

ORIGINAL

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

RECEIVED

TO: THE COMMISSION

DOCKETED

2013 SEP 30 P 1:42

FROM: Utilities Division

SEP 30 2013

DATE: September 30, 2013

DOCKETED BY *[Signature]*

RE: ARIZONA PUBLIC SERVICE COMPANY'S APPLICATION FOR APPROVAL OF ITS 2014 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN FOR RESET OF RENEWABLE ENERGY ADJUSTOR (DOCKET NO. E-01345A-13-0140)

On July 12, 2013, Arizona Public Service Company ("APS") filed its 2014 Renewable Energy Standard ("REST") Implementation Plan ("Plan") to reset its renewable energy adjustor.

The APS 2014 REST Plan does not propose any new programs. The Plan seeks the incremental funding to fulfill previously approved projects and commitments consistent with prior Commission Orders. The Plan outlines how APS will meet its REST requirements as well as the renewable requirements in the 2009 Settlement. The 2014 APS REST Plan includes:

- Plans to continue all Commission-approved programs and commitments;
- A proposal to expand the RES adjustor categories from three customer classes to five customer classes to better match various commercial customer segments and improve proportionality;
- A request for minor revisions to the Distributed Energy Administration Plan ("DEAP") to conform to current conditions; and
- A request for budget approval to continue all previously authorized programs and commitments in the total amount of \$143 million for 2014 and a request for approval to collect \$114 million through the RES adjustor in 2014, while retaining the flexibility to modify up-front incentives as discussed in APS's net metering proposal.

The 2014 REST Plan continues existing authorized programs and commitments, including the following:

- Power Purchase Agreement ("PPA") contract commitments (\$50.6 million in 2014)
- Production Based Incentive ("PBI") contract obligations (\$40.1 million in 2014)
- AZ Sun Program revenue requirements (\$36.2 million in 2014)¹

In addition, the Plan outlines APS's intent to move ahead with Requests for Proposals ("RFP"), sign contracts and begin construction on the final 50 MW of the AZ Sun Program in 2014. The final 50 MW of AZ Sun is anticipated to include the following: 10 MW at Luke Air

¹ This recovers the revenue requirement for AZ Sun projects that have not been included in rate base.

Force Base, 10 MW at City of Phoenix, and 30 MW at APS's Redhawk facility. These projects are necessary for APS to meet its RES and 2009 Settlement, Decision No. 71448 (December 30, 2009), obligations. By continuing development of these projects in 2014, APS projects that it will meet its obligations in 2015.

In Decision No. 73636, the Commission directed APS to consider expansion of the current three REST Surcharge categories into an expanded number of categories. APS has proposed an expansion of REST surcharge categories to five: residential, small commercial, medium commercial, large commercial, and industrial. The small commercial category includes both the extra small and small classes, as well as churches. The medium commercial category includes medium commercial rate classes. The large commercial category includes customers taking service under APS's large commercial rate schedules. The residential and industrial categories would remain as currently configured.

In its REST Plan, beginning in 2014, APS proposes that collections from the RES adjustor move to the five customer class approach described below that would divide the current commercial category into three distinct groups based on customer rate schedules. The proposed customer definition for adjustor charges would be:

- **Residential** (*Estimated at 1,018,000 customers*) – Same as current, applicable to all residential customers. Any customer consuming 400 kWh or above continues to pay the cap (if one exists).
- **Small Commercial** (*Estimated at 116,000 customers*) – Applicable to customers on rate schedules E-32 XS/S, E-32 TOU XS/S (General Service Extra Small and Small, both Standard and Time of Use), E-20 (House of Worship Rate), and E-221 with a demand of less than 100 kW (Water Pumping) and those rates with any applicable riders. Any customer consuming 14,857 kWh or above continues to pay the cap (if one exists).
- **Medium Commercial** (*Estimated at 6,900 customers*) – Applicable to customers on rate schedules E-32 Medium, E-32 TOU Medium, and E-221 (Water Pumping) with 100-400 kW of demand, and those rates with any applicable riders. Any customer consuming 25,000 kWh or above would pay the cap (if one exists).
- **Large Commercial** (*Estimated at 1,000 customers*) – Applicable to customers on rate schedules E-32 Large and E-32 TOU Large customers and E-221 (Water Pumping) with 400-3,000 kW of demand, and those rates with any applicable riders. Any customer consuming 50,000 kWh or above would pay the cap (if one exists).
- **Industrial** (*Estimated at 116 customers*) – Same as current, applicable to Industrial customers, generally E-34 and E-35 customers. Any customer consuming 100,000 kWh or above would pay the cap (if one exists).

