

ORIGINAL

OPEN MEETING



MEMORANDUM

Arizona Corporation  
DOCKETED

MAY 09 2012 MAY -9 P 4: 04

DOCKETED BY: [Signature]  
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: May 9, 2012

RE: ARIZONA PUBLIC SERVICE COMPANY - APPLICATION FOR APPROVAL OF UPDATED GREEN POWER RATE SCHEDULES GPS-1, GPS-2, AND GPS-3 (DOCKET NO. E-01345A-10-0394)

On September 24, 2010, Arizona Public Service Company ("APS") filed an application to update its Green Power Block Schedule ("GPS-1"), Green Power Percent Schedule ("GPS-2"), and Green Power Block Schedule for Special Events ("GPS-3"). The rates are reset annually pursuant to Decision No. 69663 (June 28, 2007). The application proposes to update the rates and maintain the updated rates through 2013. In its application, APS waived the 30-day time clock provisions as prescribed in A.R.S. §40-367.

APS's Green Power rate schedules are optional schedules that provide customers with the opportunity to purchase electricity generated from renewable resources. There were 3,277 customers on GPS-1, GPS-2 and GPS-3 combined by the end of 2010 and 3,007 customers by the end of 2011. Sales were 122,764 MWh in 2010 and 134,729 MWh in 2011. APS will limit participation on the rate schedules based on the Green Power available to provide service.

Sales through the GPS schedules do not count toward meeting APS's Renewable Energy Standard and Tariff ("REST") requirements so that APS's GPS schedules can qualify for Green-e Energy certification.<sup>1</sup>

Updated Green Premium Rate

APS proposes that the rates to be used in GPS-1, GPS-2 and GPS-3: be based on a green premium rate of \$0.0102 per kWh, which is an increase over the current green premium rate of \$0.004 per kWh approved in 2009. The proposed rate is similar to the rate of \$0.010 that was in place in 2008.

APS's green premium rate is based on contract costs associated with specific renewable generation resources. The difference between the cost for renewable resources and the cost for conventional resources (plus \$0.001 per kWh for program marketing costs) is the green premium. The volatility in the green premium rate from \$0.010 to \$0.004 to the proposed

<sup>1</sup> Green-e Energy, administered by the Center for Resource Solutions, is a national independent certification program for renewable energy. Green-e Energy-certified renewable energy credits cannot also be counted toward a state's renewable portfolio standard.

\$0.0102 is the result of the volatility in costs for conventional resources. As conventional resource costs (especially natural gas prices) go down, the green premium goes up because the renewable resource costs have stayed relatively constant. The calculation is illustrated in the following formula, in dollars per /kWh.

$$\text{Green Premium} = \text{Renewable Resource Cost} - \text{Conventional Resource Cost} + \text{Marketing Cost}$$

APS's proposed green premium rate reflects blended renewable resource costs, based on a projection of costs from 2011 to 2013. The rates in the Green Power rate schedules would remain in effect through 2013 to help stabilize the rates, providing more price predictability in an effort to improve customer participation in the program.

In Exhibit A of its application, APS identifies \$19.8 million of above-market project costs for renewable projects for the years 2011 through 2013. APS has indicated to Staff that the renewable projects used for the Green Power program consist of the following technologies: Wind (66%), Geothermal (7%), Biomass (24%), and Biogas (3%).

The \$19.8 million above-market cost number is divided by the 2011 through 2013 contracted renewable energy output of 2,151,270,000 kilowatt-hours to derive a \$0.0092 per kWh rate. The program marketing cost of \$0.001 per kWh is added to the \$0.0092 to get the proposed green premium rate of \$0.0102 per kWh.

The \$0.001 per kWh for program marketing costs is expected to provide about \$100,000 to \$123,000 per year to enhance customer awareness and participation in the Green Power program. The funds are used for activities such as direct mail, special events, and newspaper and magazine advertisements.

The proposed green premium rate of \$0.0102 per kWh represents an increase of 155 percent compared to the existing \$0.004 per kWh rate which was set in 2009. However, the 2009 rate was 60 percent less than the 2008 rate of \$0.010 per kWh. The above-market costs are significantly affected by the volatility in the costs for conventional generation.

APS intends to notify all customers of the changes in the Green Power rates through a message on customer bills. In addition, APS account representatives would individually contact customers who currently subscribe to a large number of GPS-1 blocks or a large percentage under GPS-2. Customers may cancel Green Power service based on a premium rate increase.

#### GPS-1

Under GPS-1, customers can purchase electricity generated from renewable sources for their homes and/or businesses, in 100 kWh blocks, up to 100% of the customer's total monthly kWh supplied by APS. Service under GPS-1 is currently being billed at a rate of \$0.40 per month for each 100 kWh block of Green Power. This charge is based on the green premium rate

of \$0.004 per kWh. APS is proposing to increase the GPS-1 rate to \$1.02 per month for each 100 kWh block of Green Power, based on the green premium rate of \$0.0102 per kWh. All provisions of the customer's current applicable rate schedule apply in addition to the GPS-1 rate.

