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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES  
Chairman

GARY PIERCE  
Commissioner

PAUL NEWMAN  
Commissioner

SANDRA D. KENNEDY  
Commissioner

BOB STUMP  
Commissioner

Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATIONS )  
 OF ARIZONA PUBLIC SERVICE )  
 COMPANY FOR APPROVAL OF )  
 SCHOOLS AND GOVERNMENT )  
 RENEWABLE PROGRAM AND FOR )  
 APPROVAL OF ITS RENEWABLE )  
 ENERGY STANDARD AND TARIFF )  
 IMPLEMENTATION PLAN FOR 2011 )

DOCKET NOS. E-01345A-10-0166  
E-01345A-10-0262

DECISION NO. 72022

ORDER

Open Meeting  
November 22 and 23, 2010  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS" or "Company") is engaged in providing electric service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission

Background

2. On April 29, 2010, APS filed its application for approval of its schools and government renewable energy program, pursuant to Decision No. 71448.

3. On July 1, 2010, APS filed its application for approval of its 2011 Implementation Plan pursuant to the Renewable Energy Standard and Tariff ("REST") Rules. On July 26, 2010, the two dockets were consolidated.

4. On October 13, 2010, APS submitted a Supplemental Filing.

1 **The APS REST Implementation Plan 2011 to 2015**

2 5. The APS REST Implementation Plan 2011 to 2015 is a five-year plan describing  
3 how APS intends to comply with the REST requirements. In a separate document, Attachment B  
4 of the APS application, APS has filed its Distributed Energy Administration Plan ("DEAP")  
5 describing how APS intends to meet the annual Distributed Renewable Energy Requirement.

6 6. APS had originally estimated that the cost for full compliance with the REST Rules  
7 would total \$96.4 million in 2011. This is an increase of about 11 percent over 2010's \$86.7  
8 million. Budget details are given in Table 1 below.

9 7. Included in the Supplemental filing was an update on 2010 RES incentive funding  
10 and a proposal for improving the wholesale distribution interconnection process for renewable  
11 energy projects. The impact of increasing the number of renewable power interconnections on  
12 APS' distribution system affects safety, power quality, and reliability.

13 8. APS is proposing a system to improve and streamline the interconnection process  
14 by identifying the most viable projects. Three levels of increasingly detailed studies would be  
15 performed at the developer's request, and would identify technical issues earlier in the  
16 development process. APS would charge fees associated with requested studies, consistent with  
17 Commission Decision No. 69674. The first two optional studies, a Feasibility Study and a System  
18 Impact Study, would cost the developer \$15,000. The third study, a Facilities Study, would be  
19 required and cost the developer a fee of \$100 per hour with a \$55,000 deposit. All fees would be  
20 applied to the RES budget, offsetting resources required for the services. APS included  
21 modifications to the proposed APS RES adjustor, to reflect this.

22 9. Staff has reviewed the APS proposed Wholesale Distribution Interconnection  
23 Process. Staff has reviewed the process improvements and proposed fee schedules. Staff believes  
24 it is necessary for APS to analyze an interconnection's impact on its distribution system. The  
25 proposed fees for APS' engineering expertise are reasonable. However, new fees should be on a  
26 Tariff Schedule.

27 10. In the Supplemental Filing, APS recalculated the timing for expected start-up of  
28 various non-residential performance based incentive ("PBI") projects, Powerful Communities

1 projects, and AZ Sun projects. This recalculation resulted in a downward revision of APS' budget  
2 estimates for 2011, lowering the APS budget request for 2011 by \$3.9 million. This resulted in a  
3 revised budget request of \$92.5 million compared to original proposed budget amount of \$96.4  
4 million.

5 11. As part of the Supplemental Filing, APS has revised the Schools and Government  
6 Rate Schedule in order to allow the schedule to be used in conjunction with a new schools time-of-  
7 use rate schedule that was approved by the Commission in August 2010.

8 12. Finally, in the Supplemental Filing, APS submitted revisions to the Distributed  
9 Energy Administration Plan. Included was a clarification that Rapid Reservation requests will not  
10 be counted as part of the maximum 600 reservations that would be accepted in the first three  
11 funding cycles. The Rapid Reservation funds instead would come from the fourth funding cycle.

12 13. APS is now requesting increases in its adjustor rate to collect \$86.5 million; \$6.0  
13 million is collected in base rates to reach the total of \$92.5 million. This budget is detailed in  
14 Table 1. Staff is proposing a budget of \$96.4 million.

15 14. REST adjustor rates would increase about 17 percent and are shown below in  
16 Table 2.

17 15. Table 3 presents a variety of typical Customer types with the monthly RES  
18 surcharge amounts each would pay.

19 **Table 1**  
20 **APS 2011 REST Budget**

<i>Line No</i>	<i>\$ Millions</i>	<i>2010</i>	<i>APS Original</i>	<i>APS Adjusted</i>	<i>Staff Proposed</i>
1	<u>Renewable Generation</u>				
2	Purchases and Generation	8.5	17.0	18.8	18.8
3	Administration	1.3	1.5	1.5	1.5
4	Implementation	1.1	1.5	1.5	1.5
5	<b>Total Renewable Generation Contracts and O/M</b>	10.9	20.0	21.8	21.8
6	Estimated Green Choice/Rollover Offset Credit	-0.4	-3.8	-0.6	-0.6
7	<b>Total Renewable Generation</b>	10.5	16.2	21.2	21.2
8	<b>Customer-Sited Distributed Energy</b>				
9	<u>Existing Contracts and Commitments</u>				
10	Distributed Energy RFP		1.1	1.1	1.1
11	Innovative Technologies		0.3	0.3	0.3
12	Existing Production-based Incentives	16.6	15.3	7.6	7.6

13	Flagstaff Community Power Project		0.4	0.4	0.4
14	Wholesale Distributed Energy		0.2	0.2	0.2
15	ARRA Projects/Incentives		1.2	1.2	1.2
16	2010 Residential Incentive Commitment		0.9	1.7	1.7
17	<b>Total Existing Contracts and Commitments</b>	16.6	19.4	12.5	12.5
19	<i>New Incentives and Commitments</i>				
20	Residential Up-front	44.1	34.0	34.0	39.0
21	Schools and Government Buildings		7.3	7.3	6.8
22	Non-Residential Up-front	2.0	2.0	2.0	2.0
23	Production Based Incentives		2.1	0.3	0.3
24	Powerful Communities		0.4	0.2	0.2
25	EARN		0.5	0.5	0.5
26	<b>Total New Incentives and Commitment</b>	46.6	46.3	44.3	48.8
27	Total Incentives and Commitments	63.2	65.7	56.8	61.3
28	<u>Non-Incentive Distributed Energy</u>				
29	Customer Self-Directed	0	0	0	0
30	Administration	1.6	1.4	1.4	1.4
31	Implementation	3.1	3.7	3.7	3.7
32	Information Technology	1.5	2.0	2.0	2.0
33	Marketing & Outreach	4.8	5.4	5.4	5.3
34	<b>Total Non-Incentive Distributed Energy</b>	11.0	12.5	12.5	12.4
35	<b>Total Customer Sited Distributed Energy (line 27 + line 34)</b>	74.2	78.2	69.3	73.7
36	<b>Research, Development, Commercialization, &amp; Integration</b>	2.0	2.0	2.0	1.5
37					
38	<b>Total RES Budget</b>	86.7	96.4	92.5	96.4