There are numerous ways that revenue collections by the REST adjustor could be distributed across the five customer categories. APS has requested direction from the Commission on an appropriate method to allocate costs to each group. In Figure D on Page 12 of the APS REST Plan 2014-2018, APS shows three examples of an adjustor cost allocation for informational purposes.

APS Example 1 Option (Shown at top of Table 1 on the next page.)

Example 1 shows the 2014 adjustor using the current three class method and a proportional cost allocation similar to what was approved in APS's current Renewable Energy Standard Adjustment Schedule ("REAC-1").

APS Example 2 Option (Shown in Table 1, next page.)

Example 2 outlines APS's proposed five customer categories. In this example, residential and small commercial customers with low energy consumption would see a relatively modest increase compared to the growth in the budget, with many customers paying well below the class cap. Medium commercial, large commercial and industrial customers would pay proportionately more of the RES budget due to their larger energy consumption. Although, at their class caps, these customers would still pay less than their actual contribution to energy consumption across all categories.

APS Example 3 Option (Shown in Table 1, next page.)

Example 3 has no customer caps for the five customer categories proposed by APS. In this scenario, all customers would pay an equal share of the RES program costs based upon their individual kWh energy consumption.

Staff has reviewed the APS proposed REST adjustor examples shown in Figure D of the APS filing. Staff believes that the increase in the adjustor charge in Example 3 (with no caps) would be too large an increase for the Large Commercial and Industrial customers. Therefore, Staff does not recommend an adjustor without caps, at this time.

Staff believes that Example 2 would be an appropriate allocation of the costs of the REST program. By expanding to five customer categories, the costs of the REST program will more accurately reflect how the various commercial customer categories utilize electricity. This should more equitably distribute the costs of the REST program across the spectrum of APS's customers.

It is worth noting that, although the caps and average surcharge amount will increase in both 2014 and 2015, the proposed caps and average surcharge amounts would decrease in 2016, 2017, and 2018 in APS Example 2 from Figure D.

Each of these Examples/Options is shown in Table 1.

Table 1: REST Adjustor Examples Proposed by APS (from Figure D, APS Application)

Customer Class	Residential	Small Commercial	Medium Commercial	Large Commercial	Industrial
Rate Schedule	E-32 XS/S, E-32 TOU XS/S, E-221 <100kW	E-32M, E-32M TOU, E-221 100-400kW	E-32L, E-32L TOU, E-221 400-3,000kW	E-34, E-35	
Example 1: (Current) Continue three customer class proportionality					
2014	RES Adjustor (in \$M)	\$ 114.4			
	\$/kWh	\$ 0.011212			
	Cap	\$ 4.48	\$ 166.58		\$ 3,500.00
	Average	\$ 4.29	\$ 33.04		\$ 3,500.00
Example 2: Continue proportionality, but with expansion to five customer classes					
2014	RES Adjustor (in \$M)	\$ 114.4			
	\$/kWh	\$ 0.010772			
	Average	\$ 3.92	\$ 25.76	\$ 236.43	\$ 500.71
2015	RES Adjustor (in \$M)	\$ 129.6			
	\$/kWh	\$ 0.011978			
	Average	\$ 4.36	\$ 28.30	\$ 262.90	\$ 556.77
2016	RES Adjustor (in \$M)	\$ 122.6			
	\$/kWh	\$ 0.011088			
	Average	\$ 4.04	\$ 25.79	\$ 243.37	\$ 515.40
2017	RES Adjustor (in \$M)	\$ 88.8			
	\$/kWh	\$ 0.007804			
	Average	\$ 2.84	\$ 17.88	\$ 171.29	\$ 362.75
2018	RES Adjustor (in \$M)	\$ 77.1			
	\$/kWh	\$ 0.006592			
	Average	\$ 2.40	\$ 15.00	\$ 144.69	\$ 306.41
Example 3: No caps. Move adjustor to \$/kWh charge based on actual energy consumption					
2014	RES Adjustor (in \$M)	\$ 114.4			
	\$/kWh	\$ 0.004044			
	Average	\$ 4.46	\$ 5.80	\$ 252.19	\$ 1,174.81
2015	RES Adjustor (in \$M)	\$ 129.6			
	\$/kWh	\$ 0.004520			
	Average	\$ 4.98	\$ 6.49	\$ 281.87	\$ 1,313.09
2016	RES Adjustor (in \$M)	\$ 122.6			
	\$/kWh	\$ 0.004206			
	Average	\$ 4.64	\$ 6.03	\$ 262.29	\$ 1,221.87
2017	RES Adjustor (in \$M)	\$ 88.8			
	\$/kWh	\$ 0.002990			
	Average	\$ 3.30	\$ 4.29	\$ 186.46	\$ 868.62
2018	RES Adjustor (in \$M)	\$ 77.1			
	\$/kWh	\$ 0.002552			
	Average	\$ 2.82	\$ 3.66	\$ 159.14	\$ 741.38

