

ORIGINAL

OPEN MEETING



0000140088

MEMORANDUM RECEIVED

TO: THE COMMISSION

2012 OCT 18 A 11: 54

Arizona Corporation Commission
DOCKETED

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

OCT 18 2012

DATE: October 18, 2012

DOCKETED BY *SM*

RE: ARIZONA PUBLIC SERVICE COMPANY – APPLICATIONS FOR APPROVAL OF UPDATED GREEN POWER RATE SCHEDULE GPS-1, GPS-2, AND GPS-3 (DOCKET NO. E-01345A-10-0394) AND APPROVAL OF ITS 2013 RENEWABLE ENERGY STANDARD IMPLEMENTATION FOR RESET OF RENEWABLE ENERGY ADJUSTOR (DOCKET NO. E-01345A-12-0290)

On June 29, 2012, Arizona Public Service Company (“APS” or “Company”) filed its 2013 Renewable Energy Standard and Tariff (“REST”) Implementation Plan at the Arizona Corporation Commission (“Commission” or “ACC”) for approval.

APS projects that by 2015 it will provide its customers with more than double the amount of renewable energy required by the REST Rules. Part of the renewables will meet additional requirements of Commission decisions.

On September 28, 2012, APS filed responses to Staff data requests. Included in the filing were updates of revenue requirements. The updates were changes to Exhibit 3E – “AzSun Program Revenue Requirements.” These changes accommodate the expected in-service date of December 1, 2013, for two plants under development as a part of the AzSun Program. The updates are in Table 1:

Table 1: Revision of AzSun Program Revenue Requirements

Project	Original 2013 Revenue Requirement	Updated 2013 Revenue Requirement
Foothills I/II	\$9.6M	\$10.4M
Hyder II	-	\$800,000

The APS 2013 REST Plan, as proposed, does not request any new program approvals. The 2013 REST Plan is intended to request only the incremental funding needed to meet the requirements of the REST rules and other Commission directives. Included in the 2013 REST Plan are:

- Two different options for Distributed Energy (“DE”) in 2013
- A Plan for Renewable Energy Credits (“RECs”) when incentives are zero

- Administrative changes to the APS 2012 Schools and Government (“S&G”) Program
- Increased solar installation education
- Description of the already approved Community Solar Program
- Estimated budgets for 2013 through 2017

In addition to the two APS-proposed budget options, Staff has proposed a third option. All three options will be explained later in this Staff Report. The REST budget will be paid for with funds from the Renewable Energy Standard Adjustment Schedule (“REAC-1”), from base rates, and from un-allocated funds from previous years.

Table 2. Comparison of APS and Staff Options Impacts on Budget
 (in Millions of Dollars)

Part A: Budget Differences

	APS Option 1	APS Option 2	Staff Option 3
Base RES Budget	\$97.2	\$97.2	\$96.85
DE Option 1 Addition	\$0	\$0	\$0
DE Option 2 Addition	\$0	\$9.6	\$0
DE Option 3 Adjustment	\$0	\$0	\$9.95
Sub Total	\$97.2	\$106.8	\$106.8
Revenue Requirement Revision	+\$1.6	+\$1.6	+\$1.6
Total Budget	\$98.8	\$108.4	\$108.4
Roll-over funds/credits	-\$6.0	-\$6.0	-\$6.0
REAC-1 & Base Rates Collection	\$92.8	\$102.4	\$102.4

Part B: REST Surcharge Details

Surcharge	\$0.009608	\$0.010663	\$0.010663
Residential Customer Cap	\$3.84	\$4.27	\$4.27
Non-Residential Customer Cap	\$142.74	\$158.42	\$158.42
Non-Residential Customer (with 3MW or greater demand) Cap	\$428.22	\$475.25	\$1,000.00*

*Note: Largest customer cap increases by \$200 per month every two months until reaching \$2,200 per month on January 1, 2014.

APS Distributed Energy (“DE”) Option 1

The APS DE Option 1 proposes no new incentives for residential and non-residential DE in 2013. APS claims that past commitments will meet the APS non-residential DE requirements through 2020 and the residential DE requirements through 2015.

Staff disagrees with DE Option 1. Although the residential photovoltaic ("PV") marketplace is currently extremely competitive and customers are buying a significant number of systems without a substantial incentive, this competitiveness does not extend to other renewable technologies, such as wind, solar water heating and solar daylighting to name a few. Indeed the whole non-residential market segment still needs a certain level of incentives in order to contribute toward meeting the overall 15 percent REST requirement in 2025.

The argument by APS that it already meets the residential DE requirements through 2015 and the non-residential DE requirements until 2020 is a distraction from the need of APS to meet the overall REST requirement by 2025. If APS is oversubscribed with DE renewable kWh to meet its DE requirement, those "extra" kWh can be applied toward meeting the overall REST requirement, thereby reducing the need to build new utility-scale renewable power plants and associated transmission lines or to buy utility-scale renewable kWh from third parties.

Staff believes that incentives should not be eliminated for all renewable technologies and all market segments when one market segment, and only one market segment (the residential PV market), is approaching cost-competitiveness. Staff believes that APS should be looking for the lowest cost kWh to meet its overall REST requirement.

The REST surcharge is the funding mechanism for most of the renewable kWh in the REST Program. With up-front incentives of \$0.20/Watt or lower, the residential photovoltaic kWh have the least impact on the steadily growing surcharge. The current incentive of \$0.20/Watt purchases the residential PV renewable kWh at an equivalent of \$0.0115/kWh.

According to APS' filing, DE Option 1 requests "no additional incentive funds for residential or non-residential DE in 2013." Staff recommends that the Commission reject APS' DE Option 1 as premature. Staff recommends that the Commission use 2013 as a year to review the impact of renewable incentives. With a Staff-proposed incentive of \$0.10/Watt, APS should be able to determine whether incentives would be helpful in 2014. Similarly, other incentive reductions, as proposed by Staff should help the solar industry prepare for a future where incentives are nominal and, eventually, zero.

APS DE Option 2

The APS DE Option 2 proposes to end incentives for residential and non-residential DE after 2013. The structure for the proposed 2013 incentives is designed to produce the same amount of installation activity in 2013 that occurred in 2012. This would include a smaller budget with lower incentive levels. For instance, residential PV incentives proposed by APS would start at the current incentive level of \$0.20/Watt. APS assumes that 2013 will be the last year that APS offers incentives.

Under DE Option 2, APS proposes to offer \$9 million in residential incentives. Of that total, \$5.3 million would be the allocation to the standard residential PV program. An additional \$3 million would be allocated toward non-PV technologies, which includes solar water heating.

The solar water heating incentive would decrease from the current \$0.50/kWh equivalent in energy savings to \$0.45/kWh. APS proposes devoting \$700,000 to the Energy Star Plus Solar Home Program for home builders. The PV incentive under this program would, as proposed by APS, decrease from \$0.85/Watt to \$0.30/Watt. Once all allocated funds are used, the home builders would apply for incentives under the standard PV incentive program. APS estimates that the residential budget would fund approximately 40 MW of new capacity for the APS system. This addition would ensure that APS would comply with its residential REST DE requirement through 2016.

Under DE Option 2, APS would allocate \$400,000 for non-residential, Up-Front Incentives (“UFIs”). APS proposes to redefine projects eligible for a UFI as those seeking a total incentive at or below \$75,000 and there would be an incentive of \$0.40/Watt for the UFIs.

APS proposes to split the non-residential Production Based Incentive (“PBIs”) into four separate capacity blocks. Each block would add 5 MW, using a \$0.07/kWh PBI Cap, and would increase the lifetime PBI commitment by \$6.9 million per block. The number of blocks selected by the Commission would define the number of nomination periods in 2013.

Without incentives in future years, APS proposes a “Track and Record” method for meeting the REST requirements. This would allow APS to track the renewable output of customers and use the recorded results to meet REST compliance. Staff recommends that the Commission approve “Track and Record” method proposed by APS for the residential PV market segment, to be effective for 2013 and beyond for compliance reporting beginning April 1, 2014.

Additional Information about the APS DE Options 1 and 2

Based on the proposals in DE Options 1 and 2, the average monthly REST charge per customer class will be:

Table 3: Average REST Charge by Customer Class

	2012 Approved ¹	2013 APS Proposal Option 1	2013 APS Proposal Option 2
Residential Average REST Charge	\$3.52	\$3.52	\$3.92
General Service (less than 3MW) Average REST Charge	\$28.48	\$28.00	\$31.07
General Service (3 MW or greater) Average REST Charge	\$427.33	\$428.22	\$475.25

¹Using Commission-approved rates and surcharge limits as of January 1, 2012.

Customer bills will vary depending upon the Option chosen by the Commission. Table 4 shows the bill impacts for various types of customers.

Table 4: Customer Bill Impacts for Various Monthly Consumptions

Example Customer Types	kWh/month	2012 Approved ¹	2013 APS Proposal Option 1	2013 APS Proposal Option 2
Residence Consuming 400 kWh	400	\$3.84	\$3.84	\$4.27
Residence Consuming 869 kWh	869	\$3.84	\$3.84	\$4.27
Residence Consuming 2,000 kWh	2,000	\$3.84	\$3.84	\$4.27
Dentist Office	2,000	\$19.18	\$19.22	\$21.33
Hairstylist	3,900	\$37.39	\$37.47	\$41.59
Department Store	170,000	\$142.44	\$142.74	\$158.42
Mall	1,627,100	\$142.44	\$142.74	\$158.42
Retail Video Store	14,400	\$138.07	\$138.36	\$153.55
Large Hotel	1,067,100	\$142.44	\$142.74	\$158.42
Large Building Supply	346,500	\$142.44	\$142.74	\$158.42

¹Using Commission-approved rates and surcharge limits as of 1/1/2012

The Distributed Energy Up-Front Incentives have decreased significantly since 2008. In Table 5, both the residential and commercial incentives are shown from 2008-2012.

Table 5: Distributed Energy Up-Front Incentives (2008-2012)

	Residential DE UFI (per watt)	Commercial DE UFI (per watt)
2008	\$3.00	\$2.50
2009	\$3.00	\$2.50
2010	\$3.00	\$2.50
2011	\$1.75	\$1.75
2012	\$0.75	\$0.60
As of 7/23/2012	\$0.20	\$0.60

Note: Yearly incentive levels shown above are Commission-approved incentives at the beginning of the plan year.

The Production Based Incentives offered by APS since 2008 have also declined significantly. Those incentives are shown in Table 6.

Table 6: APS PBI Caps for Contracts

PBI Caps	10-year contract (per kWh)	15-year contract (per kWh)	20-year contract (per kWh)
2008	\$0.202	\$0.187	\$0.180
2009	\$0.202	\$0.187	\$0.180
2010	\$0.182	\$0.168	\$0.162
2011	\$0.140	\$0.130	\$0.125
2012	\$0.084	\$0.082	\$0.080

Residential Photovoltaic grid-tied incentives have decreased rapidly since 2010. Those reductions are shown in Table 7.