**Table 2**  
**APS 2011 REST Adjustor Rates**

	<b>2010</b>	<b>APS Original</b>	<b>APS Adjusted</b>	<b>Staff Proposed</b>
Rate per kWh	\$0.0086620	\$0.0101320	\$0.0096630	\$0.0101320
Residential Monthly Cap	\$3.46	\$4.05	\$3.87	\$4.05
Small Non-residential Monthly Cap	\$128.70	\$150.53	\$143.56	\$150.53
Large Non-residential Monthly Cap	\$386.10	\$451.60	\$430.67	\$451.60

**Table 3**  
**Customer Impact of Proposed REST Adjustor Rates**

		<i>kWh per Month</i>	<i>2010</i>	<i>APS Original</i>	<i>APS Adjusted</i>	<i>Staff Proposed</i>
<b>Customer Types and Monthly Costs</b>						
1	Residence	>= 400	\$3.46	\$4.05	\$3.87	\$4.05
2	Dentist Office	2,000	\$17.32	\$20.26	\$19.33	\$20.26
3	Hairstylist	3,900	\$33.78	\$39.51	\$37.69	\$39.51
4	Department Store	170,000	\$128.70	\$150.53	\$143.56	\$150.53
5	Retail Video Store	14,400	\$124.73	\$145.90	\$139.15	\$145.90
6	Large Hotel	1,067,100	\$128.70	\$150.53	\$143.56	\$150.53
7	Large Building Supply/Hardware	346,500	\$128.70	\$150.53	\$143.56	\$150.53
8	Hotel/Motel	27,960	\$128.70	\$150.53	\$143.56	\$150.53
9	Fast Food	60,160	\$128.70	\$150.53	\$143.56	\$150.53
10	Large High Rise Office Bldg	1,476,100	\$128.70	\$150.53	\$143.56	\$150.53
11	Supermarket	233,600	\$128.70	\$150.53	\$143.56	\$150.53
12	Convenience Store	20,160	\$128.70	\$150.53	\$143.56	\$150.53
13	Hospital (< 3 MW)	1,509,600	\$128.70	\$150.53	\$143.56	\$150.53
14	Hospital (> 3 MW)	2,700,000	\$386.10	\$451.60	\$430.67	\$451.60
15	Copper Mine	72,000,000	\$386.10	\$451.60	\$430.67	\$451.60
16	Mall (>3MW)	1,627,100	\$386.10	\$451.60	\$430.67	\$451.60

### **Renewable Generation**

16. For year 2011, APS indicates that it would own and operate approximately 6 MW of solar capacity. In addition, APS has entered into power purchase agreements for 228 MW of wind, geothermal, and biomass/biogas renewable generation capacity, and expects 20 MW from its Small Generation Request for Proposal ("RFP") and 33 MW from AZ Sun projects. This totals 287 MW of renewable generation as described in detail in Exhibit 3B of Attachment A in the APS Supplemental filing.

17. The expected annual MWh of generation from existing contracts and planned generation is shown in Exhibit 3A of Attachment A of the APS plan. The estimate for existing renewable generation is 851,805 MWh in 2011.

**Schools and Government Program**

18. Decision No. 71275 requires APS to offer proposals which could increase distributed energy (“DE”) participation for governmental and schools customers. APS will offer these customers performance-based incentives for installation of qualifying non-residential RES facilities as part of a Schools and Governmental Program.

19. A Schools and Government Program was filed on April 29, 2010 (E-01345A-10-0166). With that filing, APS is seeking approval of a new program for on-site renewable energy for schools and governmental institutions that would substantially reduce or eliminate up-front costs for solar energy.

20. To eliminate up-front costs that would normally be incurred by schools or governmental institutions when installing solar facilities, APS is proposing three customer options to eliminate or reduce up-front costs for schools and governmental institutions:

- A) third-party ownership
- B) utility-ownership option
- C) solar daylighting bank financing option

21. With the Third-Party Ownership option, the third-party owners traditionally require no up-front payment from the customer, instead the customer pays the third-party owner for the lease of the system equipment and the customer benefits from the energy produced by the on-site PV system.

22. For the Utility Ownership option, APS is proposing to make available a utility ownership option for the proposed Schools and Government Program. To maximize opportunities for solar installers and developers, no more than one-half of the installed PV capacity would be eligible under the utility-ownership option. APS proposes PV system installations utilizing the same utility ownership arrangement that is being offered in the recently approved Community Power Project - Flagstaff Pilot program. PV systems would be connected directly to the distribution grid on the customer's property, and the customer would be billed for a portion of their usage equivalent to the output of the PV system, with a specific rate designed to reflect the benefits of a customer-owned renewable resource, i.e., a proposed School and Government Solar Program

1 Rider Rate Schedule. This solar charge would remain unchanged for the twenty-year term of the  
2 rate schedule. We disagree with APS and believe that only one-quarter of the installed PV  
3 capacity should be eligible for the utility-ownership option.

4 23. Renewable energy from the utility-owned solar systems would not count toward the  
5 RES distributed energy requirements; rather, they would be applied to the Company's overall RES  
6 requirement. APS is proposing that the cost of ownership (or revenue requirement) for this option  
7 would be recovered through the RES adjustor until the investment is included in base rates or other  
8 recovery mechanism.

9 24. In the Solar Daylighting Project Financing option, the costs associated with solar  
10 daylighting installations are significantly less than that of PV and solar thermal installation costs  
11 and school districts and governmental institutions have expressed a preference to purchase and  
12 own these systems. For customers interested in a financing option to install solar daylighting, APS  
13 will partner with National Bank of Arizona to offer customers an option that eliminates up-front  
14 cost. Solar daylighting projects under the proposed Schools and Government Program would be  
15 eligible for a five to seven year operating lease, with the option to purchase the system at fair  
16 market value at the end of the lease term.

17 25. In its Supplemental Filing, APS revised the Schools and Government Rate Schedule  
18 ("SGSP"). In Decision No. 71871 the Commission adopted a new optional time-of-use ("TOU")  
19 rate applicable to K- 12 schools, which will provide daily and seasonal price signals to encourage  
20 load reductions during peak periods. In this docket, APS has revised the Schools and Government  
21 Rate Schedule (Exhibit D) to incorporate the changes necessary to allow the schedule to be used in  
22 conjunction with the new schools TOU rate schedules.

23 26. Rate Schedule SGSP is shown in Exhibit H of APS' filing. As indicated, its design  
24 is the same as the Community Power Project - Flagstaff Pilot program, with a solar charge ranging  
25 from 7.3 to 9.3 ¢/kW, depending on the base service retail rate schedule. For School or  
26 Governmental customers on time-of-use rates, the solar energy would be netted against on-peak,  
27 shoulder-peak, or off-peak time periods according to an allocation based on typical usage. The  
28 solar charge would remain unchanged for the twenty-year term of the rate schedule.

