.     The Perrin Ranch Wind PPA was selected through a fair and competitive  
2           procurement process and fulfills the requirements of Section 15.2 of the  
3           Settlement Agreement;
- 4           2.     The Perrin Ranch Wind Project is an Eligible Renewable Energy Resource  
5           pursuant to RES Rule R14-2-1802, and the generation from the Project applies  
6           toward APS's obligation to acquire new renewable energy resources under  
7           Section 15.1 of the Settlement Agreement, as well as the Renewable Energy  
8           Standard;
- 9           3.     All reasonable and prudent expenses incurred by APS for the Perrin Ranch  
10          Wind Project will be recoverable pursuant to Section 15.7 of the Settlement  
11          Agreement; and
- 12          4.     In any subsequent inquiry into the prudence of the Perrin Ranch Wind PPA, the  
13          expense of renewable energy purchased under the PPA should not be deemed  
14          imprudent because the expense is greater than that of conventional generation, or  
15          because it exceeds the RES requirements.

16          RESPECTFULLY SUBMITTED this 26th day of July, 2010.

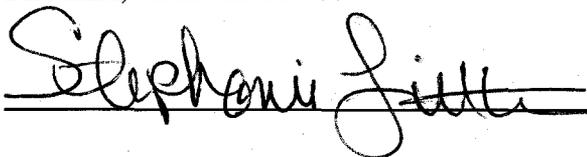
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19          By: \_\_\_\_\_

Deborah R. Scott

Attorney for Arizona Public Service Company

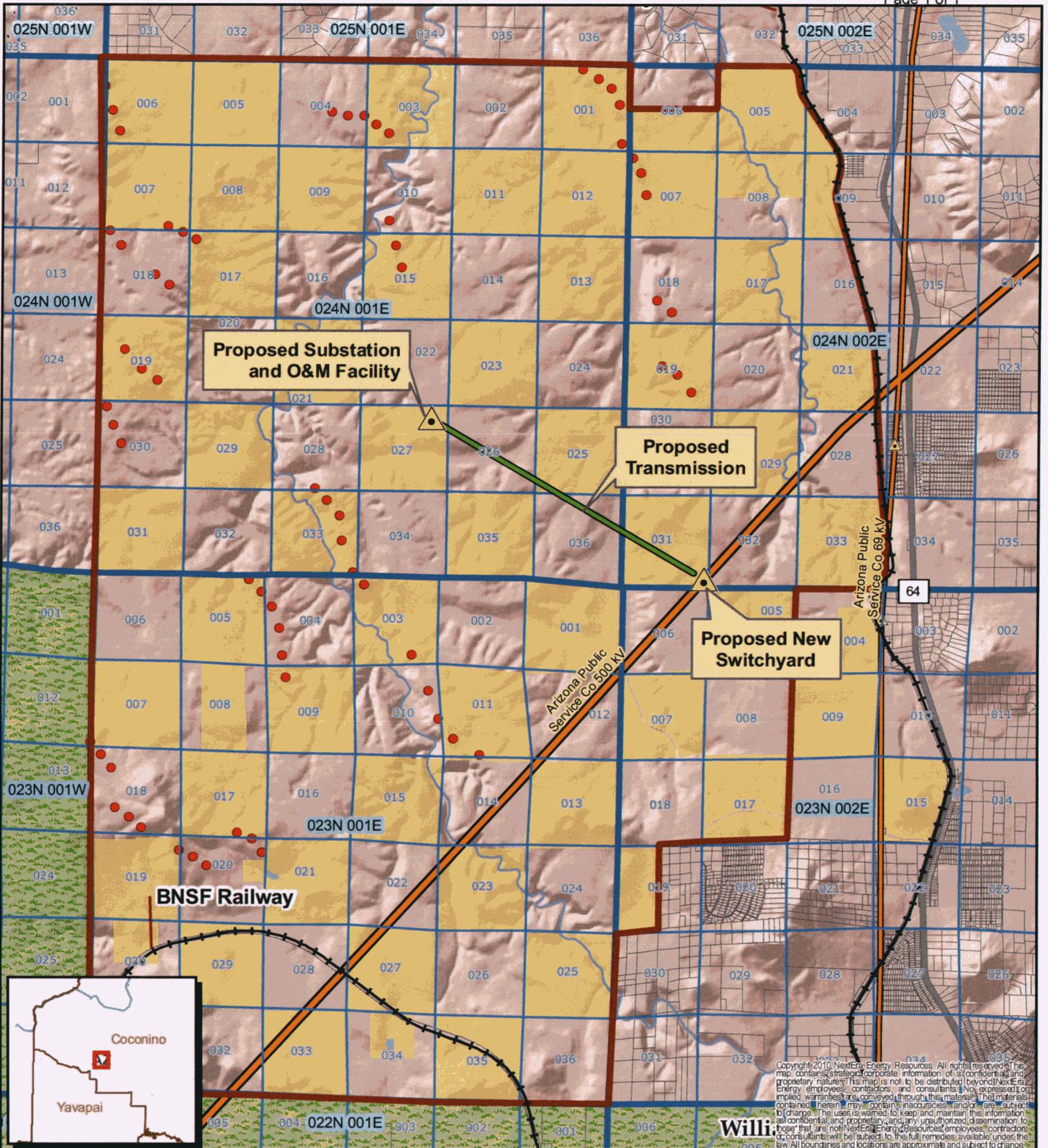
20  
21  
22          ORIGINAL and thirteen (13) copies  
23          of the foregoing filed this 26th day of  
24          July, 2010, with:

25          Docket Control  
26          ARIZONA CORPORATION COMMISSION  
27          1200 West Washington Street  
28          Phoenix, Arizona 85007



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# EXHIBIT A

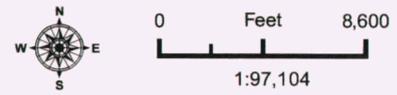


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**NextEra Energy Resources**  
**Proposed Perrin Ranch Wind Facility**  
 Coconino County, Arizona

3/23/2010  
 Projection: UTM Zone 12  
 Datum: NAD 83  
 Data Sources: ESRI Streetmap, WhiteStar, Verityx

- Legend**
- Proposed Wind Turbine
  - NextEra Energy Project
  - Perrin Ranch Land
  - Proposed Transmission
  - Existing Transmission
  - ▲ Existing Substation



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# EXHIBIT B

**Summary of the Power Purchase Agreement between  
Arizona Public Service Company and Perrin Ranch Wind, LLC**

**Commercial Terms:**

- **Overview:** Arizona Public Service Company (“APS”) has agreed, under a Renewable Energy Purchase and Sale Agreement (“Agreement”), to purchase all energy produced by Perrin Ranch Wind, LLC (“Perrin Ranch”) for a period of twenty-five (25) years after it achieves commercial operation. The project is expected to achieve commercial operation during calendar year 2012.
- **Output Contract:** APS will purchase the energy produced by the wind farm.
- **Renewable Energy Resource:** Perrin Ranch will qualify as a wind resource under Arizona law and the rules of the Arizona Corporation Commission (“Commission”). Energy produced by the wind farm will generate Renewable Energy Credits for APS and count towards its renewable energy resource requirements.
- **Pricing:** Fixed price with no escalation.
- **Contingencies:** APS has the right to terminate the Agreement if Commission approval is not received by a date certain.

**Description of Wind Farm:**

- **Location:** Thirteen (13) miles north of Williams in Coconino County, Arizona.
- **Delivery Point:** New 500 kV substation on the Navajo 500 kV line (between Moenkopi and Yavapai).
- **Technology:** Utility scale wind turbines.
- **Nameplate Rating:** 99.2 MW.
- **Expected Annual Output:** 282,000 MWhs.

**Availability Guarantees and Collateral:**

- **Availability:** The Agreement includes an availability guarantee designed to ensure Perrin Ranch is a reliable energy resource for APS and its customers. Failure by Perrin Ranch to reach the availability target would result in penalties.
- **Financial Security:** The Agreement includes provisions that the Perrin Ranch provide both pre-development and post-development security. Security provisions are included to protect APS and its customers from project failure both before and after construction of the wind farm.