Table 7: Residential PV Grid-Tied Incentive History

Start Date	End Date	Incentive Level
Prior to April 2010	4/2/2010	\$3.00/watt
4/3/2010	4/12/2010	\$2.15/watt
4/13/2010	9/20/2010	\$1.95/watt
9/21/2010	1/16/2011	\$1.75/watt
1/17/2011	3/25/2011	\$1.60/watt
3/26/2011	6/10/2011	\$1.45/watt
6/11/2011	11/15/2011	\$1.00/watt
11/16/2011	1/19/2012	\$0.75/watt
1/20/2012	3/21/2012	\$0.60/watt
3/22/2012	6/11/2012	\$0.55/watt
6/12/2012	7/22/2012	\$0.50/watt
7/23/2012	--	\$0.20/watt

Recovery of Funds Through the 2013 REST Charge

APS has projected, in Table 8, that it will collect the following amounts per customer class through its REST Plan Adjustment Schedule REAC-1:

Table 8: REAC-1 Collections by Customer Group

	2012 Budget	2013 APS Option 1	2013 APS Option 2
Residential	\$45,754,025.65	\$45,915,994.14	\$50,718,762.28
Small Commercial	\$46,032,196.43	\$45,640,747.76	\$50,376,374.16
Large Commercial	\$1,213,772.92	\$1,243,258.10	\$1,304,863.56
Total	\$93,000,000.00	\$92,800,000.00	\$102,400,000.00

The contributions by customer class in percentages are shown in Table 9:

Table 9: Contribution by Customer Class (percentage)

Contribution by Customer Class (%)	2012 Budget	2013 APS Option 1	2013 APS Option 2	2013 Projected Sales (MWH)
Residential	\$45,754,026 49.2%	\$45,915,994 49.5%	\$50,718,762 49.5%	13,273,232 47.8%
Small Commercial	\$46,032,196 49.5%	\$45,640,748 49.2%	\$50,376,374 49.2%	11,428,939 41.1%
Large Commercial	\$1,213,778 1.3%	1,243,258 1.3%	1,304,864 1.3%	3,094,000 11.1%
Total	\$93,000,000	\$92,800,000	\$102,400,000	\$27,796,171

Another way to look at the contributions is by cost per kWh, as shown in Table 10:

Table 10: Contribution by Customer Class (\$/kWh)

Contribution by Customer Class (\$/kWh)	2012 Budget (per kWh)	2013 APS Option 1 (per kWh)	2013 APS Option 2 (per kWh)
Residential	\$0.00345	\$0.00346	\$0.00382
Small Commercial	\$0.00403	\$0.00399	\$0.00441
Large Commercial	\$0.00039	\$0.00040	\$0.00042

APS Charges

kWh	\$0.009588	\$0.009608	\$0.010663
Residential Cap	\$3.84	\$3.84	\$4.27
Small Commercial Cap	\$142.44	\$142.74	\$158.42
Large Commercial Cap	\$427.33	\$428.22	\$475.25

The APS projections for the 2013 collections of RES Adjustor funds and Base Rate funds are based on the 2013 projected MWH sales, shown in Table 11:

Table 11: Projected 2013 Retail Sales (in MWH)

Customer Class	2013 Projected Sales (MWH)	
Residential	13,273,232	47.8%
Small Commercial	11,428,939	41.1%
Large Commercial	3,094,000	11.1%
	27,796,171	100.00%

APS projects that the Renewable Energy Standard Adjustment Schedule REAC-1 will collect the amounts shown in Table 12:

Table 12: REAC-1 Collections in 2013

	2012 Budget	2013 APS Option 1	2013 APS Option 2
Residential	\$42,888,905	\$43,050,873	\$47,853,641
Small Commercial	\$43,565,179	\$43,173,731	\$47,909,357
Large Commercial	\$545,916	\$575,396	\$637,002
<i>Total</i>	\$87,000,000.00	\$86,800,000.00	\$96,400,000.00

In addition to the REAC-1 collection, APS has \$6 million in base rates dedicated to renewables. The \$6 million in base rates will be collected as shown in Table 13:

Table 13: Collections from Base Rates

	2012 Budget	2013 APS Option 1	2013 APS Option 2
Residential	\$2,865,121	\$2,865,121	\$2,865,121
Small Commercial	\$2,467,017	\$2,467,017	\$2,467,017
Large Commercial	\$667,862	\$667,862	\$667,862
<i>Total</i>	\$6,000,000	\$6,000,000	\$6,000,000

The REAC-1 and Base Rate collections shown in Tables 12 and 13 will combine to total the collection shown in Table 14:

Table 14: Total Collection (REAC-1 plus Base Rates)

	2012 Budget	2013 APS Option 1	2013 APS Option 2
Residential	\$45,754,025.65	\$45,915,994.14	\$50,718,762.28
Small Commercial	\$46,032,196.43	\$45,640,747.76	\$50,376,374.16
Large Commercial	\$1,213,777.92	\$1,243,258.10	\$1,304,863.56
<i>Total</i>	\$93,000,000.00	\$92,800,000.00	\$102,400,000.00

Staff's Recommended Paradigm Shift for REST Programs

In the past years of REST Implementation Plan proposals, the driving force for allocation of the budgets has been the need to meet specific REST requirements both for DE resources and for the overall REST portfolio. Now, looking at the 2013 REST Plans, particularly for the

largest utilities, including APS, the focus of the budget allocation should, in Staff's opinion, shift to placing the emphasis on obtaining the least-cost renewable kWh to meet the REST requirement.

APS claims in its 2013 REST Plan that past commitments allow it to meet its residential DE requirements until 2015 and non-residential DE requirements until 2020. APS therefore concludes, in DE Option 1, that no new DE incentives are needed. However, DE Option 1 ignores the fact that those distributed kWh, even if in excess of the 30 percent DE requirement, can nonetheless be used to meet its overall REST requirement. Staff suggests that if the cost to the ratepayer in the REST surcharge resulting from DE incentives is less than any other renewable kWh option, APS should procure as much as possible of the cheapest kWh to meet its REST requirement. Therefore, Staff's recommendations, as shown in Staff's DE Option 3, will shift priorities in this new direction.

The concept of pursuing the least-cost renewable kWh is one of the fundamental elements of Staff's proposed paradigm shift for REST programs. These are the major elements of the paradigm shift:

- Work within existing lifetime DE renewable commitments
- Strive for least-cost kWh procurement, while providing some funding for all technologies and renewable applications
- Any reallocation from cancelled projects shall primarily be allocated according to a least kWh cost formula

Working within the existing lifetime DE Renewable commitments will ensure that new DE projects will be funded in the future, but this approach will also lower, rather than increase, lifetime commitments. For instance, as of the 2012 REST Plan, APS had received Commission approval for \$765.8 million in lifetime PBI commitments. However, in 2013, APS projects that it will spend down \$27.7 million of that commitment in payments for past contracts. Staff is recommending that \$26.7 million in new lifetime PBI and Schools and Government commitments be made a part of the 2013 REST Plan approval. That would reduce the total lifetime PBI commitment by \$1 million.

Staff recommends that, in 2013 and in future years, the majority of renewables funding be allocated to the least-cost kWh technologies. Some funding should be set-aside for the more costly technologies or applications in order to continue the markets for those technologies.

Staff recommends that any re-allocation of funds in the future, whether due to cancellations or lack of customer interest, should follow a procedure that re-allocates the majority of funds to the least-cost kWh option. For instance, APS currently has over \$1.9 million in unused funds in the residential non-PV category. Staff recommends that the final

order in this docket direct APS to re-allocate the unspent 2012 funds to the least-cost kWh option. Staff recommends that the following re-allocation scheduled be used:

- 50% of funds go to residential PV UFIs
- 16% of funds go to non-residential UFIs
- 14% of funds go to non-residential PBIs
- 10% of funds go to residential non-PV
- 10% of funds go Schools and Government

Staff further recommends that this re-allocation schedule be used, starting in 2013 and continue until further order of the Commission, for annual re-allocations of cancellations or unallocated funds on October 1st of each year. Now that a variety of renewable technologies and applications have been proven and incentivized, it is time to let competition and the least-cost kWh criteria drive the successful accomplishment of Arizona's REST goals.

APS' Proposed Administrative Changes to the 2012 Third-Party Schools and Government Program

APS also proposes administrative changes to the 2012 Third-Party Schools and Government Program ("2012 S&G Program"). APS proposes holding six bi-monthly nomination cycles for equal amounts of capacity in each cycle. The first cycle would commence in November 2012. APS recommends setting the incentive cap at the same level as the 2011 Schools and Government Program. Therefore, the incentive caps for a 15-year PBI would be \$0.106/kWh and for a 20-year PBI would be \$0.096/kWh.

As proposed, APS has calculated a lifetime PBI commitment of \$31.5 million for the 2012 S&G Program. However, APS indicates that the past DE request for proposal ("RFP") was under budget by about \$23.5 million. APS proposes to use the \$23.5 million to pay for most of the 2012 S&G Program budget, leaving only the need for an additional \$8 million in lifetime PBI commitments.

Staff's Recommended Changes to APS DE Option 2

Staff agrees with APS that a total of approximately \$9-\$10 million in residential incentives is an appropriate amount of funding for incentives in 2013 with Staff's proposed caps and re-allocation of funding to the least-cost alternatives. Staff believes that the allocation for the residential PV program is too small considering that the cost per kWh for residential PV at an incentive level of \$0.10/Watt provides APS REST eligible kWh at a cost lower than one cent per kWh. When the funding for the \$0.10/Watt incentive is exhausted, Staff recommends a residential PV incentive reduction to zero.

Staff believes that the \$3 million proposed by APS for residential non-PV incentives is too high in light of the fact that both APS and Staff proposed a reduction of the solar water heating incentive. APS proposes a solar water heating incentive of \$0.45/kWh while Staff

recommends an incentive of \$0.40/kWh. Staff recommends that the budget for residential non-PV incentives be reduced to \$2 million, with the \$1 million reduction being re-allocated to residential PV.

Table 15: Details of the APS and Staff Options

Part A: DE Budget Differences (in millions)

Budget Item	APS Option 1	APS Option 2	Staff's Option 3
Residential PV	\$0	\$5.3	\$6.96
Residential Non-PV	0	3.0	2.0
Energy Star/Homebuilder	0	.7	.5
Total Residential	0	9.0	9.46
Small Non-Residential	0	.4	.3
Large Non-Residential	0	.2	.2
Total	0	\$9.6	\$9.96

Part B: Incentive Differences

Budget Item	APS Option 1	APS Option 2	Staff's Option 3
Starting Res. PV Incentive	0	\$0.20/Watt	\$0.10/Watt
Solar Water Heating Incentive	0	\$0.45/kWh	\$0.40/kWh
Energy Star Homebuilder Incentive	0	\$0.30/Watt	\$0.25/Watt
Non-Residential Up-Front Incent.	0	\$0.40/Watt	\$0.25/Watt
Schools & Gov't 15-Year Incent. Cap	0	\$0.106/kWh	\$0.09/kWh
Schools & Gov't 20-Year Incent. Cap	0	\$0.096/kWh	\$0.085/kWh
Production Based Incentive Cap	0	\$0.07/kWh	\$0.065/kWh

Part C: Other Differences (in millions)

Budget Item	APS Option 1	APS Option 2	Staff's Option 3
Solar Installer Education	\$.350	\$.350	0
New Lifetime PBI Commitment 2012 S& G Program	0	\$8.0	\$6.0
New Lifetime PBI Commitment	0	*	\$20.7
APS Proposed 4 PBI Blocks	0	*	3 blocks

*APS made no proposal for numbers of blocks or lifetime PBI commitments.