1           27. Staff has reviewed the Revised Rate Schedule SGSP. Staff's analysis finds that  
2 SGSP is a properly-designed rate which allows the benefits of renewable energy to flow back to  
3 the customers in a reasonable manner.

4 **Feed-In Tariff Programs**

5           28. In January 2010, the Commission issued a Notice of Inquiry to solicit input on  
6 specific issues related to developing a potential Feed-In Tariff ("FIT") program, which is a  
7 transaction mechanism that is designed to encourage the targeted deployment of renewable energy  
8 resources. Under a FIT, an electric utility pays a renewable energy developer for both energy and  
9 renewable energy credits ("RECs") at an agreed-upon and sometimes predetermined rate for an  
10 extended number of years under a standardized commercial agreement.

11           29. Well-designed FIT policies could offer additional methods for promoting the  
12 development of renewable energy resources. APS is proposing two programs aimed at different  
13 renewable energy market segments that embrace FIT principals: 1) Powerful Communities, a  
14 wholesale DE FIT program that targets customer groups that have had limited participation in RES  
15 programs; and 2) a Small Generator Standard Offer Program that would provide energy credited  
16 towards APS' renewable generation requirements. Each of the programs is designed to extend  
17 over a three-year period.

18 ***Powerful Communities (Wholesale Distributed Energy FIT)***

19           30. The proposed Powerful Communities FIT program targets market segments that  
20 currently have a more difficult time accessing the incentive funding through the current RES  
21 programs, specifically low-income housing entities, homeowner associations, multi-tenant  
22 facilities (residential and commercial), and not-for-profit charitable organizations. PV facilities  
23 that are between 30 kilowatts and 200 kilowatts and are planned to be operational within 12  
24 months would be eligible for this program. APS is proposing that the program be limited to 2  
25 megawatts of total annual procurement in each year of the program, for a total of 6 megawatts.  
26 This limit to the program size is proposed as a way to manage the amount of customer-subsidized  
27 developer incentives paid annually. Participants will be awarded on a first-come, first-served  
28 basis. The Company is proposing a standard fixed price offer for the Powerful Communities FIT

1 Program of \$0.195/kilowatt-hour for the production output of the system under a 20-year  
2 agreement. The program has an estimated annual cost of \$375,000, and a lifetime commitment for  
3 these 20-year contracts of approximately \$22.5 million.

4 ***Small Generator Standard Offer Program***

5 31. The Small Generator Standard Offer would focus on four aspects of smaller  
6 projects:

- 7 A. Advanced approval for the program budget,
- 8 B. A predetermined budget and plans to fully commit a portion of the budget,
- 9 C. Pre-scheduling of future project solicitations, and
- 10 D. Proposed transactional enhancements.

11 32. Renewable resource technology within the range of 2 to 15 megawatts would be  
12 eligible for this program. The program would have a \$10 million budget over a three-year  
13 deployment. APS forecasts this program has the potential to provide approximately 200 gigawatt-  
14 hours annually once fully deployed.

15 33. The Company believes these budgetary and scheduling commitments will be an  
16 important indicator to the developer community of APS' intent to procure and install small  
17 renewable energy projects.

18 34. Staff recognizes that there is significant interest in feed-in tariffs. However, Staff  
19 believes that the current workshop activities related to feed-in tariffs should be allowed to run their  
20 course before utilities implement feed-in tariffs, even on a pilot basis, given the significant  
21 financial commitment even a one year pilot program would entail. Staff recommends against  
22 approval of the proposed feed-in tariff pilot program as part of the 2011 REST implementation  
23 plan for APS. However, if the Commission wishes to approve a FIT pilot program, Staff  
24 recommends approving the APS proposal with the following modification: the standard price  
25 offer should be a maximum of \$0.195/kWh, i.e., APS should be allowed to enter into a FIT of less  
26 than \$0.195/kWh.

27 35. The Commission disagrees with Staff that a delay in the implementation of the  
28 Company's proposed FIT is warranted. The Commission has conducted multiple workshops on  
the subject of FITs at Arizona utilities, and is nearing completion of a final FIT Policy Statement.

1 Further, the Company has proposed a modest, capped FIT designed as a pilot program, which will  
2 offer the Commission the opportunity to make any changes that may be required in the program  
3 and will ensure that the costs do not become prohibitive. We will therefore require APS to  
4 proceed with its proposed FIT, as part of the APS 2011 Implementation Plan, except that energy  
5 procured by APS from the FIT program shall be counted toward the Company's utility-scale  
6 requirements under the REST, and will not be counted toward its distributed generation  
7 requirements.

8 36. During the Special Open Meeting on the utilities' proposed 2011 REST  
9 Implementation Plans, the Commission heard from a number of stakeholders that demand for  
10 residential solar systems is likely to continue to outstrip the Companies' proposed budgets for  
11 residential solar. Additionally, Staff has noted that residential solar has become the cheapest form  
12 of Renewable Energy Credits ("RECs") for the utilities, having reached a total cost of \$0.0514 per  
13 kWh. However, APS would appear to be planning a decrease in its budget for residential solar  
14 over the next three years, which could portend a constriction in the ability of Arizonans to solarize  
15 their homes, and may not be in the best interest of ratepayers, in light of the reduced cost of  
16 residential solar RECs.

17 37. Given the downward trend in installed cost of residential solar and the escalating  
18 demand among Arizonans for residential solar, we believe it would be in the public interest to  
19 maintain a more levelized and certain budget for APS' residential solar program. Therefore, we  
20 will require APS to maintain funding for its residential solar program at \$40 million at least  
21 through 2012. If the Company believes these levels must be modified downward as a result of  
22 market factors, it may argue for those decreases in its 2012 Implementation Plan

### 23 **Distributed Energy**

24 38. For the 2011 Plan, APS proposes to increase its PBI lifetime commitment by \$100  
25 million to \$670 million.

26 39. The most significant changes to the APS REST Plan for 2011 relate to the  
27 phenomenal demand experienced in 2010 for residential distributed photovoltaic systems. Due to  
28

1 the unprecedented demand seen in 2010 and the anticipated continuation of residential demand in  
2 2011, APS has proposed some major changes to its residential distributed energy program.

3 40. In 2010, when 75 percent of the APS 2010 residential incentive budget was  
4 allocated in the first quarter of 2010, the Commission stepped in, lowering the residential PV  
5 incentive from \$3 per watt to \$2.15 per watt and finally to \$1.95 per watt (Decision No. 71686,  
6 dated April 30, 2010).

7 41. The residential demand continued at an accelerated rate, causing the Commission to  
8 shift funds from other budget priorities to the residential program and to lower the residential PV  
9 incentive to \$1.75 per watt (Decision No. 71913, dated September 28, 2010). This incentive level  
10 reduction and an allocation from the 2011 budget were used to help APS reduce the queue of  
11 customers desiring residential incentives.

12 42. In Decision No. 71913, the Commission authorized APS to institute an incentive  
13 step-down mechanism that is triggered by the volume of residential systems installed under the  
14 program. The Commission also ordered that the last quarter of 2010 become Funding Cycle 1 of  
15 2011 for the purpose of allocating a portion of the 2011 REST budget to residential projects  
16 waiting in the queue for REST incentives.

