

information related to their application, the status of and steps necessary to progress through the program, and the ability to view recent activity, all on a near "real-time" basis.

With regard to non-performance of developers who have contracted to provide renewable projects, APS currently requires participants responding to a competitive solicitation to post a non-refundable bidder's fee that partially recovers administrative costs of processing bids and helps to ensure that bidders are serious developers. It is the responsibility of renewable resource developers to work with both the customer and the utility to continue to build the integrity of the renewable industry by offering only those projects that are viable.

As to the disposition of proceeds that may be received through enforcement of contract provisions that include payment for termination of a contract, terminated agreements are typically a result of the developer cancelling the project for a variety of reasons. In those situations, APS is required by both federal and state law to account for such proceeds through the Uniform System of Accounts by crediting Account 557 - "Other Expenses."

In response to your question regarding whether utility employees or directors have any financial involvement in renewable projects, APS has reviewed its corporate records. (Pursuant to the Company's ethics policies, all employees and directors are required to disclose any potential conflicts of interest.) As a result of that review, the Company reports that no director or employee has a financial interest in renewable projects. Additionally, the only "related entity" to APS that has potential interests in renewable projects is APS Energy Services. APS Energy Services is an energy services company that performs construction services, energy management services and facilitate construction financing for businesses in Arizona. There are strict separations, reporting and information sharing prohibitions that prevent APS from providing preferential treatment to APS Energy Services.

2. Incentive step-downs based on capacity v. number of applications.

As you noted in your letter, APS has proposed a step-down of incentive levels for its residential distributed energy ("DE") program. You have questioned whether factors other than a particular megawatt ("MW") achievement should be taken into consideration when determining the trigger for reducing incentives.

In administering its DE program, APS currently decreases residential incentive payments based on capacity thresholds. The concept of step-down thresholds based on total program capacity (kilowatts), project production (kilowatt hours), or total budget have caused confusion. Under APS's 2011 Implementation Plan ("2011 Plan") proposal, the residential incentive payment would decrease once a certain number of customer reservations have been issued. The Company made this change in response to stakeholder concerns and expects this proposed approach will provide improved customer understanding and greater predictability for installers.

APS does not believe that the incentive step-downs should be further complicated by the consideration of conditions beyond the volume of applications received. APS agrees that it is important to review project system costs and customer expenses, including payback periods and