Staff recommends a homebuilder program costing \$500,000 with the \$200,000 reduction from the APS proposal being reallocated to residential PV. Rather than the \$0.30/Watt incentive from the homebuilding program as proposed by APS, Staff recommends a \$0.25/Watt incentive.

APS has proposed a small non-residential budget allocation of \$400,000 with an incentive of \$0.40/Watt. Staff recommends a budget of \$300,000 and an incentive of \$0.25/Watt. A total of \$100,000 is re-allocated to residential PV.

APS proposes to include \$200,000 for large non-residential projects. Staff.

Staff's PBI Program Recommendation

Staff recommends that a total of 3 blocks of PBI funding, as proposed by APS, be approved. The 3 blocks at \$6.9 million each would total \$20.7 million in new PBI lifetime commitments. However, instead of allocating the funds into three funding cycles, Staff recommends that the \$20.7 million commitment be divided into four quarterly cycles. Rather than the APS proposed cap of \$0.07/kWh, Staff recommends a cap of \$0.065/kWh.

Staff has reviewed comments by SunEdison which criticizes the 750 kW cap for the medium and large PBI projects. SunEdison suggests a cap of 2 MW rather than the 750 kW cap. Staff is also aware that numerous smaller solar developers feel that having an extremely high cap will result in a few large projects "consuming" the whole PBI budget, leaving little market share for smaller projects.

Staff believes it has fashioned a compromise that can allow for some very large (up to 2 MW) projects and a substantial number of medium-sized (under 750 kW) projects. Staff recommends that the first two cycles of 2013 have a 2 MW cap. During the first two cycles, any developer, including medium-sized project developers, wanting to propose projects up to 2 MW could apply. Staff further recommends that the third and four cycles have a 750 kW cap. Staff's recommended cap levels would allow medium-sized project developers to compete in all four cycles and allow developers proposing larger projects (from 750 kW to 2 MW) to apply only in the first two cycles. The PBI lifetime commitment would be allocated at \$5 million each for the first two cycles and at \$5.35 million each for the third and fourth cycles.

APS has proposed a budget of \$31.5 million for the 2012 Third-Party Schools and Government Program. Staff recommends reducing that budget to \$29.5 million. This will require \$6 million in new PBI lifetime commitments, rather than the \$8 million as requested by APS. APS proposed an incentive cap of \$0.106/kWh for 15-year contracts. Staff believes the incentive is too high for a competitive third party program. Staff recommends a \$0.09/kWh cap for 15-year contracts. Instead of the APS-proposed \$0.096/kWh cap for 20 year contracts, Staff proposes a \$0.085/kWh cap.

APS' Proposed Administrative Changes to the Distributed Energy Administrative Plan

APS also proposes several administrative changes to the Distributed Energy Administration Plan ("DEAP"). First, APS proposes to redefine small projects as those that seek UFIs of \$75,000 or less. Second, APS proposes to eliminate off-grid incentives due to lack of interest by customers. Third, as requested by industry stakeholders, APS proposes to extend the

construction timeline for multi-family housing, Energy Star-rated projects from 180 days to 365 days. Fourth, APS proposes to pay incentives directly to the installer for owned systems and to the lessor for leased systems. Fifth, APS proposes that if a customer changes his solar installer or dealer, the customer must re-apply for an incentive as if doing so for the first time. Finally, APS requests permission to establish a formal stakeholder procedure in order to implement future changes to the DEAP.

Staff agrees with all APS-proposed changes to the DEAP except that Staff does not believe a formal stakeholder procedure to make changes to the DEAP is needed. APS currently has the ability to meet with stakeholders, solicit comments, and discuss possible DEAP changes. A Commission order to perform this process is not needed. APS will still need to docket proposed future changes and get ACC approval. Staff recommends against the Commission ordering the formation of another stakeholder group.

APS' Proposed Changes to the Solar Installer Education Program

APS proposes making the Qualified Solar Installer ("QSI") program mandatory for all PV installers who install systems in the APS distribution system. This, according to APS, would require a program expansion and a total budget of \$300,500. APS believes that the QSI program "protects customers from less qualified installers." APS would also like to host training for Authorities Having Jurisdiction. This training would cost an additional \$50,000.

Staff disagrees with APS that the QSI program should be mandatory. In a time when APS is recommending no incentives for DE systems, it is questionable whether solar dealers should be required to complete such a program at the same time funding to encourage more systems is being removed.

Staff recommends that the budget allocation for QSI training (\$300,500) and for training for Authorities Having Jurisdiction (\$50,000) be transferred to residential PV incentives where it can encourage more solar installations.

APS' Community Solar Program

In its 2013 REST Plan, APS describes its previously approved 25 MW Community Solar Program. The 25 MW program would be split into 3-7 separate projects and third parties would build each part of the Community Solar Program. APS will also add Community Solar to its Green Power rate schedule.

Consolidation with the Green Power Docket

On September 28, 2012, the Commission ordered the consolidation of Docket Nos. E-01345A-10-0394 (the Green Power Docket) and E-01345A-12-0290 (the 2013 REST Docket). Staff docketed its response to the Green Power Docket on May 9, 2012.

Budget Issues

In Decision No. 72022, the Commission approved the Innovative Renewable Energy Projects Initiative. If APS moves forward with this project, APS would proceed with an RFP in the first half of 2013. The proposed budget is \$75,000.

Staff supports the funding for the previously-approved Innovative Renewable Energy Projects initiative.

The 2013 REST Plan budget includes \$15,000 for APS' continued support of the ArizonaGoesSolar.org website. Finally, APS requests support for its Commercialization and Integration ("C&I") program. The 2013 C&I budget is \$525,000 for grid integration and technology deployment. Staff supports these continued activities.

APS has some additional funds to offset the 2013 budget. Included is \$3.4 million in production tax credits from operational AzSun projects and \$1 million of unallocated program costs. The remaining unallocated costs would be reserved to offset the 2014 budget.

Staff notes that the September 28, 2012, update of the AzSun Program Revenue Requirements needs to be added to the budget. This would increase the 2013 budget by \$1.6 million. Staff recommends that the \$1.6 million needed to pay for this increase come from the \$10 million in unallocated costs that APS proposed to reserve for offsets in the future 2014 budget.

Staff Recommendation on Adjusting Monthly REST Surcharge Caps

Staff notes, in reviewing the proposed collection of REST funds from various customer categories, that the largest commercial customers are contributing a relatively low net cost per kWh toward the REST program. This is because, historically, the monthly caps for the largest customers have been extremely low. Also, in the past, changes to the APS REST surcharge have been constrained by a "proportionality" requirement that was included in a previous APS rate case settlement. This requirement of proportionality was removed by Decision No. 73183.

Staff believes that it is appropriate to increase the monthly caps for the largest customers with demands of 3 MW or greater. In order not to cause rate shock for those customers, Staff recommends a gradual increase over 2013. Staff recommends that, starting on January 1, 2013, the large customers with 3 MW or greater demand would have a monthly cap of \$1,000. Every two months, the cap would increase by \$200, eventually ending at \$2,200 per month on January 1, 2014.

In addition, Staff recommends that the Commission order that, in 2013, APS shall conduct a study of how to expand the current three customer categories for the REST surcharge into more distinct categories. One possible approach is suggested by Staff in Table 16 below.

Table 16: Current and Possible Future REST Categories

<u>Current</u>	<u>Possible Future Categories</u>
Residential	Residential
Commercial	Small-Sized Commercial
	Medium-Sized Commercial
	Large-Sized Commercial
Commercial (3MW demand)	Industrial (3 MW demand or greater)

Staff recommends that the Commission direct APS to incorporate any proposed changes to the REST surcharge categories in its 2014 REST plan filing along with any appropriate changes to surcharge rates and monthly caps needed to meet the REST requirements.

Additional Stakeholder Comments

The Solar Energy Industries Association (“SEIA”) filed comments on the APS 2013 REST Plan. First, SEIA notes that APS’ two options only pertain to Distributed Energy programs and do not address 91% of the REST budget. SEIA disagrees with the APS Option One proposal to end commercial solar incentives. SEIA suggests that, rather than having customers who receive incentives be required automatically to pay the cap for their customer class, those customers should pay the average surcharge for their class.

SEIA asks the Commission to direct APS to work in a collaborative effort with the solar industry to develop a new, non-utility owned community solar effort. SEIA also criticizes the APS “Track and Record” proposal. SEIA claims that such a program is “an unauthorized taking of property without just compensation.”

The Arizona Solar Energy Industries Association (“AriSEIA”) also filed comments. AriSEIA stressed the importance of maintaining the market for commercial systems. AriSEIA strongly supports competitive incentive bidding, solar-friendly rates, and community based solar. AriSEIA criticizes recent rate changes such as the E 32-L tariff. AriSEIA does not agree with the APS-proposed reduction of PBI caps to \$0.07/kWh.

AriSEIA requests that the ACC require APS to establish a new community solar program that third parties can develop. Rather than the APS-proposed reductions of School and Government PBI incentive caps, AriSEIA requests that those S&G PBI caps be \$0.123/kWh for 15-year contracts and \$0.112/kWh for 20-year contracts.

AriSEIA dislikes the ACC policy in which customers, receiving incentives on systems installed after July 1, 2012, would have to pay the REST surcharge cap, rather than an amount based on actual usage. AriSEIA suggests that customers only be required to pay the average

surcharge for their customer class. AriSEIA believes that the APS "Track and Record" proposal would invalidate the integrity of the renewable energy credit ("REC").

AriSEIA supports the APS proposal to develop a stakeholder process for future changes to the DEAP. Finally, AriSEIA disagrees with the APS-proposed reduction of the solar water heating incentive to \$0.45 per first year kWh saved.

Green Choice Solar ("GCS") filed comments on the REST Plan. GCS says that discontinuation of incentives would be a disaster for the solar industry. GCS urges that the Commission approve four blocks of new PBI commitments as outlined by APS. GCS also supports the APS proposed funding for the 2012 S&G Program.

GCS asks the Commission to direct APS to work with the solar industry to develop special solar tariffs for the 2014 REST Plan.

The Renewable Energy Markets Association ("REMA") filed comments on the APS 2013 REST Plan. REMA claims that the "Track and Record" proposal would deny residential and commercial customers their right to sell or claim the RECs that would come from their solar systems. This, according to REMA, is "a government taking of private property." REMA recommends a market-based mechanism instead.

Western Resource Advocates ("WRA") filed comments on the regulatory treatment of RECs if the Commission decides to discontinue incentives for distributed PV systems. WRA described six possible options, discussing the features of each option. WRA rejected the APS "Track and Record" option. WRA recommended, instead, a utility auction for RECs to meet the REST requirements. The Commission could set a price cap for such an auction.

The Vote Solar Initiative ("VSI") filed comments on the APS REST Plan. VSI opposes the APS "Track and Record" proposal. Instead, VSI suggests that the utility should offer an annual or semi-annual standard offer for residential RECs. The utility would set the initial price and adjust it as needed to gather sufficient RECs for REST compliance.