17 43. Based on the problems experienced in 2010 and feedback from the solar industry  
18 stakeholders, APS proposed a redesign of the incentive system. The redesign includes a clear  
19 delineation of proposed future reductions in incentives including pre-determined "step-downs", a  
20 specific allocation of funds for non-PV technologies, and specific funding cycles that would spread  
21 annual residential PV incentive funding over the entire budget year.

22 44. The automatic "step-down" mechanism for PV incentives would establish tranches  
23 of 1,200 grid-tied Distributed Energy applications, each providing incentives for approximately 8  
24 MW of capacity.

25 45. Following the reservation of the first tranche at \$1.75 per watt, APS proposes that  
26 the residential grid-tied PV incentive be decreased by \$0.15 per watt to \$1.60 per watt, reaching  
27 \$1.45 per watt by the end of 2011. The first three tranches would have step-downs of \$0.15 per  
28 ...

1 watt, followed by three tranches with \$0.10 per watt step-downs in future years. After the first six  
2 tranches, each additional tranche would step down \$0.05 per watt.

3 46. Also included in APS' proposed changes is a new "rapid reservation" proposal that  
4 would allow APS to confirm upon receipt all PV applications that request incentives of \$1.00 per  
5 watt or less.

6 47. In Decision Nos. 71686 and 71913, the Commission approved the funding of  
7 residential PV project applications received during the final quarter of 2010 with funds from the  
8 2011 REST Plan. In its 2011 REST Plan, APS proposes to continue this approach where "For the  
9 purposes of this Plan, the first Funding Cycle of each Plan year occurs during the final quarter of  
10 the proceeding calendar year (e.g., Funding Cycle One of 2011 begins in October 2010)."

11 48. APS requests approval for the continuation of a specific allocation for non-PV  
12 residential projects. For 2011, this would be \$6 million and would be for technologies such as  
13 solar space heating, solar water heating, geothermal applications and other eligible residential DE  
14 technologies.

15 49. APS proposes removal of the incentive cap of 50 percent of total residential system  
16 cost, and for thermal applications, the cap requiring a minimum 15 percent customer contribution.  
17 APS claims that the caps are no longer needed.

18 50. APS is proposing a new Customized Incentives for Home Builders program. It  
19 would provide predictable incentive levels and longer reservation periods in order to address the  
20 needs of production and custom home builders. In 2011, APS proposes PV incentives of \$1.95 per  
21 watt and \$0.50 per kilowatt-hour for solar water heaters. To accommodate builders' three-year  
22 sale/build cycles, the PV incentives would be reduced by \$0.50 per watt after the first year,  
23 followed by \$0.25 and \$0.15 per watt reductions in following years. This program has a separate  
24 budget allocation.

25 51. The APS non-residential portion of the plan would increase its lifetime  
26 commitments to PBIs by \$100 million in 2011.

27 52. APS noticed in 2010 that non-residential project demand for "medium projects"  
28 was greater than the demand for 'large projects.' APS has proposed a change to allocate the 2011

1 funding more equally over various project sizes. The definition of “medium projects” would  
2 change to projects where the generator or inverter is rated at 200 kilowatts or less and “large  
3 projects” would be where the generator or inverter is greater than 200 kilowatts. Currently, that  
4 definition changes at 100 kilowatts.

5 53. APS proposed to eliminate the “10/20” PBI contract. This contract provides 10  
6 years of PBI payments with a 20-year REC agreement. APS believes that the risk of an advance  
7 payment for future production is no longer warranted.

8 54. Based on stakeholder feedback, APS has proposed the elimination of the 60 percent  
9 cap on non-residential incentives.

10 55. Staff has reviewed the Distributed Energy Programs and changes as proposed by  
11 APS.

12 56. First, Staff agrees with APS that some form of market-driven trigger should be used  
13 to lower residential PV incentives. The lack of such a mechanism was a major reason that APS  
14 experienced the boom-bust problems in the residential PV market in 2010, where demand  
15 outstripped available funding and REST Plan procedures needed to be fixed by the Commission in  
16 both April and September.

17 57. Realignment of the calendar year and incentive year is an important part of  
18 providing customers and installers with a clear and readily understandable communication  
19 regarding annual activity. To accomplished this realignment APS shall deduct \$8.2 million  
20 committed to residential customer installations as part of the fourth quarter of 2010, equivalent to  
21 600 customer reservations, from the residential incentive budget approved as part for the 2011  
22 Implementation Plan. Those funds shall be paid to customers upon successful completion of the  
23 reserved installation. The remaining funds shall be divided as described in Table 1.

24 ...  
25 ...  
26 ...  
27 ...  
28 ...

**Table 1 – Residential Photovoltaic Incentive Funding Cycles  
and Incentive Reduction Triggers**

	<b>Funding Cycle 1 Jan 1 – Mar 31</b>	<b>Funding Cycle 2 Apr 1 – Jun 30</b>	<b>Funding Cycle 3 Jul 1 – Sept 30</b>	<b>Funding Cycle 4 Oct 1 – Dec 31</b>
<b>Percent allocation of annual RES residential incentive budget</b>	<b>25%</b>	<b>25%</b>	<b>25%</b>	<b>25%</b>
<b>Incentive Step trigger</b>	<b>50% of annual budget on or before June 30</b>		<b>75% of annual budget on or before Sept 30</b>	<b>100% of annual budget on or before Dec 31</b>

58. Incentive reductions remain an important part of the long-term success of the distributed energy program. Since many market forces will ultimately affect the costs and economics of residential photovoltaic systems, caution must be used in driving down the incentives available to customers. Incentive reductions should only occur if demand exceeds available funding during or beyond a particular funding period. If demand falters no incentive reduction should be triggered. Incentive reduction triggers are identified in Table 1. Incentive Steps are defined in Table 2. Funding Cycle of 2011 shall begin in Step 1 as described in Table 2, or \$1.75 per watt.

**Table 2 – Photovoltaic Incentive Declination Steps**

<b>APS Photovoltaic Incentive Reduction Steps (\$/watt)</b>									
<b>Step 1</b>	<b>Step 2</b>	<b>Step 3</b>	<b>Step 4</b>	<b>Step 5</b>	<b>Step 6</b>	<b>Step 7</b>	<b>Step 8</b>	<b>Step 9</b>	<b>Step 10</b>
<b>\$1.75</b>	<b>\$1.60</b>	<b>\$1.45</b>	<b>\$1.30</b>	<b>\$1.20</b>	<b>\$1.10</b>	<b>\$1.00</b>	<b>\$0.95</b>	<b>\$0.90</b>	<b>\$0.85</b>

59. To assist with communicating with customers, Incentive Reductions will be posted on the [www.aps.com](http://www.aps.com) and [www.arizonagoessolar.org](http://www.arizonagoessolar.org) websites in terms of the number of applications remaining in each Funding Cycle that is currently receiving applications. APS will be required to communicate the pending incentive reductions in terms of both available budget and the approximate number of available applications, which will be derived from the predetermined budget available for each incentive level. In this way, the budget will define the funding cycle thresholds, but APS will also communicate the Funding Cycle in terms of “available applications.”

