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BEFORE THE ARIZONA CORPORATION COMMISSION

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BOB STUMP  
Chairman  
GARY PIERCE  
Commissioner  
BRENDA BURNS  
Commissioner  
BOB BURNS  
Commissioner  
SUSAN BITTER SMITH  
Commissioner

Arizona Corporation Commission  
**DOCKETED**

MAY - 8 2013

DOCKETED BY  
NR

IN THE MATTER OF AJO IMPROVEMENT )  
COMPANY'S APPLICATION FOR )  
APPROVAL OF ITS 2013 AND 2014 )  
RENEWABLE ENERGY STANDARD )  
TARIFF IMPLEMENTATION PLAN )

DOCKET NO. E-01025A-12-0280  
DECISION NO. 73881  
ORDER

Open Meeting  
May 1 and 2, 2013  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Ajo Improvement Company ("Ajo") is certificated to provide electric service as a public service corporation in the State of Arizona.

Background

2. On June 27, 2012, Ajo filed its 2013 and 2014 Renewable Energy Standard Tariff ("REST") Implementation Plan ("2013 Plan") as required by Arizona Administrative Code ("A.A.C.") R14-2-1801 through R14-2-1816. Ajo's 2013 Plan includes a Plan for Eligible Renewable Energy Resources and a Plan for Distributed Renewable Energy Resources, with a request to resume collection of its REST surcharge that was suspended by Decision No. 72894 on February 17, 2012. The 2013 Plan also includes a request for a two-year approval of its plan (2013 & 2014), with a waiver of the annual plan filing requirement for the 2014 calendar year.

...

1           3.       According to Ajo's REST Compliance Report for 2012, a total of 500,000 kWh of  
2 renewable energy was procured that year. The procured renewable energy exceeded Ajo's annual  
3 requirement of 444,354 kWh for 2012, based on retail sales of 12,695,836 kWh. The procured  
4 renewable energy originated from renewable energy credits ("RECs") generated by Tucson  
5 Electric Power Company's ("TEP") landfill gas operation. The RECs were purchased from TEP  
6 by Ajo's sister company, Morenci Water & Power Company ("Morenci"), on behalf of Ajo, and  
7 were sold to Ajo at Morenci's cost. Ajo has indicated that it anticipates purchasing additional  
8 RECs to meet its 2013 and 2014 total Annual Renewable Energy Requirement.

9           4.       Ajo has reported that in 2012 it awarded incentives for the installation of three  
10 photovoltaic ("PV") solar power systems with a combined total capacity of 6.2 kW, and an  
11 estimated total annual output of 10,800 kWh. These installations are significant in that they are the  
12 first distributed generation systems installed in Ajo's service territory since the inception of the  
13 REST Rules. Although Ajo plans to meet its total Renewable Energy Requirement for 2013, Ajo  
14 will not meet the portion of its total annual Renewable Energy Requirement dealing with  
15 distributed renewable energy pursuant to A.A.C. R14-2-1805.

16 The 2013 REST Plan

17           5.       Based on estimated kWh sales of approximately 12,600,000 in 2013 and 2014, Ajo  
18 anticipates that its total Annual Renewable Energy Requirement, pursuant to A.A.C. R14-2-1804,  
19 will be approximately 504,000 kWh in 2013 and 567,000 kWh in 2014. Ajo further anticipates  
20 that its Distributed Renewable Energy Requirement, pursuant to R14-2-1805, will be  
21 approximately 151,200 kWh in 2013 and 170,100 kWh in 2014.

22           6.       Ajo's 2013 Plan is largely unchanged from previous years. Ajo proposes to resume  
23 collection of the \$0.004988 per kWh REST surcharge and maintain existing incentive rates and  
24 collection caps. The proposed incentive rates and collections caps are further discussed in the  
25 following section of this report.

26           7.       According to Ajo, it serves approximately 1,029 customers (857 residential  
27 customers, 172 non-residential customers, and 1 resale customer). Ajo states that many of its  
28 customers are retirees or on fixed incomes. Ajo's service territory is remote and approximately

1 one square mile in area. Ajo does not anticipate much growth in the future. Therefore, the funds  
2 collected to meet the REST rules will be limited primarily to existing customers.