Staff's Recommended Budget (Using Option 3)

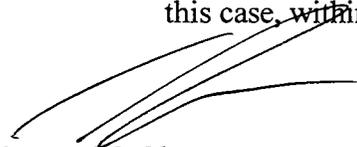
Line No.			
1	Renewable Generation		
2		Renewable Generation Contracts and O&M	
3		Purchases and Generation	\$ 55.2
4		Administration	0.3
5		Implementation	<u>1.6</u>
6		Total RG Contracts and O&M	\$ 57.1
7			
8		Offsets	
9		Estimated Green Choice Revenue Credit	\$ (0.9)
10			
11		Total Renewable Generation (line 6 + line 8)	\$ 56.2
12			
13	Customer Sited Distributed Energy		
14		Existing Contracts and Commitments	
15		DE RFP	\$ 7.6
16		Innovative Technologies	--
17		PBIs (Existing)	17.8
18		Schools & Gov't Program PBIs	2.3
19		Schools & Gov't Program UOG	6.8
20		Wholesale DE	<u>0.2</u>
21		Total Existing Contracts and Commitments	\$ 34.7
22			
23		Non-Incentive Distributed Energy Costs	
24		Administration	\$ 0.4
25		Implementation	5.7
26		Information Technology	0.9
27		Educational Outreach: Non-Incentive Costs	<u>0.05</u>
28		Total Non-Incentives DE Costs	\$ 7.05
29			
30		Total Customer Sited DE (line 21 + line 28)	\$ 41.75
31			
32		Commercialization & Integration	0.5
33			
34		Base RES Budget (line 11 + line 30 + line 32)	\$ 98.45
35			
36		Total RES Budget	
		Option 3 additions	\$ 9.95
		Base RES plus Option 3 total	\$ 108.4

Summary of Staff's Recommendations

- Staff recommends that the Commission approve Staff-proposed Option 3 reflecting a REST surcharge of \$0.010663 per kWh, with monthly caps of \$4.27 for residential customers, \$158.42 for non-residential customers, \$1,000.00 for non-residential customers with demands of 3 MW or greater, increasing by \$200 per two months until January 1, 2014. This includes a total budget approval of \$108.4 million.

2. Staff recommends that residential PV Up-Front Incentive be initially set at \$0.10 per Watt. When PV residential funding is fully expended, the incentive shall drop to zero.
3. Staff recommends residential PV incentive funding of \$6.96 million, residential non-PV funding of \$2.0 million, home builder program funding of \$500,000, small non-residential funding of \$300,000, and large non-residential funding of \$200,000.
4. Staff recommends the elimination of the proposed funding for the Qualified Solar Installer program and the training for authorities. The \$350,500 would be reallocated to residential PV incentive funding.
5. Staff recommends a solar water heating incentive of \$0.40 per first year kWh.
6. Staff recommends an incentive for Energy Star Home Builders of \$0.25 per Watt.
7. Staff recommends a non-residential Up-Front Incentive of \$0.25 per Watt.
8. Staff recommends a PBI incentive cap of \$0.09 per kWh for 15-year contracts and \$0.085 per kWh for 20-year contracts as part of the previously-approved 2012 Third Party Schools and Government Program.
9. Staff recommends that the Commission approve a competitive PBI cap of \$0.065 per kWh.
10. Staff recommends that the Commission approve a new lifetime PBI commitment of \$6 million for the 2012 Third Party Schools and Government Program. The remaining \$23.5 million cost of the program would come from the un-allocated funds of the past DE RFP Budget.
11. Staff recommends that the Commission approve 3 blocks of PBI incentives totaling 15 MW and a new lifetime PBI commitment of \$20.7 million.
12. Staff recommends that the Commission approve the "Track and Record" proposal for REST rule compliance requirements to be effective for 2013 and beyond for compliance reporting beginning April 1, 2014.
13. Staff recommends approval of all APS-proposed changes to the DEAP with the exception of the proposal to form a stakeholder effort to revise the DEAP.
14. Staff recommends approval of funding requested for the Innovative Renewable Energy Projects Initiative, the continued support of the ArizonaGoesSolar.org website, and other commercialization and integration efforts.

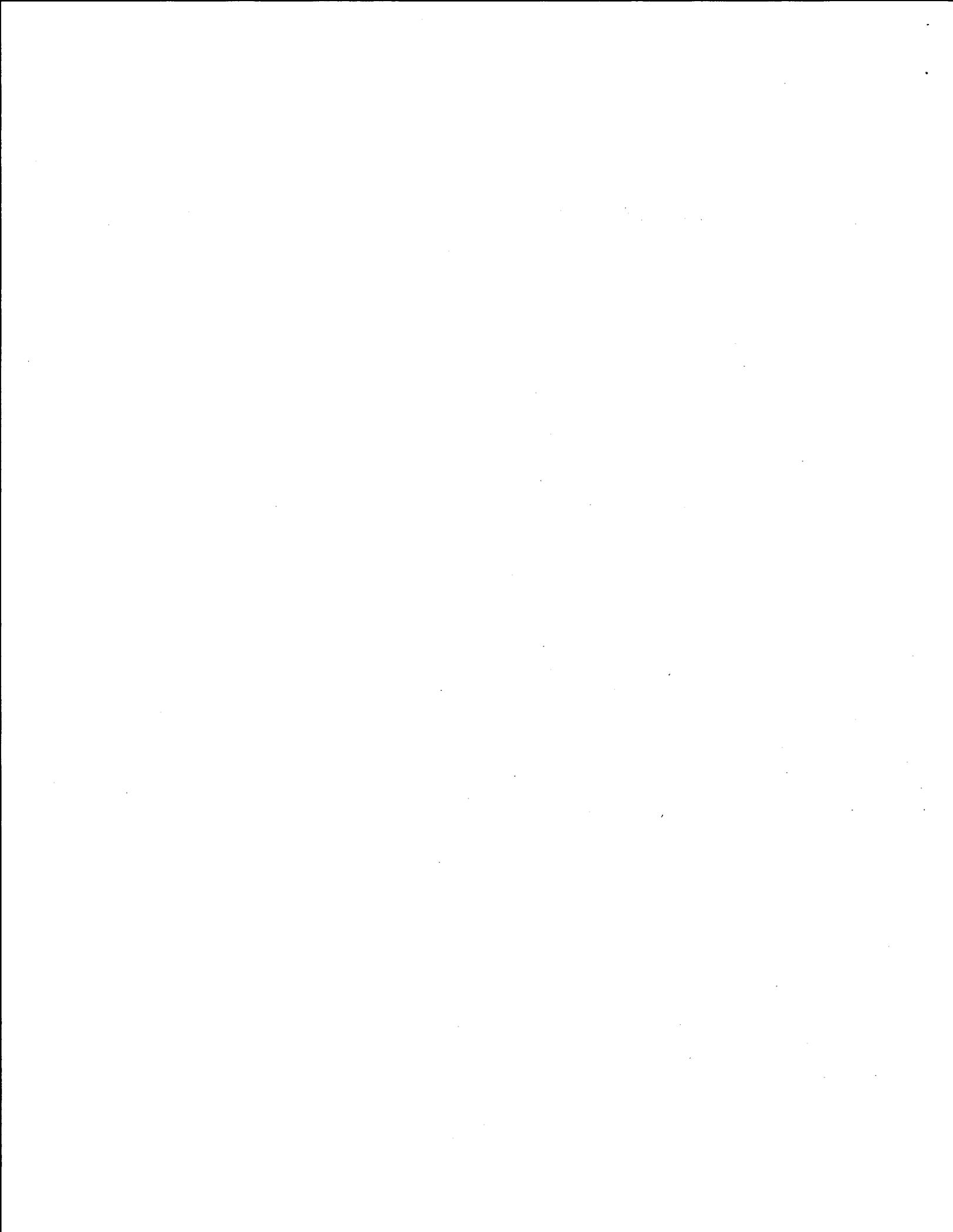
15. Staff recommends approval of the APS-proposed re-allocation of \$3.4 million in production tax credits and \$1 million of unallocated program costs to cover a portion of the 2013 REST budget.
16. Staff recommends approval of the re-allocation of \$1.6 million in unallocated programs costs to pay for the unanticipated \$1.6 million in additional revenue requirements for two AzSun projects.
17. Staff recommends that the Commission direct APS to re-allocate any uncommitted 2012 REST funds in November 2012 to the least cost kWh applications. Staff recommends that the re-allocation be made according to the following schedule.
 - 50% of funds go to residential PV UFIs
 - 16% of funds go to non-residential UFIs
 - 14% of funds go to non-residential PBIs
 - 10% of funds go to residential non-PV
 - 10% of funds go to Schools and Government
18. Staff recommends that the Commission direct APS, in the year 2013 and beyond, to re-allocate funds for incentive cancellations or unallocated funds remaining as of October 1 of each calendar year according to the re-allocation schedule above, until further order of the Commission.
19. Staff recommends that the Commission approve Staff's PBI program proposal which includes 3 blocks of PBI funding, allocated over four funding cycles, as discussed herein.
20. Staff recommends that the Commission direct APS to conduct a study of how to expand the current three customer categories for the REST surcharge into more distinct categories and that APS be directed to file any proposed changes from the customer category changes study in its 2014 REST Plan.
21. Staff recommends that APS file a new REST tariff, consistent with the Decision in this case, within 15 days of the effective date of the Decision.



Steven M. Olea
Director
Utilities Division

SMO:RTW:lhM\MAS

ORIGINATOR: Ray Williamson



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY – APPROVAL OF
UPDATED GREEN POWER RATE
SCHEDULE GPS-1, GPS-2, AND GPS-3

DOCKET NO. E-01345A-10-0394

IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY – APPROVAL OF
ITS 2013 RENEWABLE ENERGY
STANDARD IMPLEMENTATION FOR
RESET OF RENEWABLE ENERGY
ADJUSTOR

DOCKET NO. E-01345A-12-0290

DECISION NO. _____
ORDER

Open Meeting
To Be Determined
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 (“Commission” or “ACC”).

2. On June 29, 2012, APS filed its 2013 Renewable Energy Standard and Tariff (“REST”) Implementation Plan at the Commission.

3. APS projects that by 2015 it will provide its customers with more than double the amount of renewable energy required by the REST Rules. Part of the renewables will meet additional requirements of Commission decisions.

...

1 4. On September 28, 2012, APS filed responses to Staff data requests. Included in the
 2 filing were updates of revenue requirements. The updates were changes to Exhibit 3E – “AzSun
 3 Program Revenue Requirements.” These changes accommodate the expected in-service date of
 4 December 1, 2013, for two plants under development as a part of the AzSun Program. The
 5 updates are in Table 1:

6 Table 1: Revision of AzSun Program Revenue Requirements

Project	Original 2013 Revenue Requirement	Updated 2013 Revenue Requirement
Foothills I/II	\$9.6M	\$10.4M
Hyder II	-	\$800,000

10
 11 5. The APS 2013 REST Plan, as proposed, does not request any new program
 12 approvals. The 2013 REST Plan is intended to request only the incremental funding needed to
 13 meet the requirements of the REST rules and other Commission directives. Included in the 2013
 14 REST Plan are:

- Two different options for Distributed Energy (“DE”) in 2013
- A Plan for Renewable Energy Credits (“RECs”) when incentives are zero
- Administrative changes to the APS 2012 Schools and Government (“S&G”) Program
- Increased solar installation education
- Description of the already approved Community Solar Program
- Estimated budges for 2013 through 2017

20
 21
 22
 23 6. In addition to the two APS-proposed budget options, Staff has proposed a third
 24 option. All three options will be explained later in this Decision. The REST budget will be paid
 25 for with funds from the Renewable Energy Standard Adjustment Schedule (“REAC-1”), from base
 26 rates, and from un-allocated funds from previous years.

27 ...