1           60. Staff agrees with the APS designation of \$6 million in the budget for non-PV  
2 technologies. This is a good method to ensure that the residential program includes a variety of  
3 technologies, not just photovoltaics.

4           61. Staff recommends approval of the rapid reservation program offering \$1 per watt  
5 for PV incentives. This is an excellent mechanism to reduce the cost of renewable kWh for APS  
6 and its customers.

7           62. Staff disagrees with APS on the removal of the incentive cap of 50 percent of the  
8 total system costs for residential systems. If, as APS claims, the declining cost of PV will make  
9 the caps unnecessary, there is no harm leaving them in place. If, however, in the future the costs  
10 of PV drop farther than the incentive levels, there may be a need for such a cap. Staff sees no  
11 compelling reason to remove the cap. Staff recommends that the caps remain in place at 50  
12 percent for both residential and non-residential.

13           63. Staff supports the Customized Incentives for Home Builders program proposed by  
14 APS. Staff believes this program will encourage the installation of renewable energy by home  
15 builders and in turn promote the Commission's efforts to ensure that APS continues to provide  
16 reliable service at just and reasonable rates. Staff recommends approval of the Home Builder  
17 program as proposed.

18           64. Staff agrees with APS' change to the definitions of "medium projects" and "large  
19 projects" by moving the dividing line from 100 kW to 200 kW. Staff also recommends that APS'  
20 request to eliminate the "10/20" PBI contract be approved. There is sufficient market interest for  
21 the 10, 15, and 20-year contracts for APS to meet its REST goals. The "10/20" PBI contract is too  
22 risky for both APS and its ratepayers.

23           65. Staff disagrees with APS' request to remove the 60 percent cap on non-residential  
24 incentives. If "...the incentive programs offered by the Company have become sufficiently  
25 competitive to adequately drive available cost-reduction opportunities into projects receiving  
26 incentive funding" as APS claims, then there is no need to remove the cap. However, as indicated  
27 above, Staff recommends that the caps remain in place but be reduced to 50 percent for both  
28 residential and non-residential.

66. Staff disagrees with the APS reduction from \$44.1 million to \$34 million budgeted for residential up-front incentives. Although the reduction of incentive levels from \$3 per watt to \$1.75 per watt will have an impact on the market demand, there appears to be a continuing strong consumer demand for residential PV systems.

67. Staff believes that APS may have reduced the residential incentive budget too much. The economics of the residential PV incentive program are compelling. At an incentive of \$1.75 per watt, APS provides incentives of \$1,750 per kW of PV systems. Assuming that each kW of PV panels produce 1,700 kWh per year for 20 years, the cost to APS per delivered kWh is \$0.0514 per kWh. The calculations are shown in Table 4.

**Table 4**  
**APS' Cost per kWh Resulting From Residential PV Incentives**

<u>Incentive:</u>		
\$1.75 per watt	=	\$1,750 per kW
<u>System output:</u>		1,700 kWh / kW/ year
(1,700 kWh/year) times 20 years	=	34,000 kWh
<u>Cost per kWh:</u>		
\$1,750 divided by 34,000 kWh	=	\$0.0514 per kWh

68. The economics of the residential PV incentives show that the residential kWh cost to APS is significantly lower (5.14 cents per kWh) than any other option in the REST Plan. The residential kWh cost to APS is much lower than the proposed Feed-in Tariff (at 19.5 cents per kWh), the proposed non-residential PBI incentives of 15.4 cents, 14.3 cents, or 13.8 cents or the cost per kWh from utility scale power purchase agreements that will likely range from 8 cents to 15 cents per kWh.

69. Faced with the favorable economics of residential PV incentives, Staff recommends an increase in the 2011 residential up-front incentives of \$5 million to total \$39 million in 2011 rather than the APS' proposed \$34 million budget. Staff further recommends that one-half or \$2.5 million of this additional funding be set aside to fund the rapid reservation program. Any of the \$2.5 million in rapid reservation funds that have not been committed by APS by September 30,

1 2011, would revert to regular residential incentives for use on or after October 1, 2011. However,  
2 the Commission finds that the \$1/watt Rapid Reservation program offered by APS is not prudent  
3 as it will add too much uncertainty to the market, and could create a situation where unscrupulous  
4 persons install poor quality systems. The \$2.5 million set aside for the Rapid Reservation program  
5 should instead be included in the regular residential incentives funding.

6       70. This additional \$5 million in residential up-front incentives would come from a  
7 combination of the \$3.9 million reduction in the 2011 budget proposed by APS in its Supplemental  
8 Filing that was docketed on October 13, 2010, and an additional \$1.1 million reduction in three  
9 parts of the revised APS budget. Staff proposes a \$500,000 reduction in the proposed Schools and  
10 Government Program, an additional \$500,000 reduction in the Research, Development,  
11 Commercialization and Integration budget, and a \$100,000 reduction the Marketing and Outreach  
12 budget. Staff believes that APS can incorporate these budget changes and still meet its REST  
13 requirements. The reduction in the Schools and Government Program can be accomplished by  
14 shifting \$500,000 of the 2011 portion of the three-year budget from 2011 to 2012. The \$500,000  
15 reduction in the Research, Development, Commercialization and Outreach budget can be  
16 accomplished by APS' prioritization of projects proposed. Finally, with long waiting lines for  
17 residential and non-residential distributed systems, APS can afford a slight reduction in its  
18 Marketing and Outreach Program. Staff proposes that the total 2011 budget remain as originally  
19 proposed by APS at \$96.4 million, including the changes proposed by APS in its supplemental  
20 filing and the changes proposed by Staff in this memorandum.

21       71. Staff is concerned that APS has not reduced its non-residential PBI incentives in a  
22 manner commensurate with the reduction in cost of photovoltaic systems. Staff notes that in  
23 August of 2009, APS had enough non-residential projects in the queue to meet all of its non-  
24 residential DE requirements through 2011.

25       72. Since demand for non-residential grid-tied PV projects is still increasing, it appears  
26 that the incentives offered by APS are slightly higher than needed to meet APS' REST  
27 requirements. Therefore, Staff recommends that the APS proposed incentive for 10-year contracts  
28 be reduced from the proposed \$0.154 per kWh to \$0.14 per kWh. The proposed incentive of

1 \$0.143 per kWh for 15-year contracts should be reduced to \$0.13 per kWh and the proposed  
2 \$0.138 per kWh for 20-year contracts should be reduced to \$0.125 per kWh.

3 73. Similarly, Staff recommends that the up-front incentive for small non-residential  
4 PV systems be reduced from \$2.25 per watt to \$1.75 per watt, which is comparable to the APS  
5 residential incentives.

6 **The APS Distributed Energy Administration Plan**

7 74. APS has proposed some modifications to its Distributed Energy Administration  
8 Plan. Due to Internal Revenue Service rulings, APS will be required to report incentive payments  
9 to customers on IRS Form 1099.

10 75. APS clarifies that the Rapid Reservation requests will not be counted as part of the  
11 maximum 600 reservations in the first three funding cycles, but will be accrued to the fourth  
12 funding cycle.

13 76. APS intends that customers' equipment meets the highest national safety and  
14 performance standards. APS is requiring new test standards for inverters, thin film solar modules,  
15 and crystalline silicon modules.