3 Distributed Renewable Energy Resources

4 8. Ajo would continue to offer incentive payments to customers to install Distributed  
5 Renewable Energy Resources, pursuant to A.A.C. R14-2-1809. Eligible renewable energy  
6 technologies listed in the 2013 Plan include photovoltaic systems, solar space cooling, non-  
7 residential solar water heating and space cooling, small residential solar water heating, small  
8 residential solar space heating, biomass/biogas cooling, non-residential solar daylighting, and  
9 small wind generators. Incentive payments are one-time, up-front payments based on a 20-year  
10 REC agreement and will be determined based on system capacity and/or estimated annual kWh  
11 production. The maximum incentive amount per project is capped at 60 percent of system costs  
12 (including financing) or \$11,000. Ajo intends to continue to distribute incentives on a first-come,  
13 first-served basis, with an equal allocation of incentives between residential and non-residential  
14 applicants.

15 9. The incentive amounts proposed in the 2013 Plan are unchanged from 2012  
16 amounts, except for solar water heating / space heating, and are as follows:

17 **Table I**  
18 **Incentives for Distributed Renewable Energy Resources**

19 <b>System Type</b>	<b>Proposed 2013 Incentives</b>
20 Biomass/Biogas (electric, thermal, cooling)	TBD
21 Biomass/Biogas CHO (electric & thermal)	TBD
22 Daylighting	\$0.20/kWh of first year energy savings only.
23 Geothermal (electric)	\$0.50 / Watt
Geothermal (thermal)	\$1.00 / Watt
24 Hydroelectric	TBD
Small wind generators	\$2.50/Watt AC
25 Solar electric (photovoltaic) - Residential	\$5.00/Watt DC for the first application received; \$4.00/Watt DC for the second application received; and \$3.50/Watt DC for all subsequent applications.
26 Solar electric (photovoltaic) - Non- residential	

1	Solar Space Cooling	TBD
2	Non-residential Solar Water Heating/Space Heating	TBD
3	Residential Solar Water Heating/Space Heating	\$0.75/kWh for the first year of service only.
4	Non-residential Pool Heating	TBD

5

6 10. Ajo proposes to lower the incentive for solar water heating / space heating to \$0.75  
7 per kWh of energy saved over the first year of system operation, from \$1.20 per kWh. Ajo states  
8 that this reduction will make Ajo's incentive comparable to those offered by other small Arizona  
9 electric service providers.

10 11. Amounts noted as "TBD" are for technologies that require the applicant to submit  
11 an engineering report from a licensed, professional engineer that includes anticipated energy  
12 savings and the designed output for the system. Ajo would then review the submission to validate  
13 anticipated energy savings and set a project-specific incentive based on the anticipated energy  
14 savings.

15 12. Any customers paying tariff funds of at least \$25,000 annually for any number of  
16 related accounts or services within Ajo's service territory are eligible for the "Customer Self-  
17 Directed Renewable Energy Option", as codified in A.A.C. R14-2-1809. Ajo states that it does not  
18 have, nor anticipates having, any customer that would qualify for the Self-Direction Option.  
19 Therefore, Ajo is proposing a zero budget for this option.

20 Budget

21 13. Ajo has submitted the following proposed REST budget:

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**Table II**  
**Ajo Improvement Company Proposed Budget**

