

ORIGINAL

OPEN MEETING



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MEMORANDUM
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Arizona Corporation Commission

DOCKETED

OCT 26 2010

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AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: October 26, 2010

DOCKETED BY *[Signature]*

RE: AJO IMPROVEMENT COMPANY - APPLICATION FOR APPROVAL OF THE
2011 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN
(DOCKET NO. E-01025A-10-0269)

Background

On January 26, 2010, the Commission, in Decision No. 71470, granted approval of Ajo Improvement Company's ("Ajo") 2010 Renewable Energy Standard Implementation Plan. On July 1, 2010, Ajo Improvement Company ("Ajo") filed its 2011 Renewable Energy Standard Implementation ("REST") Plan ("2011 Plan") in compliance with Arizona Administrative Code ("A.A.C.") R14-2-1801 through R14-2-1816. Ajo's Plan includes a Plan to Procure Eligible Renewable Energy Resources and a Plan for Distributed Renewable Energy Resources.

Ajo has indicated that in 2010, to date, it has procured a total of 159,044 renewable kWh. According to Ajo, it has not undertaken any renewable projects in its service territory. Ajo has indicated that there has been no customer participation (residential or non-residential) in its incentive program despite the increased incentive levels approved in Decision No. 71470 and it has not made any incentive payments to customers for installing renewable energy systems. Therefore, Ajo will not meet its 2010 REST distributed renewable energy requirements pursuant to A.A.C. R14-2-1805. However, Ajo indicated that it does anticipate meeting the annual renewable energy requirement pursuant to A.A.C. R14-2-1804.

The 2011 REST Plan

Ajo indicated in its 2011 Plan that it currently owns no generation and procures all of its power from the wholesale market to meet load. According to Ajo, it serves approximately 1,037 customers (869 residential, 167 non-residential, and one resale). Ajo stated that many of its residential customers are retired or on fixed incomes. Ajo's service territory is approximately one square mile. In addition, Ajo does not anticipate much growth in the future. Therefore, the funds collected to meet the REST rules will be limited primarily to existing customers.

The 2011 Plan also states that Ajo is currently uncertain of its ability to consistently procure renewable energy as required by the REST Rules. Based on estimated kWh sales of 12,500,000 in 2011, Ajo anticipates that its Annual Renewable Energy Requirement, pursuant to A.A.C. R14-2-1804, will be approximately 375,000 kWh for 2011. Ajo further anticipates that

its Distributed Renewable Energy Requirement, pursuant to R14-2-1805, will be approximately 93,750 kWh in 2011.

Distributed Renewable Energy Resources

Ajo would continue to offer incentive payments to customers to install Distributed Renewable Energy Resources, pursuant to A.A.C. R14-2-1809. Eligible projects listed in Ajo's proposed 2011 Plan include: photovoltaic systems, solar space cooling, non-residential solar water heating and space cooling, small residential solar water heating, small residential solar space heating, biomass/biogas cooling, non-residential solar daylight, and small wind generation. Ajo indicated in its 2011 Plan that incentive payments will be up-front, one-time payments based on a twenty-year REC agreement and will be determined based on system capacity and/or estimated annual kWh production.

Staff recognizes that because Ajo has had no customer participation in the Incentives Program since the approval of its 2008 REST Plan, Ajo has been unable to meet the requirements of R14-2-1805. The current incentive level offered by Ajo for photovoltaic systems is \$5.00/watt for residential systems and \$5.00/watt for non-residential systems (Decision No. 71470). Ajo is proposing to lower the incentive level for photovoltaic systems to \$4.00/watt for residential systems and \$3.50/watt for non-residential systems. According to Ajo, there have been eight inquiries for installation. With Ajo's current budget, Ajo would be able to accept only two applications placing the remaining applications on a reservation waiting list. Staff understands that the current incentive levels were approved in order to attract customers to participate in the Incentive Program. However, due to the minimal collection of funds from customers, should Ajo receive an application for a photovoltaic project, Staff is concerned that a substantial portion of the budget would be expended on incentive payments. Therefore, Staff believes that should Ajo receive any applications to install photovoltaic systems, Ajo should offer the following incentive levels: \$5.00/watt for the first residential or non-residential system application received; \$4.00/watt for the second residential or non-residential system application received; and \$3.50/watt for all other residential or non-residential system applications received. This approach would allow Ajo to continue to offer the higher incentive levels while not depleting its 2011 REST budget.