16 77. Solar daylighting projects will be exempt from submitting an energy savings and  
17 design report if the offsetting savings software that is used for the system design has been  
18 approved and validated by APS.

19 78. Non-residential active open-loop solar water heating systems will not be eligible for  
20 incentives, unless their technology or designs are proven to limit system degradation.

21 79. Solar providers will be required to provide APS with written notification of mergers  
22 or business name changes in order to facilitate the tracking of system installations.

23 80. APS has clarified the criteria for up-front incentives ("UFI") for both residential  
24 and nonresidential projects. Residential grid-tied PV UFIs are limited to 25 kilowatts. Non-  
25 residential projects with a total incentive of less than or equal to \$75,000 are only eligible for UFI  
26 incentives.

27 81. Staff has reviewed the proposed changes to the APS Distributed Energy  
28 Administration Plan. The clarification on the Rapid Reservations not counting toward the

1 quarterly 600-reservation limits should answer some of the industry concerns about the program.  
2 APS' requirement for new test standards for equipment should help improve the quality of  
3 equipment in the incentive program. Other administrative changes to the DEAP appear to be  
4 appropriate. Staff recommends that the changes be approved. Although we appreciate Staff's  
5 thoughtful discussion on this issue, we disagree with Staff regarding the Rapid Reservation  
6 program.

### 7 **Large Distributed Energy Plants**

8 82. In August 2008, APS issued an RFP for Distributed Energy Resources ("DE RFP").  
9 APS received 22 distinct proposals. Winners were selected and contracts were signed between  
10 APS and winning bidders. As part of the APS 2010 REST Plan, two new transaction types were  
11 approved:

- 12 A. Customer Aggregation model. This allows the developer to phase-in projects  
13 over several years.
- 14 B. REC and Energy Contract model. The developer sites a PV system at a  
15 customer's facility and APS would purchase all of the energy and associated  
16 RECs generated by the system. APS and the customers would have a separate  
agreement for the customer to purchase all of the energy from the DE system.

17 83. Recently, there has been extensive discussion about setting a size cap for large  
18 distributed projects.

19 84. Staff has considered the suggestion of placing size caps on large distributed  
20 renewable systems. On a going forward basis, for projects with contracts being signed in the  
21 future, this is a possibility. However, Staff believes that attempting to place caps on winners of  
22 RFPs with signed contracts may set a bad precedent.

23 85. Placing caps on future large distributed energy systems can be done. However,  
24 doing so may cause an increase to the delivered cost per kWh. By setting a cap, bidders will lose  
25 the economies of scale advantage and this will result in higher bids.

26 86. Should the Commission decide to place size caps on future distributed energy  
27 projects, Staff would recommend a cap of 10 MW per developer. This should allow some  
28

1 economies of scale, while limiting the portion of the budget that will be captured by a single  
2 applicant.

### 3 **Snowflake Biomass**

4 87. In 2008, APS contracted with a biomass power plant in Snowflake, Arizona to  
5 purchase 60 percent of the plant's output. Earlier this year, the plant filed Chapter 11 and the other  
6 partner, Salt River Project, terminated its power purchase agreement ("PPA").

7 88. To maintain APS' renewable portfolio, APS has entered into a one-year contract to  
8 purchase all of the plant's output. This represents an additional ten megawatts. The terms are  
9 consistent with the original 2008 power purchase agreement.

10 89. During the Special Open Meeting on the electric utilities' 2011 REST  
11 Implementation Plans, APS updated the Commission on the status of its utility scale projects,  
12 including Solana, the 250 Megawatt concentrated solar facility that was granted a Certificate of  
13 Environmental Compatibility ("CEC") by the Commission in 2008 and that was the subject of  
14 Decision No. 70639. APS informed the Commission that it remains confident that Solana will  
15 achieve the necessary financing and permits required to move forward by the December 15, 2010  
16 deadline set forth in the PPA that APS signed with Solana. However, APS also indicated that it  
17 has prepared a "Plan B" in the event that Solana does not proceed to financial close. According to  
18 the Solana procurement replacement Plan, APS would backfill the gap created by a potential  
19 Solana failure in the following manner: one-third would be procured from solar projects that were  
20 bid into the Company's most recent RFP; one-third would be procured from projects that have an  
21 existing CEC from the Commission; and one-third would be derived from utility-owned solar  
22 projects.

23 90. While the Commission remains hopeful that Solana will achieve all of its necessary  
24 financing and permits, we believe it is also important for APS to move forward with achieving  
25 compliance with the RES, and with the renewable energy provisions contained within the  
26 Company's recent rate case Settlement Agreement. Therefore, we will require APS to proceed  
27 with its proposed plan to backfill the 250 Megawatt gap that would be created by the loss of the  
28 Solana project in the event that Solana falls through, except that we believe that for the portion of

1 its plan involving utility-owned solar, the Company should procure at least 25 Megawatts through  
2 its Powerful Communities Feed-in Tariff program over a three year period beginning in 2012. We  
3 are further of the view that APS should utilize the most recent price approved by the Commission  
4 for the FIT, and that the Company should make a proposal to the Commission for the appropriate  
5 FIT price for the 2012 through 2014 FIT projects in its 2012 REST Implementation Plan.

6 91. The Commission also believes that the Company should seek to recover the costs  
7 associated with this portion of the replacement procurement plan through the Company's Power  
8 Supply Adjustment mechanism in its next rate case, rather than through the RES adjustor  
9 mechanism, as power procured from wholesale renewable distributed generators is not readily  
10 distinguishable from any other form of power procured on the wholesale market.

11 92. We believe that APS should begin its replacement procurement process within 30  
12 days of any failure of Solana to meet the December 15, 2010 deadline contained within the Solana  
13 PPA and should file a statement with the Commission in its 2012 REST Implementation Plan,  
14 describing which non-FIT related projects have been chosen pursuant to its Solana procurement  
15 replacement Plan and this Order.

16 **Innovative Renewable Energy Project Initiative**

17 93. The Innovative Renewable Energy Project Initiative is designed to facilitate the  
18 installation of technologies that are not specifically cost-optimized for the DE market. For  
19 example, PV panels may be installed in innovative configurations that produce a wide array of site  
20 specific and potential community benefits, but may be more expensive.

21 94. Through the Innovative Renewable Energy Projects Initiative, APS would seek to  
22 procure renewable resource installations designed to demonstrate innovative deployment  
23 opportunities and innovative technologies. The Company proposes to execute this program with  
24 the balance of the \$25 million remaining from the approved lifetime commitment authorization for  
25 the DE RFP. Inasmuch as these projects are used to serve a specific customer, their energy will be  
26 applied to the appropriate DE target. If the resulting resources are not categorized as DE, their  
27 output will be applied to the overall APS renewable energy target.

28

1           95.     The Commission is pleased with the results to date of the Company's research and  
2 development efforts on renewable energy and believes this research is worthy of continuation. We  
3 are specifically interested in seeing the utilities jointly conduct studies in the following areas,  
4 which will advance the Commission's ability to implement the Renewable Energy Standard, and to  
5 plan for Arizona's energy needs in the future.