Additional Information about the Three APS Options

For the APS Example Options with five customer categories, the average monthly REAC charge per customer would be:

Table 2: Average REAC Charge by Customer Class

	APS Option 1 (Same as 2013)	2014 APS Example 2 Option	2014 APS Example 3 Option
Residential Average	\$3.37	\$3.92	\$4.46
Small C/I Average* (under 100 kW)	\$28.43	\$25.76	\$32.35
Medium C/I Average (100-400 kW)		\$236.43	\$252.19
Large C/I Average (400 kW-3 MW)		\$500.71	\$1,174.81
Large C/I Average (over 3 MW)	\$2,200.00	\$3,500.00	\$12,983.23

*Small C/I Average from Example 3 based on 8,000 kWh.

The customer bills will depend on the Option chosen by the Commission. Table 3 shows the bill impacts on various types of customers.

Table 3: Customer Bill Impacts for Various Monthly Consumption

Example Customer Types	kWh/month	APS Option 1 (Same as 2013)	2014 APS Example 2 Option	2014 APS Example 3 Option
Residence Consuming 400 kWh	400	\$3.83	\$4.31	\$1.62
Residence Consuming 869 kWh	869	\$3.83	\$4.31	\$3.51
Residence Consuming 2,000 kWh	2,000	\$3.83	\$4.31	\$8.09
Dentist Office	2,000	\$19.15	\$21.54	\$8.09
Hairstylist	3,900	\$37.34	\$42.01	\$15.77
Department Store	170,000	\$142.25	\$160.04	\$687.48
Mall	1,627,100	\$142.25	\$538.60	\$6,579.99
Retail Video Store	14,400	\$138.26	\$155.55	\$58.40
Large Hotel	1,067,100	\$142.25	\$538.60	\$4,315.35
Large Building Supply	346,500	\$142.25	\$538.60	\$1,401.25
Mine	26,113,793	\$2,200.00	\$3,500.00	\$105,604.00

Recovery of Funds Through the 2014 REAC Charge

APS has projected, in Table 4, that it will collect the following amounts per customer group through its REST Plan Adjustment Schedule REAC-1:

Table 4: REAC-1 Contribution by Customer Group (percentage)

	APS Option 1 (Same as 2013)	2014 APS Example 2 Option	2014 APS Example 3 Option	2014 Projected Sales (MWH)
Residential	\$43,491,610 47.2%	\$49,292,531 43.1%	\$54,328,433 47.5%	13,433,610 47.5%
Small C & I	\$45,836,461 50.4%	\$38,869,980 34.0%	\$16,487,667 14.4%	4,076,850 14.4%
Medium C & I		\$14,384,616 12.6%	\$14,357,833 12.6%	3,550,213 12.6%
Large C & I		\$6,992,475 6.1%	\$15,977,536 14%	3,950,712 14.0%
Industrial	\$2,771,929 2.4%	\$4,860,397 4.2%	\$13,248,431 11.6%	3,275,920 11.6%
Total	\$92,100,000	\$114,400,000	\$114,400,000	28,287,305

APS collects \$6 million in base rates dedicated to renewables. The \$6 million in base rates will be collected as shown in Table 5:

Table 5: Collections from Base Rates

	APS Option 1 (Same as 2013)	2014 APS Example 2 Option	2014 APS Example 3 Option
Residential	\$2,865,121	\$2,849,393	\$2,849,393
Small C & I	\$2,467,017	\$864,738	\$864,738
Medium C & I		\$753,033	\$753,033
Large C & I		\$837,983	\$837,983
Industrial	\$667,862	\$694,853	\$694,853
Total	\$6,000,000	\$6,000,000	\$6,000,000

The REAC-1 and Base Rate collections shown in Tables 4 and 5 will combine to total the collection shown in Table 6:

Table 6: Total Collection (REAC-1 plus Base Rates)

	APS Option 1 (Same as 2013)	2014 APS Example 2 Option	2014 APS Example 3 Option
Residential	\$43,491,610	\$52,141,925	\$57,177,827
Small C & I	\$45,836,461	\$39,734,718	\$17,352,405
Medium C & I		\$15,137,649	\$15,110,866
Large C & I		\$7,830,458	\$16,815,519
Industrial	\$2,771,929	\$5,555,250	\$13,943,384
Total	\$92,100,000	\$120,400,000	\$120,400,000

In the 2014 REST Plan, APS proposes certain revisions to the DEAP to accommodate current program and market conditions. This would include the deployment of production meters and the elimination of any active distributed energy direct cash incentive program. APS, in its 2014 REST Plan, is not requesting any new incentives for distributed generation. The Plan does not include any of APS's proposed net metering solutions. Net metering solutions are being addressed in a separate net metering docket. In the DEAP, APS clarifies that APS's interconnection requirements for distributed energy will continue to apply to all grid-tied renewable projects, whether there is a direct cash incentive or not.