	2013	2014	2015	2016	2017	Total
<b>Renewable Energy Resources</b>						
Total Renewable Energy – Prospective Procurement (Eligible Renewable Resources)	\$15,750	\$17,719	\$19,687	\$23,625	\$27,563	\$104,344
Utility-Owned Systems	\$0	\$0	\$0	\$0	\$0	\$0
Administration, implementation, commercialization & integration	\$5,000	\$400	\$400	\$5,000	\$5,000	\$15,800
<b>Renewable Energy - Subtotal</b>	<b>\$20,750</b>	<b>\$18,119</b>	<b>\$20,087</b>	<b>\$28,625</b>	<b>\$32,563</b>	<b>\$120,144</b>
<b>Distributed Renewable Energy Resources</b>						
Incentives	\$254,783	\$286,631	\$318,479	\$382,174	\$445,870	\$1,687,937
Customer Self-Directed Option	\$0	\$0	\$0	\$0	\$0	\$0
Administration, implementation, commercialization & integration	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$25,000
<b>Distributed Energy Subtotal</b>	<b>\$259,783</b>	<b>\$291,631</b>	<b>\$323,479</b>	<b>\$387,174</b>	<b>\$450,870</b>	<b>\$1,712,937</b>
<b>TOTAL</b>	<b>\$280,533</b>	<b>\$309,750</b>	<b>\$343,566</b>	<b>\$415,799</b>	<b>\$483,433</b>	<b>\$1,833,081</b>

14. Ajo states that this budget has not been used to calculate the Renewable Energy Standards Surcharge (“RESS”). Rather, the budget is submitted to demonstrate the level of funding required to meet the Distributed Renewable Energy Requirement.

15. Ajo has historically collected a RESS of \$0.004988 per kWh. However, the Commission ordered Ajo to suspend collection of the RESS by Decision No. 72894 on February 17, 2012, because of over-collection relative to incentive demand. Ajo proposes to resume collection of the RESS in its 2013 Plan with the following collection caps:

- 1 • \$1.05 per month for each residential customer;
- 2 • \$39.00 per month for each non-residential customer;
- 3 • \$117.00 per month for each non-residential customer with demand over 3
- 4 MW per month for three consecutive months.

5 16. Based on its current customer census, Ajo estimates that it would annually collect  
6 between \$21,000 and \$22,000 from customers through the RESS in 2013 and 2014. Ajo states that  
7 the RESS may provide sufficient funding for Ajo to meet its REST Rule requirements through the  
8 purchase of grid-tied Eligible Renewable Energy Resources in 2013 and 2014. However, this level  
9 of funding will not be sufficient to meet the annual Distributed Renewable Energy Requirement.

10 17. Ajo states that it does not believe that raising the RESS rates or monthly caps is  
11 necessary or appropriate at this time as there has been little interest from customers to install  
12 distributed renewable generation on customer premises. Ajo states that it would file to amend the  
13 RESS if and when customer interest is at a level warranting a higher collection.

14 18. Ajo has collected a relatively large amount of REST funds over the past several  
15 years but has not been able to award these funds as incentives due to the lack of customer demand.  
16 Ajo states that it had a 2012 year-end "carryover" of REST funds of approximately \$40,326.  
17 Based on the amount of the carryover compared with Ajo's 2013 REST Plan obligations, Staff has  
18 further recommended that Ajo be directed to continue suspension of REST collections for an  
19 additional two years, beginning January 1, 2013, or until the Commission orders otherwise. Staff  
20 has further recommended the following 2013 REST Plan budget for Ajo:

21 **Table III**  
22 **Staff's Proposed Budget**

	<b>2013 Ajo</b>	<b>2013 Staff</b>
<b>Renewable Energy Resources</b>		
Total Renewable Energy Prospective Procurement (Eligible Renewable Resources)	\$15,750	\$15,750
Utility-Owned Systems	\$0	\$0
Administration, implementation, commercialization & integration	\$5,000	\$2,500

<b>Renewable Energy Subtotal</b>	\$20,750	\$18,250
<b>Distributed Renewable Energy Resources</b>		
Incentives	\$254,783	\$19,576
Customer Self-Directed Option	\$0	\$0
Administration, implementation, commercialization & integration	\$5,000	\$2,500
<b>Distributed Energy Subtotal</b>	<b>\$259,783</b>	<b>\$22,076</b>
<b>TOTAL</b>	<b>\$280,533</b>	<b>\$40,326</b> <b>(for 2yrs)</b>

19. Under Staff's proposed 2013 budget, all carryover funds remaining after Ajo's purchase of RECs would be available for award as incentives, should customer demand for these incentives materialize. If no customer demand for incentives materializes in 2013, Ajo could apply the carryover funds towards its 2014 Renewable Energy Requirement.