- 6           • Water-energy nexus: The Commission would like the utilities to jointly procure or  
7           conduct a study of the water-energy nexus in Arizona, including an analysis of the  
8           amount of water that is and will be needed to supply Arizona consumers with  
9           energy, as well as a quantification of the amount of energy that is and will be  
10          needed to produce and supply water to Arizonans. The study should include an  
11          evaluation of the technical feasibility, operational consequences, water use impacts  
12          and electric cost impacts of dry and hybridized dry cooling. We would like the  
13          utilities to reach out to the Salt River Project ("SRP") to request its involvement in  
14          this study.
- 15          • Increasing the Renewable Energy Standard: The Commission believes that the  
16          RES has become a successful vehicle for diversifying regulated utilities' energy  
17          portfolios and thereby ensuring more stable rates, and protecting the utilities and  
18          their customers from costly environmental upgrades that will increasingly be  
19          needed for fossil-fuel generating units. Additionally, renewable energy is a means  
20          of supplying power that does not rely on the procurement of fuel from faraway  
21          locales, providing additional benefits to ratepayers in the form of greater state and  
22          national security. And the Commission is also aware that numerous Arizona  
23          landowners and entities are interested in developing renewable energy and selling it  
24          to an Arizona utility, but that this has become increasingly difficult, as the Arizona  
25          utilities will largely have met their RES obligations through PPA's or projects that  
26          have already been signed or approved. Therefore, we are interested in better  
27          understanding the costs and benefits associated with increasing the RES, and would  
28          like the utilities to jointly procure an independent study on this topic to be used in a  
29          future stakeholder process at the Commission. This study should include an  
30          analysis of how renewable energy from an expanded RES could help to backfill  
31          power related to the potential future decommissioning of any coal plants in  
32          Arizona, including the Four Corners Power Plant Units 1 through 3.

#### Comments of Other Parties

33           96.     The Arizona Solar Power Society ("ASPS") filed comments proposing increased  
34 spending on renewables. However, their backup calculations indicated a misunderstanding of how

1 the REST Adjustor operates. ASPS presumed that all APS customers pay the maximum REST  
2 Surcharge, that is, the limits shown in Table 2. That is not correct.

3 97. Green Choice Solar filed two comment letters. The first letter disagreed with the  
4 APS Feed-In Tariff, and recommended a cap of 75 MW and a rate of \$0.25 per kWh. Staff  
5 disagrees with the Green Choice Feed-In Tariff proposal. Staff is recommending no Feed-In Tariff  
6 be instituted at this time, and a tariff with Green Choice's rate and capacity could be even more  
7 costly than APS' proposal, increasing customer costs by as much as \$32.5 million per year.

8 98. Green Choice's second letter criticized the shifting of PBI incentives from non-  
9 residential to residential customers. Green Choice recommended reservation fees to discourage  
10 applications for what it termed "dubious projects". Green Choice also recommended that the  
11 Schools and Government Program exclude any utility-ownership options. Staff believes an  
12 increased residential incentive budget is appropriate and as indicated above, the favorable  
13 economics of residential PV incentives warrant an increase in the 2011 residential up-front  
14 incentives of \$5 million as Staff recommends. Staff does not disagree that a reservation fee could  
15 discourage "dubious" proposals, but does not have a recommendation for a fee configuration at  
16 this time. Staff does not agree with Green Choice that excluding utility-owned projects in the  
17 Schools and Government Program is wise. Financing is difficult, and utility ownership offers  
18 customers a way to install a renewable system should other financing options be unavailable.

19 99. We agree with Staff's reasoning, however, we believe that APS' PBI reservation  
20 process can be strengthened and should be done so sooner rather than later. Therefore, we believe  
21 APS should institute a reservation fee or security deposit proposal for its non-residential PBI  
22 program. In addition, we believe that APS should require all applications for its non-residential  
23 PBI program to include an executed contract between the customer and solar installer/developer  
24 and technical specifications for the project.

25 100. Arizona Discount Solar filed a letter with concerns about poor communication  
26 between utilities and solar companies, and the exhaustion of funds for incentives. Staff believes  
27 that Arizona Discount's concerns have been addressed by Commission Decision No. 71913, dated  
28 September 28, 2010, which clarified certain incentive payments. APS' actions will also help, e.g.,

1 the solar web page information (<http://arizonagoessolar.org/>), the “trigger” reduction mechanism,  
2 and the lower per-watt incentive payments. Staff expects these measures will allow the Arizona  
3 solar market to move at a more reasonable and manageable pace.

#### 4 Recommendations

5 101. Because APS’ plan allows it to meet the Commission-approved REST requirements  
6 in 2011, Staff recommends that APS’ 2011 REST Implementation Plan be approved with the  
7 Staff’s recommended program and budget adjustments as presented herein. This Plan cost is \$96.4  
8 million, and it continues to meet full REST requirements.

9 102. Staff also makes the following recommendations:

- 10 A. That the RES Adjustor Rate be reset to \$0.0101320 per kWh with monthly  
11 caps of \$4.05 for residential customers, \$150.53 for non-residential customers,  
12 and \$451.60 for non-residential customers with demands of 3 MW or greater.
- 13 B. Approval of the APS request to make the First Funding Cycle of the 2012 Plan  
14 year occur during the final quarter of 2011. This would be a one-time only  
15 approval.
- 16 C. Staff recommends approval of the Staff Alternative Budget Trigger  
17 Mechanism for residential PV incentives.
- 18 D. Approval of the APS proposed set aside of \$6 million in the budget for non-PV  
19 technologies.
- 20 E. Approval of the rapid reservation program as proposed.
- 21 F. Approval of the PPA for the Snowflake biomass plant output.
- 22 G. That the APS feed-in tariff pilot program not be approved at this time.  
23 However, if the Commission wishes to approve a FIT pilot program, Staff  
24 recommends approving the APS proposal with the following modification: the  
25 standard price offer should be a maximum of \$0.195/kWh, i.e., APS should be  
26 allowed to enter into a FIT of less than \$0.195/kWh.
- 27 H. That the incentive caps be set at 50 percent of total system cost for both  
28 residential and non-residential systems.
- I. Approval of the Customized Incentives for the Home Builders program as  
proposed.
- J. Approval of APS changes to the definitions of medium and large projects in  
the non-residential PBI program.

- 1 K. Approval of APS' request to eliminate the "10/20" PBI contract.
- 2 L. Approval of an increase of \$5 million in residential up-front incentives; from
- 3 \$34 million to \$39 million.
- 4 M. APS be ordered to file tariffs in compliance with the Decision in this case
- 5 within 15 days of the effective date of that Decision. The filed tariffs would be
- 6 for:
- 7 a) the proposed fees associated with the system interconnection process,
- 8 b) the Schools and Government proposed rates, and
- 9 c) the updated REST surcharge

10 103. We believe that in the interests of additional transparency, APS should include, as

11 part of future annual REST plan filings, a list of any cases within the previous three calendar years

12 where APS has received damages or other considerations as a result of non-compliance related to

13 RES contracts. We further believe that APS should disclose, as part of future annual REST plan

14 filings, whether its affiliates, its employees, or its directors have any financial or other interest in

15 renewable energy projects.