In addition, Ajo is not proposing any changes to the following technologies: biomass/biogas (electric, thermal, cooling), biomass/biogas combined heat and power ("CHP") (electric, thermal), non-residential pool heating, solar space cooling, and non-residential solar water heating/space heating. These technologies do not have up-front incentives specified by the Uniform Credit Purchase Program ("UCPP") Working Group. Ajo stated that incentive payments for these technologies will be determined on a case-by-case basis and will include consideration of capital costs, capacity (kW), and estimated annual production (kWh). Ajo's 2011 Plan also specifies the requirements for eligibility and installation of all the eligible projects.

Staff recommends that, if the Commission approves a UCPP, Ajo should be required to develop a mechanism to incorporate UCPP procedures and incentive levels for all eligible technologies in its proposed REST Plans for later years. To the extent that Ajo believes that different incentive levels, other than those specified by UCPP, are justified, particularly in remote, rural areas, Ajo could develop such proposals.

The 2011 Plan also specifies that funds for any customer project will not exceed 60 percent of the total cost of the project with a maximum of \$11,000 being provided for any project. Incentive payments will continue to be distributed on a first-come, first-served basis and Ajo intends to continue dividing incentive payments evenly between residential and non-residential applicants. Eligibility requirements for participation and installation specifications are defined in Ajo's 2011 Plan.

Ajo's 2011 Plan contains a section that describes Distributed Renewable Energy System Program Monitoring. This section specifies that Ajo will continue to report the progress and productivity for all distributed renewable energy systems annually by reporting on the total installed capacity and projected productivity. Ajo also included in this section a statement that indicated if a renewable system is removed or left in disrepair, Ajo will continue to reflect, in the annual compliance reports, the annual historic energy production for the system until the agreement term for the system has been completed. Staff notes that Ajo should report lost kW capacity and forgone kWh that result from removed or inoperable renewable generation systems.

Budget

Ajo states that it can annually collect a maximum of \$89,105 from the REST surcharge. However, Ajo does not anticipate that all of its customers will use the required amount of kWh to charge the maximum surcharge. The current maximum monthly surcharges for each customer class are as follows: \$1.05 for residential customers; \$39.00 for non-residential customers; and \$117.00 for non-residential customers with a demand of 3MW or more for three consecutive months (Ajo does not currently have customers in this customer class). Therefore, Ajo anticipates that it will most likely collect approximately \$22,000 from the REST surcharge in 2011.

The following table shows the estimated REST funds that would be collected in 2011 from each Customer Class if Ajo were to collect the maximum of \$89,105 from the REST surcharge:

Customer Class	Total \$
Residential	\$10,949
Non-Residential	\$78,156
Non-Residential (>3MW)	\$0
Total	\$89,105

The following table shows the estimated REST funds that would be collected in 2011 from each Customer Class based on the \$22,000 that Ajo anticipates it will most likely collect from the REST surcharge:

Customer Class	Total \$
Residential	\$8,619
Non-Residential	\$13,381
Non-Residential (>3MW)	\$0
Totals	\$22,000

The following table indicates the estimated REST budget needed in order to meet the REST requirements for 2010:

Category	\$ Amount of Total Budget
Renewable Energy Resources	\$19,400
Total Energy-Prospective Procurement	\$10,350
Utility-Owned Systems	\$0
Administration, Implementation, Commercialization & Integration	\$9,050
Distributed Renewable Energy Resources	\$215,282
Incentives	\$195,282
Customer Self-directed Renewable Energy Option	\$0
Administration, Implementation, Marketing & Outreach, Commercialization & Integration	\$20,000
Total	\$234,682

The total funds Ajo anticipates it would most likely collect from its customers are \$22,000. There is a difference of approximately \$212,000 between the 2011 Ajo Budget of \$234,682 and what Ajo anticipates it would most likely collect from its customers. Ajo states that since the approval of its 2010 Implementation Plan on January 26, 2010, it has collected approximately \$14,183, as of August 31, 2010. Ajo anticipates collecting a total of \$22,000 in 2010. Ajo has indicated that it expects approximately \$41,791 of unused funds to be carried-over to 2011. Ajo believes that the REST surcharge may provide sufficient funding to meet the annual requirement for 2011 pursuant to A.A.C R14-2-1804. However, Ajo does not anticipate that the REST surcharge will be sufficient to meet the annual distributed requirement, pursuant to A.A.C. R14-2-1805, for 2011.