APS claims that it will be able to meet its renewable requirements through previously authorized programs and commitments, including PPAs, PBI legacy payments, and the AZ Sun program, among others.

Funding the authorized programs will necessitate budget increases in 2014 and 2015, but after those years the RES budget is expected to decline as additional AZ Sun projects are included in rate base. The 2014 APS RES budget will be approximately \$143 million. In order to moderate the 2014 budget impact on customers, APS proposes to apply budget offsets that will reduce the amount APS will collect through the RES adjustor for 2014 to approximately \$114 million, as shown in Table 4.

APS indicates that approximately \$28.5 million is able to be reallocated to mitigate the effects of the 2014 and 2015 budgets and to reduce the funding needed to be collected through the RES adjustor. APS will apply previously identified, unallocated funds as well as additional unallocated funds to reduce the APS 2014 and 2015 budgets. In the APS 2012 RES Compliance Report, APS identified \$8.5 million in prior year unallocated funds that APS will apply as an offset to its 2014 and 2015 budgets.

Also, another approximately \$20 million has been identified by APS for budget offsets in 2014 and 2015 due to variances in power purchase cost programs being completed under budget, rate program revenues, project cancellations and rollover funds. The APS proposal is to apply approximately one-half of the \$28.5 million to support the 2014 budget and one-half toward supporting the 2015 budget in order to minimize year over year budget impacts on customers.

APS receives Production Tax Credits ("PTCs") from its ownership of AZ Sun projects. The PTCs vary from year to year, depending on actual energy production. APS has calculated that it will receive approximately \$8.2 million in PTCs for AZ Sun projects in 2014.

APS intends to apply these PTC funds to its 2014 budget to reduce the funding that must be collected through the RES adjustor.

A summary budget for the APS 2014 REST Plan is shown below:

Table 7: APS's Proposed 2014 Budget

Line No.		2014
1	Renewable Generation	
2	<i>Renewable Generation Contracts and Operation and Maintenance</i>	
3	Purchases and Generation ^{1,2}	\$ 86.8
4	Administration	0.7
5	Implementation	1.4
6	Total Renewable Generation	\$ 88.9
7		
8		
9	Customer Sited Distributed Energy	
10	<i>Existing Contracts and Commitments</i>	
11	Flagstaff Community Power Project	\$ 0.7
12	DE RFP	5.8
13	Production-based Incentives	26.6
14	Schools and Government Program Incentives ³	7.8
15	APS Schools and Government Program ^{1,4}	6.0
16	Total Existing Contracts and Commitments	\$ 46.9
17		
18	<i>Non-Incentive Distributed Energy Costs</i>	
19	Administration	\$ 0.5
20	Implementation ⁵	6.1
21	Information Technology	0.5
22	Educational Outreach: Non-Incentive Costs	0.1
23	Total Non-Incentive DE Costs	\$ 7.2
24		
25	Total Customer Sited DE (line 16 + line 23)	\$ 54.1
26		
27	TOTAL RES BUDGET⁵ (line 6 + line 25)	\$ 143.0
28		
29	Offsets to Base Budget	
30	Base Rates	\$ (6.0)
31	PTC	(8.2)
32	Estimated Green Choice Revenue Credit	(0.4)
33	Previous Years Rollover Funds and Other Credits	(14.0)
34	RE Surcharge Collection²	\$ 114.4

Notes:

¹Assumes rate case adjudication in July 2016.

²Total dollars includes costs for Sexton (Glendale Landfill) PPA of approximately \$40k/yr, totaling \$0.2M for 2014-2017.

³Third-party owned portion of the current 2011 and 2012 Schools and Government Programs.

⁴APS-owned portion of the 2011 and 2012 School and Government Programs.

⁵Includes revenue requirements, customer notification and installation costs for production metering as required by Decision No. 72737.

Table 8: REST Expenditure Budget/Funding

2014 Budget	\$143.0 million
<u>Funding</u>	
Base Rates, PTC, Green Choice, Rollovers, and Credits, i.e. Offsets shown in Table 7	\$28.6 million
RES Funding	\$114.4 million
Total	\$143.0 million

Staff Recommendations

Staff has reviewed the APS application and APS's response to Staff's data requests.

Staff believes that the proposed APS budget for 2014 is appropriate. The funding will only provide support for projects and programs that have already received Commission approval. Most of the projects that will be installed in 2014 are the result of multiple-year efforts to find the least-cost renewable systems through competitive programs and RFPs and through multiple-year PBI contracts. Others, such as the Solana project, are the result of over five years of effort, planning and construction. There are no new proposed projects or programs included in the APS 2014 REST Plan or in its budget. Staff recommends approval of the proposed budget.