16 104. The Commission believes that a summary of all REST filings should accompany

17 the filings required in R14-2-1812 (Compliance Reports) and R14-2-1813 (Implementation Plans)

18 in the REST Rules. This additional filing would include a 1-2 page RES summary, and a Power

19 Point presentation of the REST filing. In addition, all spreadsheets and graphs should be provided

20 electronically in native format, such as Excel or PowerPoint.

21 105. We believe that APS customer bills should reflect the fuel (both in-state and out of

22 state), transmission, reduced emissions and other savings which offset the REST surcharge. We

23 request that APS submit a report to the Commission by February 15, 2011, on the following: (1)

24 what costs would be included as REST surcharge offsets, (2) how it would calculate such savings,

25 (3) and how this information would be represented on customer bills.

#### 26 CONCLUSIONS OF LAW

27 1. APS is an Arizona public service corporation within the meaning of Article XV,

28 Section 2, of the Arizona Constitution.



1 IT IS FURTHER ORDERED that Arizona Public Service Company's request to eliminate  
2 the "10/20" PBI contract is approved.

3 IT IS FURTHER ORDERED that Arizona Public Service Company file, by January 28,  
4 2011, as a compliance item in this docket, a refundable reservation fee or security deposit proposal  
5 for its non-residential PBI program for Commission consideration.

6 IT IS FURTHER ORDERED that Arizona Public Service Company require that all  
7 applications for its non-residential PBI program include an executed contract between the  
8 customer and solar installer/developer and technical specifications for the project.

9 IT IS FURTHER ORDERED that the Incentive Reduction Trigger mechanism described in  
10 Findings of Fact Nos. 57, 58 and 59, shall be utilized by Arizona Public Service Company in  
11 implementation of its 2011 REST Plan.

12 IT IS FURTHER ORDERED that the Arizona Public Service Company 2011 REST  
13 Implementation Plan is approved as discussed herein at a budget of \$96.4 million.

14 IT IS FURTHER ORDERED that Arizona Public Service Company shall proceed with its  
15 proposed plan to backfill the 250 Megawatt gap that would be created by the loss of the Solana  
16 project, except that we believe that for the portion of the procurement replacement plan that holds  
17 utility owned projects, 25 Megawatts should be derived through the Company's FIT (Powerful  
18 Communities Program) beginning in 2012 through 2014.

19 IT IS FURTHER ORDERED that the Company shall utilize the most recent price approved  
20 by the Commission for the FIT-related projects, and that the Company shall make a proposal to the  
21 Commission for the appropriate FIT price for the 2012 through 2014 FIT projects in its 2012  
22 Implementation Plan.

23 IT IS FURTHER ORDERED that the Company shall seek to recover the costs associated  
24 with this portion of the replacement procurement plan through the Company's Power Supply  
25 Adjustment mechanism in its next rate case.

26 ...

27 ...

28 ...

1 IT IS FURTHER ORDERED that Arizona Public Service Company shall begin its  
2 replacement procurement process by January 15, 2011, if the Solana project does not meet the  
3 December 15, 2010 deadline contained within the Solana PPA, and shall file a statement with the  
4 Commission in its 2012 REST Implementation Plan proposal, describing which non-FIT projects  
5 have been chosen pursuant to its Solana procurement replacement Plan and this Order.

6 IT IS FURTHER ORDERED that Arizona Public Service Company shall proceed with its  
7 proposed FIT, as part of the APS 2011 Implementation Plan, except that energy procured by  
8 Arizona Public Service Company from the FIT program shall be counted toward the Company's  
9 utility-scale requirements under the REST, and shall not be counted toward its distributed  
10 generation requirements.

11 IT IS FURTHER ORDERED that Arizona Public Service Company shall maintain funding  
12 for its residential solar program at \$40 million at least through 2012.

13 IT IS FURTHER ORDERED that Arizona Public Service Company shall conduct or  
14 procure the studies outlined in this Order, in conjunction with a stakeholder process, and file them  
15 with the Commission no later than September 1, 2011.

16 IT IS FURTHER ORDERED that Arizona Public Service Company shall file tariffs in  
17 compliance with the Decision in this case within 15 days of the effective date of this Decision.

18 The filed tariffs shall be for:

- 19 a) the proposed fees associated with the system interconnection process,  
20 b) the Schools and Government proposed rates, and  
21 c) the updated REST surcharge

22 IT IS FURTHER ORDERED that Arizona Public Service Company shall include, as part  
23 of future annual REST plan filings, a list of any cases within the previous three calendar years  
24 where APS has received damages or other considerations as a result of non-compliance related to  
25 RES contracts.

26 IT IS FURTHER ORDERED that Arizona Public Service Company shall disclose, as part  
27 of future annual REST plan filings, whether its affiliates, its employees, or its directors have any  
28 financial or other interest in renewable energy projects.

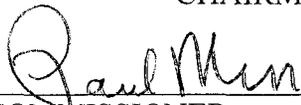
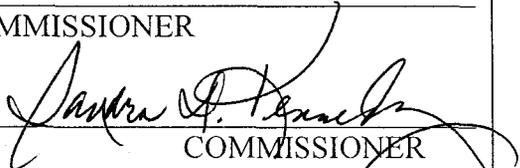
1 IT IS FURTHER ORDERED that Arizona Public Service Company shall file a one to two  
 2 page RES summary that will accompany the filings required in R14-2-1812 (Compliance Reports)  
 3 and R14-2-1813 (Implementation Plans), and a PowerPoint presentation of the REST filing. In  
 4 this filing, all spreadsheets shall be provided electronically in native format, such as Excel or  
 5 PowerPoint.

6 IT IS FURTHER ORDERED that Arizona Public Service Company shall report to the  
 7 Commission no later than February 15, 2011, on including REST surcharge offsets in customer  
 8 bills as discussed in Finding of Fact No. 105.

9 IT IS FURTHER ORDERED that the Marketing and Outreach budget be reduced from  
 10 \$5.3 million to \$4.3 million, the Residential Up-front incentive budget shall be increased by \$1  
 11 million from \$39 million to \$40 million, and that the \$1 million reduction of the Marketing and  
 12 Outreach budget shall come from advertising.

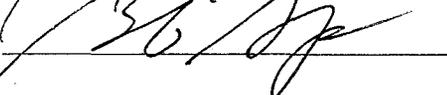
13 IT IS FURTHER ORDERED that this Decision become effective immediately.

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

15   
 16 \_\_\_\_\_ CHAIRMAN 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 10<sup>th</sup> day of December, 2010.

23   
 24 \_\_\_\_\_  
 25 ERNEST G. JOHNSON  
 26 EXECUTIVE DIRECTOR

25 DISSENT:   
 26 DISSENT: 

28 SMO:RTW:JJP:lhm\WVC

1 SERVICE LIST FOR: Arizona Public Service Company  
2 DOCKET NOS. E-01345A-10-0166 and E-01345A-10-0262

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4 Pinnacle West Capital Corporation  
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12 Mr. Steven M. Olea  
13 Director, Utilities Division  
14 Arizona Corporation Commission  
15 1200 West Washington Street  
16 Phoenix, Arizona 85007

17 Ms. Janice M. Alward  
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