Tariffs

Ajo has stated that because there have been no applications submitted for incentives for eligible distributed renewable energy resources, despite several inquiries, increasing the RES surcharge and monthly maximums is not justified at this time. In addition, Ajo states that any unused funds collected would continue to be rolled over to help fund future years' REST requirements. Therefore, Ajo's Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard

Surcharge Schedule tariff currently on file would remain in effect until further order of the Commission.

Staff Recommendations

Staff recommends that Ajo's proposed 2011 Renewable Energy Standard Implementation Plan be approved, as modified herein.

Staff recommends that Ajo offer the following incentives for distributed photovoltaic systems: \$5.00/watt for the first residential or non-residential system application received; \$4.00/watt for the second residential or non-residential system application received; and \$3.50/watt for all other residential or non-residential system applications received on the customer's premises (all at 60 percent of the total cost of the project with a maximum of \$11,000).

Staff recommends that Ajo's Renewable Energy Standard Surcharge Schedule tariff, currently on file with the Commission, remain in effect until further Order of the Commission.

Staff further recommends that Ajo's Distributed Renewable Energy Resources Schedule tariff and Customer Self-Directed Renewable Energy Option tariff currently on file with the Commission remain in effect until further order of the Commission.



Steven M. Olea
Director
Utilities Division

SMO:CLA:lh\CH

ORIGINATOR: Candrea Allen

1 Therefore, Ajo will not meet its 2010 REST distributed renewable energy requirements pursuant to
2 A.A.C. R14-2-1805. However, Ajo indicated that it does anticipate meeting the annual renewable
3 energy requirement pursuant to A.A.C. R14-2-1804.

4 **The 2011 REST Plan**

5 4. Ajo indicated in its 2011 Plan that it currently owns no generation and procures all
6 of its power from the wholesale market to meet load. According to Ajo, it serves approximately
7 1,037 customers (869 residential, 167 non-residential, and one resale). Ajo stated that many of its
8 residential customers are retired or on fixed incomes. Ajo's service territory is approximately one
9 square mile. In addition, Ajo does not anticipate much growth in the future. Therefore, the funds
10 collected to meet the REST rules will be limited primarily to existing customers.

11 5. The 2011 Plan also states that Ajo is currently uncertain of its ability to consistently
12 procure renewable energy as required by the REST Rules. Based on estimated kWh sales of
13 12,500,000 in 2011, Ajo anticipates that its Annual Renewable Energy Requirement, pursuant to
14 A.A.C. R14-2-1804, will be approximately 375,000 kWh for 2011. Ajo further anticipates that its
15 Distributed Renewable Energy Requirement, pursuant to R14-2-1805, will be approximately
16 93,750 kWh in 2011.

17 **Distributed Renewable Energy Resources**

18 6. Ajo would continue to offer incentive payments to customers to install Distributed
19 Renewable Energy Resources, pursuant to A.A.C. R14-2-1809. Eligible projects listed in Ajo's
20 proposed 2011 Plan include: photovoltaic systems, solar space cooling, non-residential solar water
21 heating and space cooling, small residential solar water heating, small residential solar space
22 heating, biomass/biogas cooling, non-residential solar daylight, and small wind generation. Ajo
23 indicated in its 2011 Plan that incentive payments will be up-front, one-time payments based on a
24 twenty-year REC agreement and will be determined based on system capacity and/or estimated
25 annual kWh production.