28 ...

Table 2: Comparison of APS and Staff Options Impacts on Budgets
(in Millions of Dollars)

Part A: Budget Differences

	APS Option 1	APS Option 2	Staff Option 3
Base RES Budget	\$97.2	\$97.2	\$96.85
DE Option 1 Addition	\$0	\$0	\$0
DE Option 2 Addition	\$0	\$9.6	\$0
DE Option 3 Adjustment	\$0	\$0	\$9.95
Sub Total	\$97.2	\$106.8	\$106.8
Revenue Requirement Revision	+\$1.6	+\$1.6	+\$1.6
Total Budget	\$98.8	\$108.4	\$108.4
Roll-over funds/credits	-\$6.0	-\$6.0	-\$6.0
REAC-1 & Base Rates Collection	\$92.8	\$102.4	\$102.4

Part B: REST Surcharge Details

Surcharge	\$0.009608	\$0.010663	\$0.010663
Residential Customer Cap	\$3.84	\$4.27	\$4.27
Non-Residential Customer Cap	\$142.74	\$158.42	\$158.42
Non-Residential Customer (with 3MW or greater demand) Cap	\$428.22	\$475.25	\$1,000.00*

*Note: Largest customer cap increases by \$200 per month every two months until reaching \$2,200 per month on January 1, 2014.

APS Distributed Energy ("DE") Option 1

7. The APS DE Option 1 proposes no new incentives for residential and non-residential DE in 2013. APS claims that past commitments will meet the APS non-residential DE requirements through 2020 and the residential DE requirements through 2015.

8. Staff disagrees with DE Option 1. Although the residential photovoltaic ("PV") marketplace is currently extremely competitive and customers are buying a significant number of systems without a substantial incentive, this competitiveness does not extend to other renewable technologies, such as wind, solar water heating and solar daylighting, to name a few. Indeed, the whole non-residential market segment still needs a certain level of incentives in order to contribute toward meeting the overall 15 percent REST requirement in 2025.

9. The argument by APS that it already meets the residential DE requirements through 2015 and the non-residential DE requirements until 2020 does not take away from the fact that

1 APS must meet the overall REST requirement by 2025. If APS is oversubscribed with DE
2 renewable kWh to meet its DE requirement, those "extra" kWh can be applied toward meeting the
3 overall REST requirement, thereby reducing the need to build new utility-scale renewable power
4 plants and associated transmission lines or to buy utility-scale renewable kWh from third parties.

5 10. Staff believes that incentives should not be eliminated for all renewable technologies
6 and all market segments when one market segment, and only one market segment (the residential
7 PV market), is approaching cost-competitiveness. Staff believes that APS should be looking for
8 the lowest cost kWh to meet its overall REST requirement.

9 11. The REST surcharge is the funding mechanism for most of the renewable kWh in
10 the REST Program. With up-front incentives of \$0.20/Watt or lower, the residential photovoltaic
11 kWh have the least impact on the steadily growing surcharge. The current incentive of \$0.20/Watt
12 purchases the residential PV renewable kWh at an equivalent of \$0.0115/kWh.

13 12. According to APS' filing, DE Option 1 requests "no additional incentive funds for
14 residential or non-residential DE in 2013." Staff recommends that the Commission reject APS'
15 DE Option 1 as premature. Staff recommends that the Commission use 2013 as a year to review
16 the impact of renewable incentives. With a Staff-proposed incentive of \$0.10/Watt, APS should
17 be able to determine whether incentives would be helpful in 2014. Similarly, other incentive
18 reductions, as proposed by Staff should help the solar industry prepare for a future where
19 incentives are nominal and, eventually, zero.

20 APS DE Option 2

21 13. The APS DE Option 2 proposes to end incentives for residential and non-residential
22 DE after 2013. The structure for the proposed 2013 incentives is designed to produce the same
23 amount of installation activity in 2013 that occurred in 2012. This would include a smaller budget
24 with lower incentive levels. For instance, residential PV incentives proposed by APS would start
25 at the current incentive level of \$0.20/Watt. APS assumes that 2013 will be the last year that APS
26 offers incentives.

27 14. Under DE Option 2, APS proposes to offer \$9 million in residential incentives. Of
28 that total, \$5.3 million would be the allocation to the standard residential PV program. An

1 additional \$3 million would be allocated toward non-PV technologies, which includes solar water
 2 heating. The solar water heating incentive would decrease from the current \$0.50/kWh equivalent
 3 in energy savings to \$0.45/kWh. APS proposes devoting \$700,000 to the Energy Star Plus Solar
 4 Home Program for home builders. The PV incentive under this program would, as proposed by
 5 APS, decrease from \$0.85/Watt to \$0.30/Watt. Once all allocated funds are used, the home
 6 builders would apply for incentives under the standard PV incentive program. APS estimates that
 7 the residential budget would fund approximately 40 MW of new capacity for the APS system.
 8 This addition would ensure that APS would comply with its residential REST DE requirement
 9 through 2016.

10 15. Under DE Option 2, APS would allocate \$400,000 for non-residential, Up-Front
 11 Incentives (“UFIs”). APS proposes to redefine projects eligible for a UFI as those seeking a total
 12 incentive at or below \$75,000 and there would be an incentive of \$0.40/Watt for the UFIs.

13 16. APS proposes to split the non-residential Production Based Incentive (“PBIs”) into
 14 four separate capacity blocks. Each block would add 5 MW, using a \$0.07/kWh PBI Cap, and
 15 would increase the lifetime PBI commitment by \$6.9 million per block. The number of blocks
 16 selected by the Commission would define the number of nomination periods in 2013.

17 17. Without incentives in future years, APS proposes a “Track and Record” method for
 18 meeting the REST requirements. This would allow APS to track the renewable output of
 19 customers and use the recorded results to meet REST compliance. Staff recommends that the
 20 Commission approve “Track and Record” method proposed by APS for the residential PV market
 21 segment, to be effective for 2013 and beyond for compliance reporting beginning April 1, 2014.

22 Additional Information about the APS DE Options 1 and 2

23 18. Based on the proposals in DE Options 1 and 2, the average monthly REST charge
 24 per customer class will be:

- 25 ...
- 26 ...
- 27 ...
- 28 ...

Table 3: Average REST Charge by Customer Class

	2012 Approved ¹	2013 APS Proposal Option 1	2013 APS Proposal Option 2
Residential Average REST Charge	\$3.52	\$3.52	\$3.92
General Service (less than 3MW) Average REST Charge	\$28.48	\$28.00	\$31.07
General Service (3 MW or greater) Average REST Charge	\$427.33	\$428.22	\$475.25

¹Using Commission-approved rates and surcharge limits as of January 1, 2012.

19. Customer bills will vary depending upon the Option chosen by the Commission.

Table 4 shows the bill impacts for various types of customers.

Table 4: Customer Bill Impacts for Various Monthly Consumptions

Example Customer Types	kWh/month	2012 Approved ¹	2013 APS Proposal Option 1	2013 APS Proposal Option 2
Residence Consuming 400 kWh	400	\$3.84	\$3.84	\$4.27
Residence Consuming 869 kWh	869	\$3.84	\$3.84	\$4.27
Residence Consuming 2,000 kWh	2,000	\$3.84	\$3.84	\$4.27
Dentist Office	2,000	\$19.18	\$19.22	\$21.33
Hairstylist	3,900	\$37.39	\$37.47	\$41.59
Department Store	170,000	\$142.44	\$142.74	\$158.42
Mall	1,627,100	\$142.44	\$142.74	\$158.42
Retail Video Store	14,400	\$138.07	\$138.36	\$153.55
Large Hotel	1,067,100	\$142.44	\$142.74	\$158.42
Large Building Supply	346,500	\$142.44	\$142.74	\$158.42

¹Using Commission-approved rates and surcharge limits as of 1/1/2012

20. The DE Up-Front Incentives have decreased significantly since 2008. In Table 5, both the residential and commercial incentives are shown from 2008-2012.

...

...

...

...

Table 5: Distributed Energy Up-Front Incentives (2008-2012)

	Residential DE UFI (per watt)	Commercial DE UFI (per watt)
2008	\$3.00	\$2.50
2009	\$3.00	\$2.50
2010	\$3.00	\$2.50
2011	\$1.75	\$1.75
2012	\$0.75	\$0.60
As of 7/23/2012	\$0.20	\$0.60

Note: Yearly incentive levels shown above are Commission-approved incentives at the beginning of the plan year.

21. The Production Based Incentives ("PBI") offered by APS since 2008 have also declined significantly. Those incentives are shown in Table 6.

Table 6: APS PBI Caps for Contracts

PBI Caps	10-year contract (per kWh)	15-year contract (per kWh)	20-year contract (per kWh)
2008	\$0.202	\$0.187	\$0.180
2009	\$0.202	\$0.187	\$0.180
2010	\$0.182	\$0.168	\$0.162
2011	\$0.140	\$0.130	\$0.125
2012	\$0.084	\$0.082	\$0.080

22. Residential Photovoltaic ("PV") grid-tied incentives have decreased rapidly since 2010. Those reductions are shown in Table 7.

...

...

...

...

...

...

...

...

...

Table 7: Residential PV Grid-Tied Incentive History

Start Date	End Date	Incentive Level
Prior to April 2010	4/2/2010	\$3.00/watt
4/3/2010	4/12/2010	\$2.15/watt
4/13/2010	9/20/2010	\$1.95/watt
9/21/2010	1/16/2011	\$1.75/watt
1/17/2011	3/25/2011	\$1.60/watt
3/26/2011	6/10/2011	\$1.45/watt
6/11/2011	11/15/2011	\$1.00/watt
11/16/2011	1/19/2012	\$0.75/watt
1/20/2012	3/21/2012	\$0.60/watt
3/22/2012	6/11/2012	\$0.55/watt
6/12/2012	7/22/2012	\$0.50/watt
7/23/2012	--	\$0.20/watt

Recovery of Funds Through the 2013 REST Charge

23. APS has projected, in Table 8, that it will collect the following amounts per customer class through its REST Plan Adjustment Schedule REAC-1:

Table 8: REAC-1 Collections by Customer Group

	2012 Budget	2013 APS Option 1	2013 APS Option 2
Residential	\$45,754,025.65	\$45,915,994.14	\$50,718,762.28
Small Commercial	\$46,032,196.43	\$45,640,747.76	\$50,376,374.16
Large Commercial	\$1,213,772.92	\$1,243,258.10	\$1,304,863.56
Total	\$93,000,000.00	\$92,800,000.00	\$102,400,000.00

24. The contributions by customer class in percentages are shown in Table 9:

...

...

...

...

...

...