GPS-2

Under GPS-2, customers can purchase electricity generated from renewable sources for their homes and/or businesses as a percentage of the total monthly kWh supplied by APS. Customers can choose to have 100, 50, 35, or 10 percent of their total monthly kWh generated from renewable sources. All provisions of the customer's current applicable rate schedule apply in addition to the GPS-2 rate. The following table summarizes the rate categories under present and proposed GPS-2 rates.

**GPS-2 Rates**

Percent of Total kWh	Present Rate (\$/kWh)	APS-Proposed Rate (\$/kWh)
100	\$0.0040	\$0.0102
50	\$0.0020	\$0.0051
35	\$0.0014	\$0.0036
10*	\$0.0004	\$0.0010

\*only available to non-residential customers to qualify APS for Green-e certification

GPS-3

GPS-3 is available to APS customers requesting Green Power energy for special events (e.g. concerts, sporting events, or fairs), where the energy would be needed for a relatively limited period of time. GPS-3 does not impose a one-year minimum contract term as is required under GPS-1 and GPS-2, nor does GPS-3 prohibit customers from also receiving Green Power under schedules GPS-1 or GPS-2. Service under GPS-3 is billed in blocks of 100 kWh, currently at a rate of \$0.40 for each block. APS proposes to increase the rate to \$1.02 per block, with a minimum purchase of \$500 per transaction. All provisions of the customer's current applicable rate schedule apply in addition to the GPS-3 rate.

A sentence was inadvertently left off of the GPS-3 rate schedule that was attached to APS's application. The following sentence should be included in the tariff to be filed in compliance with the Decision in this case:

The green kWh purchased under Schedule GPS-3 may be applied to one or more events at the Customer's discretion and there is no time limit for applying such kWh to future events.

Recommendations

Staff recommends approval of the proposed rates for GPS-1, GPS-2, and GPS-3 as discussed herein.

Staff also recommends that the revised GPS-1, GPS-2 and GPS-3 rates become effective 60 days after the effective date of the Decision in this case.

Staff further recommends that the revised rates remain in effect through 2013.

In addition, Staff recommends that APS file tariff pages for GPS-1, GPS-2 and GPS-3, consistent with the Decision in this matter, within 15 days from the effective date of the Decision.



Steven M. Olea  
Director  
Utilities Division

SMO:BK:sms/SH

ORIGINATOR: Barbara Keene



1 by the end of 2011. Sales were 122,764 MWh in 2010 and 134,729 MWh in 2011. APS will limit  
2 participation on the rate schedules based on the Green Power available to provide service.

3 4. Sales through the GPS schedules do not count toward meeting APS's Renewable  
4 Energy Standard and Tariff ("REST") requirements so that APS's GPS schedules can qualify for  
5 Green-e Energy certification.<sup>1</sup>

6 Updated Green Premium Rate

7 5. APS proposes that the rates to be used in GPS-1, GPS-2 and GPS-3: be based on a  
8 green premium rate of \$0.0102 per kWh, which is an increase over the current green premium rate  
9 of \$0.004 per kWh approved in 2009. The proposed rate is similar to the rate of \$0.010 that was in  
10 place in 2008.

11 6. APS's green premium rate is based on contract costs associated with specific  
12 renewable generation resources. The difference between the cost for renewable resources and the  
13 cost for conventional resources (plus \$0.001 per kWh for program marketing costs) is the green  
14 premium. The volatility in the green premium rate from \$0.010 to \$0.004 to the proposed \$0.0102  
15 is the result of the volatility in costs for conventional resources. As conventional resource costs  
16 (especially natural gas prices) go down, the green premium goes up because the renewable  
17 resource costs have stayed relatively constant. The calculation is illustrated in the following  
18 formula, in dollars per /kWh.

19 
$$\text{Green Premium} = \text{Renewable Resource Cost} - \text{Conventional Resource Cost} + \text{Marketing Cost}$$

20 7. APS's proposed green premium rate reflects blended renewable resource costs,  
21 based on a projection of costs from 2011 to 2013. The rates in the Green Power rate schedules  
22 would remain in effect through 2013 to help stabilize the rates, providing more price predictability  
23 in an effort to improve customer participation in the program.

24 8. In Exhibit A of its application, APS identifies \$19.8 million of above-market  
25 project costs for renewable projects for the years 2011 through 2013. APS has indicated to Staff  
26

27 <sup>1</sup> Green-e Energy, administered by the Center for Resource Solutions, is a national independent certification  
28 program for renewable energy. Green-e Energy-certified renewable energy credits cannot also be counted toward  
a state's renewable portfolio standard.

1 that the renewable projects used for the Green Power program consist of the following  
2 technologies: Wind (66%), Geothermal (7%), Biomass (24%), and Biogas (3%).

3 9. The \$19.8 million above-market cost number is divided by the 2011 through 2013  
4 contracted renewable energy output of 2,151,270,000 kilowatt-hours to derive a \$0.0092 per kWh  
5 rate. The program marketing cost of \$0.001 per kWh is added to the \$0.0092 to get the proposed  
6 green premium rate of \$0.0102 per kWh.