Staff recommends approval of the APS-proposed expansion of the RES adjustor customer categories from three to five. Staff further recommends approval of the revisions proposed by APS to its DEAP in order to conform to current conditions.

Staff recommends Commission approval of the APS plan to move ahead with RFPs, sign contracts and begin construction on the final 50 MW phase of the AZ Sun Program in 2014.

Staff recommends that the Commission approve the APS request to continue all previously authorized and funded programs, projects, contracts, and commitments.

Staff recommends approval of a total RES budget of \$143.0 million.

Staff recommends approval of the APS-proposed rollover of \$28.6 million, as discussed herein, to reduce the RES adjustor funding needed to meet the budget.

Staff recommends approval of APS Example 2, as discussed above, as the best mechanism to collect the required \$114.4 million.

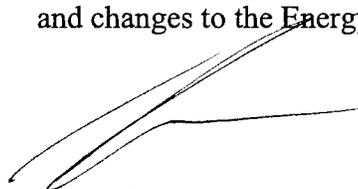
Staff recommends approval of the Example 2 RES adjustor of \$0.010772 per kWh, with a monthly cap of \$4.31 for residential customers, \$160.04 for small commercial customers, \$269.30 for medium commercial customers, \$538.80 for large commercial customers, and \$3,500 for industrial customers.

THE COMMISSION

September 30, 2013

Page 10

Staff recommends approval of the minor changes proposed by APS for the Distributed Energy Administration Plan to include a Notice of Applicability and Interconnection, changes to the Metering and Meter Reading Section, changes to the Residential Funding Allocation Section, and changes to the Energy.



Steven M. Olea
Director
Utilities Division

SMO:RTW:lhm\CHH

ORIGINATOR: Ray Williamson

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY - REQUEST FOR
APPROVAL OF ITS 2014 RENEWABLE ENERGY
STANDARD IMPLEMENTATION PLAN FOR
RESET OF RENEWABLE ENERGY ADJUSTOR

DOCKET NO. E-01345A-13-0140

DECISION NO. _____

ORDER

Open Meeting
October 16 and 17, 2013
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS") is certificated to provide electric service as a public service corporation in the State of Arizona.
2. The APS 2014 REST Plan does not propose any new programs. The Plan seeks the incremental funding to fulfill previously approved projects and commitments consistent with prior Commission Orders.
3. The Plan outlines how APS will meet its REST requirements as well as the renewable requirements in the 2009 Settlement. The 2014 APS REST Plan includes:
 - Plans to continue all Commission-approved programs and commitments;
 - A proposal to expand the RES adjustor categories from three customer classes to five customer classes to better match various commercial customer segments and improve proportionality;
 - A request for minor revisions to the Distributed Energy Administration Plan ("DEAP") to conform to current conditions; and

...

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2 commitments in the total amount of \$143 million for 2014 and a request for approval to
3 collect \$114 million through the RES adjustor in 2014, while retaining the flexibility to
4 modify up-front incentives as discussed in APS's net metering proposal.

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5 including the following:

- 6 • Power Purchase Agreement ("PPA") contract commitments (\$50.6 million in 2014)
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10 Proposals ("RFP"), sign contracts and begin construction on the final 50 MW of the AZ Sun
11 Program in 2014. The final 50 MW of AZ Sun is anticipated to include the following: 10 MW at
12 Luke Air Force Base, 10 MW at City of Phoenix, and 30 MW at APS's Redhawk facility. These
13 projects are necessary for APS to meet its RES and 2009 Settlement, Decision No. 71448
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18 commercial category into three distinct groups based on customer rate schedules. The proposed
19 customer definition for adjustor charges would be:

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25 both Standard and Time of Use) E-20 (House of Worship Rate), and E-221 with a
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28 exists).
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2 consuming 25,000 kWh or above would pay the cap (if one exists).

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21 the class cap. Medium commercial, large commercial and industrial customers would pay
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3 caps) would be too large an increase for the Large Commercial and Industrial customers.
4 Therefore, Staff does not recommend an adjustor without caps, at this time.

5 12. Staff believes that Example 2 would be an appropriate allocation of the costs of the
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7 more accurately reflect how the various commercial customer categories utilize electricity. This
8 should more equitably distribute the costs of the REST program across the spectrum of APS's
9 customers.