26 7. Staff recognizes that because Ajo has had no customer participation in the
27 Incentives Program since the approval of its 2008 REST Plan, Ajo has been unable to meet the
28 requirements of R14-2-1805. The current incentive level offered by Ajo for photovoltaic systems

1 is \$5.00/watt for residential systems and \$5.00/watt for non-residential systems (Decision No.
2 71470). Ajo is proposing to lower the incentive level for photovoltaic systems to \$4.00/watt for
3 residential systems and \$3.50/watt for non-residential systems. According to Ajo, there have been
4 eight inquiries for installation. With Ajo's current budget, Ajo would be able to accept only two
5 applications placing the remaining applications on a reservation waiting list. Staff understands that
6 the current incentive levels were approved in order to attract customers to participate in the
7 Incentive Program. However, due to the minimal collection of funds from customers, should Ajo
8 receive an application for a photovoltaic project, Staff is concerned that a substantial portion of the
9 budget would be expended on incentive payments. Therefore, Staff believes that should Ajo
10 receive any applications to install photovoltaic systems, Ajo should offer the following incentive
11 levels: \$5.00/watt for the first residential or non-residential system application received;
12 \$4.00/watt for the second residential or non-residential system application received; and
13 \$3.50/watt for all other residential or non-residential system applications received. This approach
14 would allow Ajo to continue to offer the higher incentive levels while not depleting its 2011 REST
15 budget.

16 8. In addition, Ajo is not proposing any changes to the following technologies:
17 biomass/biogas (electric, thermal, cooling), biomass/biogas combined heat and power ("CHP")
18 (electric, thermal), non-residential pool heating, solar space cooling, and non-residential solar
19 water heating/space heating. These technologies do not have up-front incentives specified by the
20 Uniform Credit Purchase Program ("UCPP") Working Group. Ajo stated that incentive payments
21 for these technologies will be determined on a case-by-case basis and will include consideration of
22 capital costs, capacity (kW), and estimated annual production (kWh). Ajo's 2011 Plan also
23 specifies the requirements for eligibility and installation of all the eligible projects.

24 9. Staff recommends that, if the Commission approves a UCPP, Ajo should be
25 required to develop a mechanism to incorporate UCPP procedures and incentive levels for all
26 eligible technologies in its proposed REST Plans for later years. To the extent that Ajo believes
27 that different incentive levels, other than those specified by UCPP, are justified, particularly in
28 remote, rural areas, Ajo could develop such proposals.

1 10. The 2011 Plan also specifies that funds for any customer project will not exceed 60
2 percent of the total cost of the project with a maximum of \$11,000 being provided for any project.
3 Incentive payments will continue to be distributed on a first-come, first-served basis and Ajo
4 intends to continue dividing incentive payments evenly between residential and non-residential
5 applicants. Eligibility requirements for participation and installation specifications are defined in
6 Ajo's 2011 Plan.

7 11. Ajo's 2011 Plan contains a section that describes Distributed Renewable Energy
8 System Program Monitoring. This section specifies that Ajo will continue to report the progress
9 and productivity for all distributed renewable energy systems annually by reporting on the total
10 installed capacity and projected productivity. Ajo also included in this section a statement that
11 indicated if a renewable system is removed or left in disrepair, Ajo will continue to reflect, in the
12 annual compliance reports, the annual historic energy production for the system until the
13 agreement term for the system has been completed. Staff notes that Ajo should report lost kW
14 capacity and forgone kWh that result from removed or inoperable renewable generation systems.

15 **Budget**

16 12. Ajo states that it can annually collect a maximum of \$89,105 from the REST
17 surcharge. However, Ajo does not anticipate that all of its customers will use the required amount
18 of kWh to charge the maximum surcharge. The current maximum monthly surcharges for each
19 customer class are as follows: \$1.05 for residential customers; \$39.00 for non-residential
20 customers; and \$117.00 for non-residential customers with a demand of 3MW or more for three
21 consecutive months (Ajo does not currently have customers in this customer class). Therefore,
22 Ajo anticipates that it will most likely collect approximately \$22,000 from the REST surcharge in
23 2011.

24 13. The following table shows the estimated REST funds that would be collected in
25 2011 from each Customer Class if Ajo were to collect the maximum of \$89,105 from the REST
26 surcharge:

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Customer Class	Total \$
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Non-Residential (>3MW)	\$0
Total	\$89,105

14. The following table shows the estimated REST funds that would be collected in 2011 from each Customer Class based on the \$22,000 that Ajo anticipates it will most likely collect from the REST surcharge:

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Customer Self-directed Renewable Energy Option	\$0
Administration, Implementation, Marketing & Outreach, Commercialization & Integration	\$20,000
Total	\$234,682