7 10. The \$0.001 per kWh for program marketing costs is expected to provide about  
8 \$100,000 to \$123,000 per year to enhance customer awareness and participation in the Green  
9 Power program. The funds are used for activities such as direct mail, special events, and  
10 newspaper and magazine advertisements.

11 11. The proposed green premium rate of \$0.0102 per kWh represents an increase of 155  
12 percent compared to the existing \$0.004 per kWh rate which was set in 2009. However, the 2009  
13 rate was 60 percent less than the 2008 rate of \$0.010 per kWh. The above-market costs are  
14 significantly affected by the volatility in the costs for conventional generation.

15 12. APS intends to notify all customers of the changes in the Green Power rates through  
16 a message on customer bills. In addition, APS account representatives would individually contact  
17 customers who currently subscribe to a large number of GPS-1 blocks or a large percentage under  
18 GPS-2. Customers may cancel Green Power service based on a premium rate increase.

19 GPS-1

20 13. Under GPS-1, customers can purchase electricity generated from renewable sources  
21 for their homes and/or businesses, in 100 kWh blocks, up to 100% of the customer's total monthly  
22 kWh supplied by APS. Service under GPS-1 is currently being billed at a rate of \$0.40 per month  
23 for each 100 kWh block of Green Power. This charge is based on the green premium rate of  
24 \$0.004 per kWh. APS is proposing to increase the GPS-1 rate to \$1.02 per month for each 100  
25 kWh block of Green Power, based on the green premium rate of \$0.0102 per kWh. All provisions  
26 of the customer's current applicable rate schedule apply in addition to the GPS-1 rate.

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GPS-2

14. Under GPS-2, customers can purchase electricity generated from renewable sources for their homes and/or businesses as a percentage of the total monthly kWh supplied by APS. Customers can choose to have 100, 50, 35, or 10 percent of their total monthly kWh generated from renewable sources. All provisions of the customer's current applicable rate schedule apply in addition to the GPS-2 rate. The following table summarizes the rate categories under present and proposed GPS-2 rates.

**GPS-2 Rates**

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15. GPS-3 is available to APS customers requesting Green Power energy for special events (e.g. concerts, sporting events, or fairs), where the energy would be needed for a relatively limited period of time. GPS-3 does not impose a one-year minimum contract term as is required under GPS-1 and GPS-2, nor does GPS-3 prohibit customers from also receiving Green Power under schedules GPS-1 or GPS-2. Service under GPS-3 is billed in blocks of 100 kWh, currently at a rate of \$0.40 for each block. APS proposes to increase the rate to \$1.02 per block, with a minimum purchase of \$500 per transaction. All provisions of the customer's current applicable rate schedule apply in addition to the GPS-3 rate.

16. A sentence was inadvertently left off of the GPS-3 rate schedule that was attached to APS's application. The following sentence should be included in the tariff to be filed in compliance with the Decision in this case:

The green kWh purchased under Schedule GPS-3 may be applied to one or more events at the Customer's discretion and there is no time limit for applying such kWh to future events.

1 Recommendations

2 17. Staff has recommended approval of the proposed rates for GPS-1, GPS-2, and GPS-  
3 as discussed herein.

4 18. Staff has also recommended that the revised GPS-1, GPS-2 and GPS-3 rates  
5 become effective 60 days after the effective date of the Decision in this case.

6 19. Staff has further recommended that the revised rates remain in effect through 2013.

7 20. In addition, Staff has recommended that APS file tariff pages for GPS-1, GPS-2 and  
8 GPS-3, consistent with the Decision in this matter, within 15 days from the effective date of the  
9 Decision.

10 CONCLUSIONS OF LAW

11 1. Arizona Public Service Company is an Arizona public service corporation within  
12 the meaning of Article XV, Section 2, of the Arizona constitution.

13 2. The Commission has jurisdiction over Arizona Public Service Company and over  
14 the subject matter of the application.

15 3. The Commission, having reviewed Arizona Public Service Company's application  
16 and Staff's Memorandum dated May 9, 2012, concludes that it is in the public interest to approve  
17 updated rates for GPS-1, GPS-2, and GPS-3.

18 ORDER

19 IT IS THEREFORE ORDERED that Arizona Public Service Company's proposed GPS-1,  
20 GPS-2, and GPS-3 rate schedules as revised and discussed herein are approved.

21 IT IS FURTHER ORDERED that the revised GPS-1, GPS-2 and GPS-3 rates shall become  
22 effective 60 days after the effective date of the Decision in this case.

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1 IT IS FURTHER ORDERED that the revised GPS-1, GPS-2 and GPS-3 rates shall remain  
2 in effect through 2013.

3 IT IS FURTHER ORDERED that Arizona Public Service Company shall file tariff pages  
4 for GPS-1, GPS-2 and GPS-3, consistent with the Decision in this matter, within 15 days from the  
5 effective date of the Decision.

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

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

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CHAIRMAN

COMMISSIONER

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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 \_\_\_\_\_, 2012.

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\_\_\_\_\_  
ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

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DISSENT: \_\_\_\_\_

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DISSENT: \_\_\_\_\_

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SMO:BK:sms/SH

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