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	Cap	\$ 4.79	\$ 177.96	\$ 266.45	\$ 568.90	\$ 3,750.00
	Average	\$ 4.38	\$ 28.30	\$ 252.90	\$ 556.77	\$ 3,750.00
2006	RES Adjustor (in \$M)	\$ 122.6				
	\$/kWh	\$ 0.011068				
	Cap	\$ 4.44	\$ 164.78	\$ 277.20	\$ 554.40	\$ 3,500.00
	Average	\$ 4.04	\$ 25.79	\$ 243.37	\$ 515.40	\$ 3,500.00
2007	RES Adjustor (in \$M)	\$ 88.8				
	\$/kWh	\$ 0.007804				
	Cap	\$ 3.42	\$ 115.94	\$ 195.10	\$ 500.00	\$ 3,000.00
	Average	\$ 2.84	\$ 17.86	\$ 171.29	\$ 362.76	\$ 3,000.00
2008	RES Adjustor (in \$M)	\$ 77.1				
	\$/kWh	\$ 0.006592				
	Cap	\$ 2.64	\$ 87.84	\$ 164.80	\$ 329.50	\$ 2,700.00
	Average	\$ 2.40	\$ 15.00	\$ 144.69	\$ 305.41	\$ 2,700.00
Example 3: No cap. Move adjustor to \$/kWh charge based on actual energy consumption						
2004	RES Adjustor (in \$M)	\$ 114.4				
	\$/kWh	\$ 0.004044				
	Average	\$ 4.46	\$ 5.80	\$ 252.19	\$ 1,174.81	\$ 12,983.23
2005	RES Adjustor (in \$M)	\$ 129.6				
	\$/kWh	\$ 0.004520				
	Average	\$ 4.93	\$ 6.48	\$ 261.87	\$ 1,313.09	\$ 14,687.68
2006	RES Adjustor (in \$M)	\$ 122.6				
	\$/kWh	\$ 0.005205				
	Average	\$ 4.64	\$ 6.03	\$ 262.29	\$ 1,221.87	\$ 13,583.42
2007	RES Adjustor (in \$M)	\$ 88.8				
	\$/kWh	\$ 0.002990				
	Average	\$ 3.30	\$ 4.29	\$ 188.46	\$ 668.52	\$ 9,208.42
2008	RES Adjustor (in \$M)	\$ 77.1				
	\$/kWh	\$ 0.002552				
	Average	\$ 2.82	\$ 3.66	\$ 159.14	\$ 741.38	\$ 7,638.76

1 Additional Information about the Three APS Options

2 15. For the APS Example Options with five customer categories, the average monthly
3 REAC charge per customer would be:

4 Table 2: Average REAC Charge by Customer Class

	APS Option 1 (Same as 2013)	2014 APS Example 2 Option	2014 APS Example 3 Option
Residential Average	\$3.37	\$3.92	\$4.46
Small C/I Average* (under 100 kW)	\$28.43	\$25.76	\$32.35
Medium C/I Average (100-400 kW)		\$236.43	\$252.19
Large C/I Average (400 kW-3 MW)		\$500.71	\$1,174.81
Large C/I Average (over 3 MW)	\$2,200.00	\$3,500.00	\$12,983.23

11 *Small C/I Average from Example 3 based on 8,000 kWh.

12 16. The customer bills will depend on the Option chosen by the Commission. Table 3
13 shows the bill impacts on various types of customers.

14 Table 3: Customer Bill Impacts for Various Monthly Consumption

Example Customer Types	kWh/month	APS Option 1 (Same as 2013)	2014 APS Example 2 Option	2014 APS Example 3 Option
Residence Consuming 400 kWh	400	\$3.83	\$4.31	\$1.62
Residence Consuming 869 kWh	869	\$3.83	\$4.31	\$3.51
Residence Consuming 2,000 kWh	2,000	\$3.83	\$4.31	\$8.09
Dentist Office	2,000	\$19.15	\$21.54	\$8.09
Hairstylist	3,900	\$37.34	\$42.01	\$15.77
Department Store	170,000	\$142.25	\$160.04	\$687.48
Mall	1,627,100	\$142.25	\$538.60	\$6,579.99
Retail Video Store	14,400	\$138.26	\$155.55	\$58.40
Large Hotel	1,067,100	\$142.25	\$538.60	\$4,315.35
Large Building Supply	346,500	\$142.25	\$538.60	\$1,401.25
Mine	26,113,793	\$2,200.00	\$3,500.00	\$105,604.00

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1 Recovery of Funds Through the 2014 REAC Charge

2 17. APS has projected, in Table 4, that it will collect the following amounts per
3 customer group through its REST Plan Adjustment Schedule REAC-1:

4 Table 4: REAC-1 Contribution by Customer Group (percentage)

	APS Option 1 (Same as 2013)	2014 APS Example 2 Option	2014 APS Example 3 Option	2014 Projected Sales (MWH)
Residential	\$43,491,610 47.2%	\$49,292,531 43.1%	\$54,328,433 47.5%	13,433,610 47.5%
Small C & I	\$45,836,461 50.4%	\$38,869,980 34.0%	\$16,487,667 14.4%	4,076,850 14.4%
Medium C & I		\$14,384,616 12.6%	\$14,357,833 12.6%	3,550,213 12.6%
Large C & I		\$6,992,475 6.1%	\$15,977,536 14%	3,950,712 14.0%
Industrial	\$2,771,929 2.4%	\$4,860,397 4.2%	\$13,248,431 11.6%	3,275,920 11.6%
Total	\$92,100,000	\$114,400,000	\$114,400,000	28,287,305