Table 9: Contribution by Customer Class (percentage)

Contribution by Customer Class (%)	2012 Budget	2013 APS Option 1	2013 APS Option 2	2013 Projected Sales (MWH)
Residential	\$45,754,026 49.2%	\$45,915,994 49.5%	\$50,718,762 49.5%	13,273,232 47.8%
Small Commercial	\$46,032,196 49.5%	\$45,640,748 49.2%	\$50,376,374 49.2%	11,428,939 41.1%
Large Commercial	\$1,213,778 1.3%	1,243,258 1.3%	1,304,864 1.3%	3,094,000 11.1%
Total	\$93,000,000	\$92,800,000	\$102,400,000	\$27,796,171

25. Another way to look at the contributions is by cost per kWh, as shown in Table 10:

Table 10: Contribution by Customer Class (\$/kWh)

Contribution by Customer Class (\$/kWh)	2012 Budget (per kWh)	2013 APS Option 1 (per kWh)	2013 APS Option 2 (per kWh)
Residential	\$0.00345	\$0.00346	\$0.00382
Small Commercial	\$0.00403	\$0.00399	\$0.00441
Large Commercial	\$0.00039	\$0.00040	\$0.00042
<i>APS Charges</i>			
kWh	\$0.009588	\$0.009608	\$0.010663
Residential Cap	\$3.84	\$3.84	\$4.27
Small Commercial Cap	\$142.44	\$142.74	\$158.42
Large Commercial Cap	\$427.33	\$428.22	\$475.25

26. The APS projections for the 2013 collections of RES Adjustor funds and Base Rate funds are based on the 2013 projected MWH sales, shown in Table 11:

Table 11: Projected 2013 Retail Sales (in MWH)

Customer Class	2013 Projected Sales (MWH)	
Residential	13,273,232	47.8%
Small Commercial	11,428,939	41.1%
Large Commercial	3,094,000	11.1%
	27,796,171	100.00%

27. APS projects that the Renewable Energy Standard Adjustment Schedule REAC-1 will collect the amounts shown in Table 12:

...

...

...

Table 12: REAC-1 Collections in 2013

	2012 Budget	2013 APS Option 1	2013 APS Option 2
Residential	\$42,888,905	\$43,050,873	\$47,853,641
Small Commercial	\$43,565,179	\$43,173,731	\$47,909,357
Large Commercial	\$545,916	\$575,396	\$637,002
<i>Total</i>	\$87,000,000.00	\$86,800,000.00	\$96,400,000.00

28. In addition to the REAC-1 collection, APS has \$6 million in base rates dedicated to renewables. The \$6 million in base rates will be collected as shown in Table 13:

Table 13: Collections from Base Rates

	2012 Budget	2013 APS Option 1	2013 APS Option 2
Residential	\$2,865,121	\$2,865,121	\$2,865,121
Small Commercial	\$2,467,017	\$2,467,017	\$2,467,017
Large Commercial	\$667,862	\$667,862	\$667,862
<i>Total</i>	\$6,000,000	\$6,000,000	\$6,000,000

29. The REAC-1 and Base Rate collections shown in Tables 12 and 13 will combine to total the collection shown in Table 14:

Table 14: Total Collection (REAC-1 plus Base Rates)

	2012 Budget	2013 APS Option 1	2013 APS Option 2
Residential	\$45,754,025.65	\$45,915,994.14	\$50,718,762.28
Small Commercial	\$46,032,196.43	\$45,640,747.76	\$50,376,374.16
Large Commercial	\$1,213,777.92	\$1,243,258.10	\$1,304,863.56
<i>Total</i>	\$93,000,000.00	\$92,800,000.00	\$102,400,000.00

Staff's Recommended Paradigm Shift for REST Programs

30. In the past years of REST Implementation Plan proposals, the driving force for allocation of the budgets has been the need to meet specific REST requirements both for DE resources and for the overall REST portfolio. Now, looking at the 2013 REST Plans, particularly for the largest utilities, including APS the focus of the budget allocation should, in Staff's opinion, shift to placing the emphasis on obtaining the least-cost renewable kWh to meet the REST requirement.

31. APS claims in its 2013 REST Plan that past commitments allow it to meet its residential DE requirements until 2015 and non-residential DE requirements until 2020. APS therefore concludes, in DE Option 1, that no new DE incentives are needed. However, DE Option

1 ignores the fact that those distributed kWh, even if in excess of the 30 percent DE requirement, can nonetheless be used to meet its overall REST requirement. Staff believes that if the cost to the ratepayer in the REST surcharge resulting from DE incentives is less than any other renewable kWh option, APS should procure as much as possible of the cheapest kWh to meet its REST requirement. Therefore, Staff's recommendations, as shown in Staff's DE Option 3, will shift priorities in this new direction.

7 32. The concept of pursuing the least-cost renewable kWh is one of the fundamental elements of Staff's proposed paradigm shift for REST programs. These are the major elements of the paradigm shift:

- 10 • Work within existing lifetime DE Renewable commitments
- 11 • Strive for least-cost kWh procurement, while providing some funding for all technologies and renewable applications
- 13 • Any reallocation from cancelled projects shall primarily be allocated according to a least kWh cost formula

15 33. Working within the existing lifetime DE renewable commitments will ensure that new DE projects will be funded in the future, but this approach will also lower, rather than increase, lifetime commitments. For instance, as of the 2012 REST Plan, APS had received Commission approval for \$765.8 million in lifetime PBI commitments. However, in 2013, APS projects that it will spend down \$27.7 million of that commitment in payments for past contracts. Staff is recommending that \$26.7 million in new lifetime PBI and Schools and Government commitments be made a part of the 2013 REST Plan approval. That would reduce the total lifetime PBI commitment by \$1 million.

23 34. Staff recommends that, in 2013 and in future years, the majority of renewables funding be allocated to the least-cost kWh technologies. Some funding should be set-aside for the more costly technologies or applications in order to continue the markets for those technologies.

26 35. Staff recommends that any re-allocation of funds in the future, whether due to cancellations or lack of customer interest, should follow a procedure that re-allocates the majority of funds to the least-cost kWh option. For instance, APS currently has over \$1.9 million in unused

1 funds in the residential non-PV category. Staff recommends that the final order in this docket
2 direct APS to re-allocate the unspent 2012 funds to the least-cost kWh option. Staff recommends
3 that the following re-allocation scheduled be used:

- 4 • 50% of funds go to residential PV UFIs
- 5 • 16% of funds go to non-residential UFIs
- 6 • 14% of funds go to non-residential PBIs
- 7 • 10% of funds go to residential non-PV
- 8 • 10% of funds go Schools and Government

9 36. Staff further recommends that this re-allocation schedule be used, starting in 2013
10 and continue until further order of the Commission, for annual re-allocations of cancellations or
11 unallocated funds on October 1st of each year. Now that a variety of renewable technologies and
12 applications have been proven and incentivized, it is time to let competition and the least-cost kWh
13 criteria drive the successful accomplishment of Arizona's REST goals.

14 APS' Proposed Administrative Changes to the 2012 Third-Party Schools and Government
15 Program

16 37. APS also proposes administrative changes to the 2012 Third-Party Schools and
17 Government Program ("2012 S&G Program"). APS proposes holding six bi-monthly nomination
18 cycles for equal amounts of capacity in each cycle. The first cycle would commence in November
19 2012. APS recommends setting the incentive cap at the same level as the 2011 Schools and
20 Government Program. Therefore, the incentive caps for a 15-year PBI would be \$0.106/kWh and
21 for a 20-year PBI would be \$0.096/kWh.

22 38. As proposed, APS has calculated a lifetime PBI commitment of \$31.5 million for the
23 2012 S&G Program. However, APS indicates that the past DE request for proposal ("RFP") was
24 under budget by about \$23.5 million. APS proposes to use the \$23.5 million to pay for most of the
25 2012 S&G Program budget, leaving only the need for an additional \$8 million in lifetime PBI
26 commitments.

27 Staff's Recommended Changes to APS DE Option 2

28 39. Staff agrees with APS that a total of approximately \$9-\$10 million in residential
incentives is an appropriate amount of funding for incentives in 2013 with Staff's proposed caps

1 and re-allocation of funding to the least-cost alternatives. Staff believes that the allocation for the
 2 residential PV program is too small considering that the cost per kWh for residential PV at an
 3 incentive level of \$0.10/Watt provides APS REST eligible kWh at a cost lower than one cent per
 4 kWh. When the funding for the \$0.10/Watt incentive is exhausted, Staff recommends a residential
 5 PV incentive reduction to zero.

6 40. Staff believes that the \$3 million proposed by APS for residential non-PV incentives
 7 is too high in light of the fact that both APS and Staff proposed a reduction of the solar water
 8 heating incentive. APS proposes a solar water heating incentive of \$0.45/kWh while Staff
 9 recommends an incentive of \$0.40/kWh. Staff recommends that the budget for residential non-PV
 10 incentives be reduced to \$2 million, with the \$1 million reduction being re-allocated to residential
 11 PV.

12 Table 15: Details of the APS and Staff Options

13 Part A: DE Budget Differences (in millions)

Budget Item	APS Option 1	APS Option 2	Staff's Option 3
Residential PV	\$0	\$5.3	\$6.96
Residential Non-PV	0	3.0	2.0
Energy Star/Homebuilder	0	.7	.5
Total Residential	0	9.0	9.46
Small Non-Residential	0	.4	.3
Large Non-Residential	0	.2	.2
Total	0	\$9.6	\$9.96

20 Part B: Incentive Differences

Budget Item	APS Option 1	APS Option 2	Staff's Option 3
Starting Res. PV Incentive	0	\$0.20/Watt	\$0.10/Watt
Solar Water Heating Incentive	0	\$0.45/kWh	\$0.40/kWh
Energy Star Homebuilder Incentive	0	\$0.30/Watt	\$0.25/Watt
Non-Residential Up-Front Incent.	0	\$0.40/Watt	\$0.25/Watt
Schools & Gov't 15-Year Incent. Cap	0	\$0.106/kWh	\$0.09/kWh
Schools & Gov't 20-Year Incent. Cap	0	\$0.096/kWh	\$0.085/kWh
Production Based Incentive Cap	0	\$0.07/kWh	\$0.065/kWh

26 ...

27 ...

28 ...

Part C: Other Differences (in millions)

Budget Item	APS Option 1	APS Option 2	Staff's Option 3
Solar Installer Education	\$0.350	\$0.350	0
New Lifetime PBI Commitment 2012 S& G Program	0	\$8.0	\$6.0
New Lifetime PBI Commitment	0	*	\$20.7
APS Proposed 4 PBI Blocks	0	*	3 blocks

*APS made no proposal for numbers of blocks or lifetime PBI commitments.

41. Staff recommends a homebuilder program costing \$500,000 with the \$200,000 reduction from the APS proposal being reallocated to residential PV. Rather than the \$0.30/Watt incentive from the homebuilding program as proposed by APS, Staff recommends a \$0.25/Watt incentive.

42. APS has proposed a small non-residential budget allocation of \$400,000 with an incentive of \$0.40/Watt. Staff recommends a budget of \$300,000 and an incentive of \$0.25/Watt. A total of \$100,000 is re-allocated to residential PV.

43. APS proposes to include \$200,000 for large non-residential projects. Staff agrees.

Staff's PBI Program Recommendation

44. Staff recommends that a total of 3 blocks of PBI funding, as proposed by APS, be approved. The 3 blocks at \$6.9 million each would total \$20.7 million in new PBI lifetime commitments. However, instead of allocating the funds into three funding cycles, Staff recommends that the \$20.7 million commitment be divided into four quarterly cycles. Rather than the APS proposed cap of \$0.07/kWh, Staff recommends a cap of \$0.065/kWh.

45. Staff has reviewed comments by SunEdison which criticizes the 750 kW cap for the medium and large PBI projects. SunEdison suggests a cap of 2 MW rather than the 750 kW cap. Staff is also aware that numerous smaller solar developers feel that having an extremely high cap will result in a few large projects "consuming" the whole PBI budget, leaving little market share for smaller projects.