16. The total funds Ajo anticipates it would most likely collect from its customers are \$22,000. There is a difference of approximately \$212,000 between the 2011 Ajo Budget of \$234,682 and what Ajo anticipates it would most likely collect from its customers. Ajo states that since the approval of its 2010 Implementation Plan on January 26, 2010, it has collected approximately \$14,183, as of August 31, 2010. Ajo anticipates collecting a total of \$22,000 in 2010. Ajo has indicated that it expects approximately \$41,791 of unused funds to be carried-over to 2011. Ajo believes that the REST surcharge may provide sufficient funding to meet the annual

1 requirement for 2011 pursuant to A.A.C R14-2-1804. However, Ajo does not anticipate that the
2 REST surcharge will be sufficient to meet the annual distributed requirement, pursuant to A.A.C.
3 R14-2-1805, for 2011.

4 **Tariffs**

5 17. Ajo has stated that because there have been no applications submitted for incentives
6 for eligible distributed renewable energy resources, despite several inquiries, increasing the RES
7 surcharge and monthly maximums is not justified at this time. In addition, Ajo states that any
8 unused funds collected would continue to be rolled over to help fund future years' REST
9 requirements. Therefore, Ajo's Distributed Renewable Energy Resources Schedule tariff,
10 Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard
11 Surcharge Schedule tariff currently on file would remain in effect until further order of the
12 Commission.

13 **Recommendations**

14 18. Staff has recommended that Ajo's proposed 2011 Renewable Energy Standard
15 Implementation Plan be approved, as modified herein.

16 19. Staff has recommended that Ajo offer the following incentives for distributed
17 photovoltaic systems: \$5.00/watt for the first residential or non-residential system application
18 received; \$4.00/watt for the second residential or non-residential system application received; and
19 \$3.50/watt for all other residential or non-residential system applications received on the
20 customer's premises (all at 60 percent of the total cost of the project with a maximum of \$11,000).

21 20. Staff has recommended that Ajo's Renewable Energy Standard Surcharge Schedule
22 tariff, currently on file with the Commission, remain in effect until further Order of the
23 Commission.

24 21. Staff has further recommended that Ajo's Distributed Renewable Energy Resources
25 Schedule tariff and Customer Self-Directed Renewable Energy Option tariff currently on file with
26 the Commission remain in effect until further order of the Commission.

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CONCLUSIONS OF LAW

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2 1. Ajo Improvement Company is an Arizona public service corporation within the
3 meaning of Article XV, Section 2, of the Arizona Constitution.

4 2. The Commission has jurisdiction over Ajo Improvement Company and over the
5 subject matter of the Application.

6 3. The Commission, having reviewed the application and Staff's Memorandum dated
7 October 26, 2010, concludes that it is in the public interest to approve the Ajo 2011 REST Plan as
8 specified in this order.

ORDER

9
10 IT IS THEREFORE ORDERED that the Ajo Improvement Company 2011 REST Plan is
11 approved as modified herein.

12 IT IS FURTHER ORDERED that Ajo Improvement Company offer the following
13 incentives for distributed photovoltaic systems: \$5.00/watt for the first residential or non-
14 residential system application received; \$4.00/watt for the second residential or non-residential
15 system application received; and \$3.50/watt for all other residential or non-residential system
16 applications received on the customer's premises; all at 60 percent of the total cost of the project
17 with a maximum of \$11,000.

18 IT IS FURTHER ORDERED that Ajo Improvement Company's Renewable Energy
19 Standard Surcharge Schedule tariff, currently on file with the Commission, remain in effect until
20 further Order of the Commission.

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1 IT IS FURTHER ORDERED that Ajo Improvement Company's Distributed Renewable
 2 Energy Resources Schedule tariff and Customer Self-Directed Renewable Energy Option tariff
 3 currently on file with the Commission remain in effect until further order of the Commission.

4 IT IS FURTHER ORDERED that this Order shall become effective immediately.

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6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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9 CHAIRMAN COMMISSIONER

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12 COMMISSIONER COMMISSIONER COMMISSIONER

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

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DISSENT: _____

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DISSENT: _____

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SMO:CLA:lh\CH

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1 SERVICE LIST FOR: Ajo Improvement Company
2 DOCKET NO. E-01025A-10-0269

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4 Roshka DeWulf & Patten, PLC
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8 Mr. Steven M. Olea
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10 Arizona Corporation Commission
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