12 18. APS collects \$6 million in base rates dedicated to renewables. The \$6 million in
13 base rates will be collected as shown in Table 5:

14 Table 5: Collections from Base Rates

	APS Option 1 (Same as 2013)	2014 APS Example 2 Option	2014 APS Example 3 Option
Residential	\$2,865,121	\$2,849,393	\$2,849,393
Small C & I	\$2,467,017	\$864,738	\$864,738
Medium C & I		\$753,033	\$753,033
Large C & I		\$837,983	\$837,983
Industrial	\$667,862	\$694,853	\$694,853
Total	\$6,000,000	\$6,000,000	\$6,000,000

20 19. The REAC-1 and Base Rate collections shown in Tables 4 and 5 will combine to
21 total the collection shown in Table 6:

22 Table 6: Total Collection (REAC-1 plus Base Rates)

	APS Option 1 (Same as 2013)	2014 APS Example 2 Option	2014 APS Example 3 Option
Residential	\$43,491,610	\$52,141,925	\$57,177,827
Small C & I	\$45,836,461	\$39,734,718	\$17,352,405
Medium C & I		\$15,137,649	\$15,110,866
Large C & I		\$7,830,458	\$16,815,519
Industrial	\$2,771,929	\$5,555,250	\$13,943,384
Total	\$92,100,000	\$120,400,000	\$120,400,000

1 20. In the 2014 REST Plan, APS proposes certain revisions to the DEAP to
2 accommodate current program and market conditions. This would include the deployment of
3 production meters and the elimination of any active distributed energy direct cash incentive
4 program. APS, in its 2014 REST Plan, is not requesting any new incentives for distributed
5 generation.

6 21. The Plan does not include any of APS's proposed net metering solutions. Net
7 metering solutions are being addressed in a separate net metering docket. In the DEAP, APS
8 clarifies that APS's interconnection requirements for distributed energy will continue to apply to
9 all grid-tied renewable projects, whether there is a direct cash incentive or not.

10 22. APS claims that it will be able to meet its renewable requirements through
11 previously authorized programs and commitments, including PPAs, PBI legacy payments, and the
12 AZ Sun program, among others.

13 23. Funding the authorized programs will necessitate budget increases in 2014 and
14 2015, but after those years the RES budget is expected to decline as additional AZ Sun projects are
15 included in rate base.

16 24. The 2014 APS RES budget will be approximately \$143 million. In order to
17 moderate the 2014 budget impact on customers, APS proposes to apply budget offsets that will
18 reduce the amount APS will collect through the RES adjustor for 2014 to approximately \$114
19 million, as shown in Table 4.

20 25. APS indicates that approximately \$28.5 million is able to be reallocated to mitigate
21 the effects of the 2014 and 2015 budgets and to reduce the funding needed to be collected through
22 the RES adjustor.

23 26. APS will apply previously identified, unallocated funds as well as additional
24 unallocated funds to reduce the APS 2014 and 2015 budgets. In the APS 2012 RES Compliance
25 Report, APS identified \$8.5 million in prior year unallocated funds that APS will apply as an offset
26 to its 2014 and 2015 budgets.

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1 27. Also, another approximately \$20 million has been identified by APS for budget
2 offsets in 2014 and 2015 due to variances in power purchase cost programs being completed under
3 budget, rate program revenues, project cancellations and rollover funds.

4 28. The APS proposal is to apply approximately one-half of the \$28.5 million to
5 support the 2014 budget and one-half toward supporting the 2015 budget in order to minimize year
6 over year budget impacts on customers.

7 29. APS receives Production Tax Credits ("PTCs") from its ownership of AZ Sun
8 projects. The PTCs vary from year to year, depending on actual energy production. APS has
9 calculated that it will receive approximately \$8.2 million in PTCs for AZ Sun projects in 2014.

10 30. APS intends to apply these PTC funds to its 2014 budget to reduce the funding that
11 must be collected through the RES adjustor.