46. Staff believes it has fashioned a compromise that can allow for some very large (up to 2 MW) projects and a substantial number of medium-sized (under 750 kW) projects. Staff recommends that the first two cycles of 2013 have a 2 MW cap. During the first two cycles, any

1 developer, including medium-sized project developers, wanting to propose projects up to 2 MW
2 could apply. Staff further recommends that the third and four cycles have a 750 kW cap. Staff's
3 recommended cap levels would allow medium-sized project developers to compete in all four
4 cycles and allow developers proposing larger projects (from 750 kW to 2 MW) to apply only in the
5 first two cycles. The PBI lifetime commitment would be allocated at \$5 million each for the first
6 two cycles and at \$5.35 million each for the third and fourth cycles.

7 47. APS has proposed a budget of \$31.5 million for the 2012 Third-Party Schools and
8 Government Program. Staff recommends reducing that budget to \$29.5 million. This will require
9 \$6 million in new PBI lifetime commitments, rather than the \$8 million as requested by APS. APS
10 proposed an incentive cap of \$0.106/kWh for 15-year contracts. Staff believes the incentive is too
11 high for a competitive third party program. Staff recommends a \$0.09/kWh cap for 15-year
12 contracts. Instead of the APS-proposed \$0.096/kWh cap for 20 year contracts, Staff proposes a
13 \$0.085/kWh cap.

14 APS' Proposed Administrative Changes to the Distributed Energy Administrative Plan

15 48. APS also proposes several administrative changes to the Distributed Energy
16 Administration Plan ("DEAP"). First, APS proposes to redefine small projects as those that seek
17 UFIs of \$75,000 or less. Second, APS proposes to eliminate off-grid incentives due to lack of
18 interest by customers. Third, as requested by industry stakeholders, APS proposes to extend the
19 construction timeline for multi-family housing, Energy Star-rated projects from 180 days to 365
20 days. Fourth, APS proposes to pay incentives directly to the installer for owned systems and to
21 the lessor for leased systems. Fifth, APS proposes that if a customer changes his solar installer or
22 dealer, the customer must re-apply for an incentive as if doing so for the first time. Finally, APS
23 requests permission to establish a formal stakeholder procedure in order to implement future
24 changes to the DEAP.

25 49. Staff agrees with all APS-proposed changes to the DEAP except that Staff does not
26 believe a formal stakeholder procedure to make changes to the DEAP is needed. APS currently
27 has the ability to meet with stakeholders, solicit comments, and discuss possible DEAP changes.
28 A Commission order to perform this process is not needed. APS will still need to docket proposed

1 future changes and get ACC approval. Staff recommends against the Commission ordering the
2 formation of another stakeholder group.

3 APS' Proposed Changes to the Solar Installer Education Program

4 50. APS proposes making the Qualified Solar Installer ("QSI") program mandatory for
5 all PV installers who install systems in the APS distribution system. This, according to APS,
6 would require a program expansion and a total budget of \$300,500. APS believes that the QSI
7 program "protects customers from less qualified installers." APS would also like to host training
8 for Authorities Having Jurisdiction. This training would cost an additional \$50,000.

9 51. Staff disagrees with APS that the QSI program should be mandatory. In a time
10 when APS is recommending no incentives for DE systems, it is questionable whether solar dealers
11 should be required to complete such a program at the same time funding to encourage more
12 systems is being removed.

13 52. Staff recommends that the budget allocation for QSI training (\$300,500) and for
14 training for Authorities Having Jurisdiction (\$50,000) be transferred to residential PV incentives
15 where it can encourage more solar installations.

16 APS' Community Solar Program

17 53. In its 2013 REST Plan, APS describes its previously approved 25 MW Community
18 Solar Program. The 25 MW program would be split into 3-7 separate projects and third parties
19 would build each part of the Community Solar Program. APS will also add Community Solar to
20 its Green Power rate schedule.

21 Consolidation with the Green Power Docket

22 54. On September 28, 2012, the Commission ordered the consolidation of Docket Nos.
23 E-01345A-10-0394 (the Green Power Docket) and E-01345A-12-0290 (the 2013 REST Docket).
24 Staff docketed its response to the Green Power Docket on May 9, 2012.

25 Budget Issues

26 55. In Decision No. 72022, the Commission approved the Innovative Renewable Energy
27 Projects Initiative. If APS moves forward with this project, APS would proceed with an RFP in
28 the first half of 2013. The proposed budget is \$75,000.

1 56. Staff supports the funding for the previously-approved Innovative Renewable
2 Energy Projects initiative.

3 57. The 2013 REST Plan budget includes \$15,000 for APS' continued support of the
4 ArizonaGoesSolar.org website. Finally, APS requests support for its Commercialization and
5 Integration ("C&I") program. The 2013 C&I budget is \$525,000 for grid integration and
6 technology deployment. Staff supports these continued activities.

7 58. APS has some additional funds to offset the 2013 budget. Included is \$3.4 million in
8 production tax credits from operational AzSun projects and \$1 million of unallocated program
9 costs. The remaining unallocated costs would be reserved to offset the 2014 budget.

10 59. Staff notes that the September 28, 2012, update of the AzSun Program Revenue
11 Requirements needs to be added to the budget. This would increase the 2013 budget by \$1.6
12 million. Staff recommends that the \$1.6 million needed to pay for this increase come from the \$10
13 million in unallocated costs that APS proposed to reserve for offsets in the future 2014 budget.

14 Staff Recommendation on Adjusting Monthly REST Surcharge Caps

15 60. Staff notes, in reviewing the proposed collection of REST funds from various
16 customer categories, that the largest commercial customers are contributing a relatively low net
17 cost per kWh toward the REST program. This is because, historically, the monthly caps for the
18 largest customers have been extremely low. Also, in the past, changes to the APS REST surcharge
19 have been constrained by a "proportionality" requirement that was included in a previous APS rate
20 case settlement. This requirement of proportionality was removed in Decision No. 73183.

21 61. Staff believes that it is appropriate to increase the monthly caps for the largest
22 customers with demands of 3 MW or greater. In order not to cause rate shock for those customers,
23 Staff recommends a gradual increase over 2013. Staff recommends that, starting on January 1,
24 2013, the large customers with 3 MW or greater demand would have a monthly cap of \$1,000.
25 Every two months, the cap would increase by \$200, eventually ending at \$2,200 per month on
26 January 1, 2014.

27 ...

28 ...

62. In addition, Staff recommends that the Commission order that, in 2013, APS shall conduct a study of how to expand the current three customer categories for the REST surcharge into more distinct categories. One possible approach is suggested by Staff in Table 16 below.

Table 16: Current and Possible Future REST Categories

Current	Possible Future Categories
Residential	Residential
Commercial	Small-Sized Commercial
	Medium-Sized Commercial
	Large-Sized Commercial
Commercial (3MW demand)	Industrial (3 MW demand or greater)

63. Staff recommends that the Commission direct APS to incorporate any proposed changes to the REST surcharge categories in its 2014 REST plan filing along with any appropriate changes to surcharge rates and monthly caps needed to meet the REST requirements.

Additional Stakeholder Comments

64. The Solar Energy Industries Association (“SEIA”) filed comments on the APS 2013 REST Plan. First, SEIA notes that APS’ two options only pertain to Distributed Energy programs and do not address 91% of the REST budget. SEIA disagrees with the APS Option One proposal to end commercial solar incentives. SEIA suggests that, rather than having customers who receive incentives be required automatically to pay the cap for their customer class, those customers should pay the average surcharge for their class.

65. SEIA asks the Commission to direct APS to work in a collaborative effort with the solar industry to develop a new, non-utility owned community solar effort. SEIA also criticizes the APS “Track and Record” proposal. SEIA claims that such a program is “an unauthorized taking of property without just compensation.”

66. The Arizona Solar Energy Industries Association (“AriSEIA”) also filed comments. AriSEIA stressed the importance of maintaining the market for commercial systems. AriSEIA strongly supports competitive incentive bidding, solar-friendly rates, and community based solar.

...

1 AriSEIA criticizes recent rate changes such as the E 32-L tariff. AriSEIA does not agree with the
2 APS-proposed reduction of PBI caps to \$0.07/kWh.

3 67. AriSEIA requests that the ACC require APS to establish a new community solar
4 program that third parties can develop. Rather than the APS-proposed reductions of School and
5 Government PBI incentive caps, AriSEIA requests that those S&G PBI caps be \$0.123/kWh for
6 15-year contracts and \$0.112/kWh for 20-year contracts.

7 68. AriSEIA dislikes the ACC policy in which customers, receiving incentives on
8 systems installed after July 1, 2012, would have to pay the REST surcharge cap, rather than an
9 amount based on actual usage. AriSEIA suggests that customers only be required to pay the
10 average surcharge for their customer class. AriSEIA believes that the APS "Track and Record"
11 proposal would invalidate the integrity of the renewable energy credit ("REC").

12 69. AriSEIA supports the APS proposal to develop a stakeholder process for future
13 changes to the DEAP. Finally, AriSEIA disagrees with the APS-proposed reduction of the solar
14 water heating incentive to \$0.45 per first year kWh saved.

15 70. Green Choice Solar ("GCS") filed comments on the REST Plan. GCS says that
16 discontinuation of incentives would be a disaster for the solar industry. GCS urges that the
17 Commission approve four blocks of new PBI commitments as outlined by APS. GCS also
18 supports the APS proposed funding for the 2012 S&G Program.

19 71. GCS asks the Commission to direct APS to work with the solar industry to develop
20 special solar tariffs for the 2014 REST Plan.

21 72. The Renewable Energy Markets Association ("REMA") filed comments on the APS
22 2013 REST Plan. REMA claims that the "Track and Record" proposal would deny residential and
23 commercial customers their right to sell or claim the RECs that would come from their solar
24 systems. This, according to REMA, is "a government taking of private property." REMA
25 recommends a market-based mechanism instead.

26 73. Western Resource Advocates ("WRA") filed comments on the regulatory treatment
27 of RECs if the Commission decides to discontinue incentives for distributed PV systems. WRA
28 described six possible options, discussing the features of each option. WRA rejected the APS

1 "Track and Record" option. WRA recommended, instead, a utility auction for RECs to meet the
 2 REST requirements. The Commission could set a price cap for such an auction.

3 74. The Vote Solar Initiative ("VSI") filed comments on the APS 2013 REST Plan. VSI
 4 opposes the APS "Track and Record" proposal. Instead, VSI suggests that the utility should offer
 5 an annual or semi-annual standard offer for residential RECs. The utility would set the initial price
 6 and adjust it as needed to gather sufficient RECs for REST compliance.