20. Staff has further recommended that Ajo be granted a two-year waiver from compliance with the Distributed Renewable Energy Requirement, given Ajo's unique customer profile and the lack of customer demand for incentives.

#### Tariffs and Plan Schedule

21. Ajo has stated that because there have been only three applications submitted for incentives for eligible distributed renewable energy resources since the inception of its REST program, increasing the RESS surcharge and monthly caps is not justified at this time. In addition, Ajo states that any unused funds collected would continue to be rolled over to help fund future year's REST requirements. Therefore, Ajo proposes that its Distributed Renewable Energy Resources incentives, Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard Surcharge tariff should remain in effect through 2014, with Ajo filing its next REST Plan for approval on July 1, 2014.

#### REST Plan Formats

22. As directed by the Commission, Ajo participated with Arizona Public Service and Tucson Electric Power Company in an effort to establish standardized reporting formats for both REST Implementation Plans and REST Compliance Reports. The Working Group docketed a report with its recommendations, and Staff approved the recommendations on February 19, 2013,

1 in Docket No. E-1345A-11-0264. Ajo must utilize these format standards on future REST  
2 Implementation Plans and REST Compliance Reports.

3 Recommendations

4 23. Staff has recommended that Ajo's 2013 REST Implementation Plan be approved as  
5 modified and discussed herein.

6 24. Staff has further recommended that Ajo be ordered to suspend collections of the  
7 RESS for an additional two years beginning January 1, 2013, or until the Commission directs  
8 otherwise.

9 25. Staff has further recommended that Ajo be ordered to adopt Staff's proposed 2013  
10 and 2014 REST Plan Budget.

11 26. Staff has further recommended that Ajo be granted a two-year waiver from  
12 compliance with the Distributed Renewable Energy Requirement.

13 27. Staff has further recommended that Ajo file its RESS tariff in compliance with the  
14 Decision in this case within 15 days of the effective date of the Decision.

15 CONCLUSIONS OF LAW

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

18 2. The Commission has jurisdiction over Ajo Improvement Company and over the  
19 subject matter of the application.

20 3. The Commission, having reviewed the application and Staff's Memorandum dated  
21 April 17, 2013, concludes that it is in the public interest to approve the 2013 REST  
22 Implementation Plan as modified and discussed herein.

23 ORDER

24 IT IS THEREFORE ORDERED that Ajo Improvement Company's 2013 REST  
25 Implementation Plan is approved as modified and discussed herein.

26 IT IS FURTHER ORDERED that Ajo Improvement Company suspend collections of the  
27 RESS for an additional two years beginning January 1, 2013, or until the Commission directs  
28 otherwise.

1 IT IS FURTHER ORDERED that Ajo Improvement Company shall adopt Staff's proposed  
2 2013 and 2014 REST Plan Budget.

3 IT IS FURTHER ORDERED that Ajo Improvement Company be granted a two-year  
4 waiver from compliance with the Distributed Renewable Energy Requirement.

5 IT IS FURTHER ORDERED that Ajo Improvement Company shall file its next REST  
6 Implementation Plan on or before July 1, 2014, as dictated by A.A.C. R14-2-1813.

7 IT IS FURTHER ORDERED that Ajo Improvement Company shall file its RESS tariff in  
8 compliance with the Decision in this case within 15 days of the effective date of the Decision.

9 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

10  
11 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

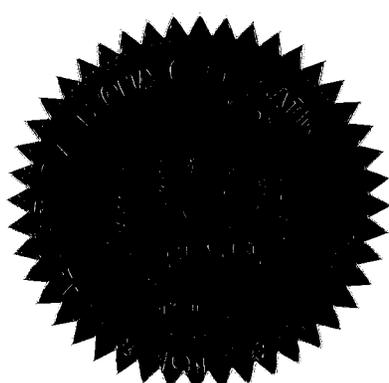
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14 CHAIRMAN

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14 COMMISSIONER

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16 COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, 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 8th day of May, 2013.

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24 JODI JERICH  
EXECUTIVE DIRECTOR

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

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

28 SMO:RBL:sms/WVC

1 SERVICE LIST FOR: AJO IMPROVEMENT COMPANY

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