12 31. A summary budget for the APS 2014 REST Plan is shown below:

13 Table 7: APS's Proposed 2014 Budget

Line No.		2014
1	Renewable Generation	
2	<i>Renewable Generation Contracts and Operation and Maintenance</i>	
3	Purchases and Generation ^{1,2}	\$ 86.8
4	Administration	0.7
5	Implementation	1.4
6	Total Renewable Generation	\$ 88.9
7		
8		
9	Customer Sited Distributed Energy	
10	<i>Existing Contracts and Commitments</i>	
11	Flagstaff Community Power Project	\$ 0.7
12	DE RFP	5.8
13	Production-based Incentives	26.6
14	Schools and Government Program Incentives ³	7.8
15	APS Schools and Government Program ^{1,4}	6.0
16	Total Existing Contracts and Commitments	\$ 46.9
17		
18	<i>Non-Incentive Distributed Energy Costs</i>	
19	Administration	\$ 0.5
20	Implementation ⁵	6.1
21	Information Technology	0.5
22	Educational Outreach: Non-Incentive Costs	0.1
23	Total Non-Incentive DE Costs	\$ 7.2
24		
25	Total Customer Sited DE (line 16 + line 23)	\$ 54.1
26		
27	TOTAL RES BUDGET⁵ (line 6 + line 25)	\$ 143.0
28		

29	Offsets to Base Budget	
30	Base Rates	\$ (6.0)
31	PTC	(8.2)
32	Estimated Green Choice Revenue Credit	(0.4)
33	Previous Years Rollover Funds and Other Credits	(14.0)
34	RE Surcharge Collection²	\$ 114.4

Notes:¹ Assumes rate case adjudication in July 2016.² Total dollars includes costs for Sexton (Glendale Landfill) PPA of approximately \$40k/yr, totaling \$0.2M for 2014-2017.³ Third-party owned portion of the current 2011 and 2012 Schools and Government Programs.⁴ APS-owned portion of the 2011 and 2012 School and Government Programs.⁵ Includes revenue requirements, customer notification and installation costs for production metering as required by Decision No. 72737.

Table 8: REST Expenditure Budget/Funding

2014 Budget	\$143.0 million
<u>Funding</u>	
Base Rates, PTC, Green Choice, Rollovers, and Credits, i.e. Offsets shown in Table 7	\$28.6 million
RES Funding	\$114.4 million
Total	\$143.0 million

Staff Recommendations

32. Staff has reviewed the APS application and APS's response to Staff's data requests.

33. Staff believes that the proposed APS budget for 2014 is appropriate. The funding will only provide support for projects and programs that have already received Commission approval. Most of the projects that will be installed in 2014 are the result of multiple-year efforts to find the least-cost renewable systems through competitive programs and RFPs and through multiple-year PBI contracts. Others, such as the Solana project, are the result of over five years of effort, planning and construction. There are no new proposed projects or programs included in the APS 2014 REST Plan or in its budget. Staff recommends approval of the proposed budget.

34. Staff recommends approval of the APS-proposed expansion of the RES adjustor customer categories from three to five.

35. Staff further recommends approval of the revisions proposed by APS to its DEAP in order to conform to current conditions.

36. Staff recommends Commission approval of the APS plan to move ahead with RFPs, sign contracts and begin construction on the final 50 MW phase of the AZ Sun Program in 2014.

1 IT IS FURTHER ORDERED that the \$143.0 million budget shall be funded by \$114.4
2 from the Arizona Public Service Company RES Adjustor and \$28.6 million from a combination of
3 base rates (\$6 million), Production Tax Credits (\$8.2 million), Green Choice Revenue Credits
4 (\$0.4 million), and Previous Years Rollover Funds and Credits (\$14.0 million).

5 IT IS FURTHER ORDERED that the Arizona Public Service Company-proposed
6 expansion of the RES adjustor categories from the three customer class approach to five customer
7 classes is approved.

8 IT IS FURTHER ORDERED that the Arizona Public Service Company-proposed minor
9 revisions of the Distributed Energy Administration Plan in order to conform with the current
10 conditions, as described herein, are approved.

11 IT IS FURTHER ORDERED that the Example 2 RES adjustor of \$0.010772 per kWh,
12 with a monthly cap of \$4.31 for residential customers, \$160.04 for small commercial customers,
13 \$269.30 for medium commercial customers, \$538.80 for large commercial customers, and \$3,500
14 for industrial customers is approved.

15 IT IS FURTHER ORDERED that the Arizona Public Service Company plan to move
16 ahead with the final 50 MW phase of the AZ Sun Program in 2014, as described herein, is
17 approved.

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1 IT IS FURTHER ORDERED that the APS plan to continue all previous Commission-
2 approved and funded programs, projects, contracts and commitments is hereby approved.

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

4

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

6

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CHAIRMAN

COMMISSIONER

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COMMISSIONER

COMMISSIONER

COMMISSIONER

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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 _____ day of _____, 2013.

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JODI JERICH
EXECUTIVE DIRECTOR

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DISSENT: _____

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DISSENT: _____

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SMO:RTW:lhm\CHH

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1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO. E-01345A-13-0140

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