7 **Staff's Recommended Budget (Using Option 3)**

8	Line			
	No.			
9	1	Renewable Generation		
	2	<i>Renewable Generation Contracts and O&M</i>		
10	3	Purchases and Generation	\$	55.2
	4	Administration		0.3
11	5	Implementation		1.6
	6	Total RG Contracts and O&M	\$	57.1
12	7			
	8	<i>Offsets</i>		
13	9	Estimated Green Choice Revenue Credit	\$	(0.9)
	10			
14	11	Total Renewable Generation (line 6 + line 8)	\$	56.2
	12			
15	13	Customer Sited Distributed Energy		
	14	<i>Existing Contracts and Commitments</i>		
16	15	DE RFP	\$	7.6
	16	Innovative Technologies		--
17	17	PBIs (Existing)		17.8
	18	Schools & Gov't Program PBIs		2.3
18	19	Schools & Gov't Program UOG		6.8
	20	Wholesale DE		0.2
19	21	Total Existing Contracts and Commitments	\$	34.7
	22			
20	23	<i>Non-Incentive Distributed Energy Costs</i>		
	24	Administration	\$	0.4
21	25	Implementation		5.7
	26	Information Technology		0.9
22	27	Educational Outreach: Non-Incentive Costs		0.05
	28	Total Non-Incentives DE Costs	\$	7.05
23	29			
	30	Total Customer Sited DE (line 21 + line 28)	\$	41.75
24	31			
	32	<i>Commercialization & Integration</i>		0.5
25	33			
	34	Base RES Budget (line 11 + line 30 + line 32)	\$	98.45
26	35			
	36	Total RES Budget		
27		Option 3 additions	\$	9.95
28		Base RES plus Option 3 total	\$	108.4

1 Staff's Recommendations

2 75. Staff has recommended that the Commission approve Staff-proposed Option 3
3 reflecting a REST surcharge of \$0.010663 per kWh, with monthly caps of \$4.27 for residential
4 customers, \$158.42 for non-residential customers, \$1,000.00 for non-residential customers with
5 demands of 3 MW or greater, increasing by \$200 per two months until January 1, 2014. This
6 includes a total budget approval of \$108.4 million.

7 76. Staff has further recommended that residential PV Up-Front Incentive be initially set
8 at \$0.10 per Watt. When PV residential funding is fully expended, the incentive shall drop to zero.

9 77. Staff has further recommended residential PV incentive funding of \$6.96 million,
10 residential non-PV funding of \$2.0 million, home builder program funding of \$500,000, small
11 non-residential funding of \$300,000, and large non-residential funding of \$200,000.

12 78. Staff has further recommended the elimination of the proposed funding for the
13 Qualified Solar Installer program and the training for authorities. The \$350,500 would be
14 reallocated to residential PV incentive funding.

15 79. Staff has further recommended a solar water heating incentive of \$0.40 per first year
16 kWh.

17 80. Staff has further recommended an incentive for Energy Star Home Builders of \$0.25
18 per Watt.

19 81. Staff has further recommended a non-residential Up-Front Incentive of \$0.25 per
20 Watt.

21 82. Staff has further recommended a PBI incentive cap of \$0.09 per kWh for 15-year
22 contracts and \$0.085 per kWh for 20-year contracts as part of the previously-approved 2012 Third
23 Party Schools and Government Program.

24 83. Staff has further recommended that the Commission approve a competitive PBI cap
25 of \$0.065 per kWh.

26 84. Staff has further recommended that the Commission approve a new lifetime PBI
27 commitment of \$6 million for the 2012 Third Party Schools and Government Program. The
28

1 remaining \$23.5 million cost of the program would come from the un-allocated funds of the past
2 DE RFP Budget.

3 85. Staff has further recommended that the Commission approve 3 blocks of PBI
4 incentives totaling 15 MW and a new lifetime PBI commitment of \$20.7 million.

5 86. Staff has further recommended that the Commission approve the "Track and
6 Record" proposal for REST rule compliance requirements to be effective for 2013 and beyond for
7 compliance reporting beginning April 1, 2014.

8 87. Staff has further recommended approval of all APS-proposed changes to the DEAP
9 with the exception of the proposal to form a stakeholder effort to revise the DEAP.

10 88. Staff has further recommended approval of funding requested for the Innovative
11 Renewable Energy Projects Initiative, the continued support of the ArizonaGoesSolar.org website,
12 and other commercialization and integration efforts.

13 89. Staff has further recommended approval of the APS-proposed re-allocation of \$3.4
14 million in production tax credits and \$1 million of unallocated program costs to cover a portion of
15 the 2013 REST budget.

16 90. Staff has further recommended approval of the re-allocation of \$1.6 million in
17 unallocated programs costs to pay for the unanticipated \$1.6 million in additional revenue
18 requirements for two AzSun projects.

19 91. Staff has further recommended that the Commission direct APS to re-allocate any
20 uncommitted 2012 REST funds in November 2012 to the least cost kWh applications. Staff
21 recommends that the re-allocation be made according to the following schedule.

- 22 • 50% of funds go to residential PV UFIs
- 23 • 16% of funds go to non-residential UFIs
- 24 • 14% of funds go to non-residential PBIs
- 25 • 10% of funds go to residential non-PV
- 26 • 10% of funds go to Schools and Government

27 92. Staff has further recommended that the Commission direct APS, in the year 2013
28 and beyond, to re-allocate funds for incentive cancellations or unallocated funds remaining as of

...

1 October 1 of each calendar year according to the re-allocation schedule above, until further order
2 of the Commission.

3 93. Staff has further recommended that the Commission approve Staff's PBI program
4 proposal which includes 3 blocks of PBI funding, allocated over four funding cycles, as discussed
5 herein.

6 94. Staff has further recommended that the Commission direct APS to conduct a study
7 of how to expand the current three customer categories for the REST surcharge into more distinct
8 categories and that APS be directed to file any proposed changes from the customer category
9 changes study in its 2014 REST Plan.

10 95. Staff has further recommended that APS file a new REST tariff, consistent with the
11 Decision in this case, within 15 days of the effective date of the Decision.

12 CONCLUSIONS OF LAW

13 1. Arizona Public Service Company is an Arizona public service corporation within
14 the meaning of Article XV, Section 2, of the Arizona Constitution.

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

17 3. The Commission, having reviewed the application and Staff's Memorandum dated
18 October 18, 2012, concludes that it is in the public interest to approve Arizona Public Service
19 Company's 2013 Renewable Energy Standard and Tariff Implementation Plan as discussed herein.

20 ORDER

21 IT IS THEREFORE ORDERED that the Staff-proposed Option 3 reflecting a REST charge
22 of \$0.010663 per kWh, with monthly caps of \$4.27 for residential customers, \$158.42 for non-
23 residential customers, \$1,000.00 for non-residential customers with demands of 3 MW or greater,
24 increasing by \$200 per two months until January 1, 2014, be and hereby is approved. This
25 includes a total budget approval of \$108.4 million.

26 IT IS FURTHER ORDERED that the residential PV Up-Front Incentive be initially set at
27 \$0.10 per Watt. When PV residential funding is fully expended, the incentive shall drop to zero.

28 ...

1 IT IS FURTHER ORDERED that the residential PV incentive funding of \$6.96 million,
2 residential non-PV funding of \$2.0 million, home builder program funding of \$500,000, small
3 non-residential funding of \$300,000, and large non-residential funding of \$200,000, is approved.

4 IT IS FURTHER ORDERED that the elimination of the proposed funding for the Qualified
5 Solar Installer program and the training for authorities is approved. The \$350,500 would be
6 reallocated to residential PV incentive funding.

7 IT IS FURTHER ORDERED that a solar water heating incentive of \$0.40 per first year
8 kWh is approved.

9 IT IS FURTHER ORDERED that an incentive for Energy Star Home Builders of \$0.25 per
10 Watt is approved.

11 IT IS FURTHER ORDERED that a non-residential Up-Front Incentive of \$0.25 per Watt is
12 approved.

13 IT IS FURTHER ORDERED that the PBI incentive cap of \$0.09 per kWh for 15-year
14 contracts and \$0.085 per kWh for 20-year contracts as part of the previously-approved 2012 Third
15 Party Schools and Government Program is approved.

16 IT IS FURTHER ORDERED that the competitive PBI cap of \$0.065 per kWh is approved.

17 IT IS FURTHER ORDERED that the new lifetime PBI commitment of \$6 million for the
18 2012 Third Party Schools and Government Program is approved. The remaining \$23.5 million
19 cost of the program would come from the un-allocated funds of the past DE RFP Budget.

20 IT IS FURTHER ORDERED that the 3 blocks of PBI incentives totaling 15 MW and a
21 new lifetime PBI commitment of \$20.7 million, allocated over four funding cycles, is approved.

22 IT IS FURTHER ORDERED that the "Track and Record" method for REST rule
23 compliance requirements be effective for 2013 and beyond for compliance reporting beginning
24 April 1, 2014.

25 IT IS FURTHER ORDERED that all Arizona Public Service Company proposed changes
26 to the DEAP with the exception of the proposal to form a stakeholder effort to revise the DEAP is
27 approved, as discussed herein.

28

1 IT IS FURTHER ORDERED that the funding requested for the Innovative Renewable
2 Energy Projects Initiative, the continued support of the ArizonaGoesSolar.org website, and other
3 commercialization and integration efforts is approved, as discussed herein.

4 IT IS FURTHER ORDERED that the Arizona Public Service Company proposed re-
5 allocation of \$3.4 million in production tax credits and \$1 million of unallocated program costs to
6 cover a portion of the 2013 REST budget is approved.

7 IT IS FURTHER ORDERED that the re-allocation of \$1.6 million in unallocated programs
8 costs to pay for the unanticipated \$1.6 million in additional revenue requirements for two AzSun
9 projects is approved.

10 IT IS FURTHER ORDERED that Arizona Public Service Company shall re-allocate any
11 uncommitted 2012 REST funds in November 2012 to the least cost kWh applications according to
12 the following schedule.

- 13 • 50% of funds go to residential PV UFIs
- 14 • 16% of funds go to non-residential UFIs
- 15 • 14% of funds go to non-residential PBIs
- 16 • 10% of funds go to residential non-PV
- 17 • 10% of funds go to Schools and Government

18 IT IS FURTHER ORDERED that Arizona Public Service Company shall, in the year 2013
19 and beyond, re-allocate funds for incentive cancellations or unallocated funds remaining as of
20 October 1 of each calendar year according to the re-allocation schedule above, until further order
21 of the Commission.

22 IT IS FURTHER ORDERED that Arizona Public Service Company shall conduct a study
23 of how to expand the current three customer categories for the REST surcharge into more distinct
24 categories and that Arizona Public Service Company shall file any proposed changes from the
25 customer category changes study in its 2014 REST Plan.

26 ...
27 ...
28 ...

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

IT IS FURTHER ORDERED that Arizona Public Service Company shall file a new REST tariff, consistent with the Decision in this case, within 15 days of the effective date of the Decision.

IT IS FURTHER ORDERED that this Decision become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

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.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:RTW:ihm\MAS

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NOS. E-01345A-10-0349 and E-01345A-12-0290

3 Mr. Thomas A. Loquvam
4 Pinnacle West Capital Corporation
5 400 North Fifth Street, MS 8695
6 Phoenix, Arizona 85004

7 Mr. C. Webb Crockett
8 Mr. Patrick J. Black
9 Fennemore Craig
10 3003 North Central Avenue, Suite 2600
11 Phoenix, Arizona 85012-2913

12 Mr. Court S. Rich
13 Rose Law Group, PC
14 6613 North Scottsdale Road, Suite 200
15 Scottsdale, Arizona 85250

16 Mr. Gregg Patterson
17 Munger Chadwick
18 2398 East Camelback Road, Suite 240
19 Phoenix, Arizona 85016

20 Mr. Steven M. Olea
21 Director, Utilities Division
22 Arizona Corporation Commission
23 1200 West Washington Street
24 Phoenix, Arizona 85007

25 Ms. Janice M. Alward
26 Chief Counsel, Legal Division
27 Arizona Corporation Commission
28 1200 West Washington Street
Phoenix, Arizona 85007

