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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

Arizona Corporation Commission

**DOCKETED**

JAN - 7 2014

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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. 74237

ORDER

Open Meeting  
December 17 and 18, 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

...

- 1       • A request for budget approval to continue all previously authorized programs and  
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.

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

- 6       • Power Purchase Agreement ("PPA") contract commitments (\$50.6 million in 2014)  
7       • Production Based Incentive ("PBI") contract obligations (\$40.1 million in 2014)  
8       • AZ Sun Program revenue requirements (\$36.2 million in 2014)<sup>1</sup>

9       5.       In addition, the Plan outlines APS's intent to move ahead with Requests for  
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  
14 (December 30, 2009), obligations. By continuing development of these projects in 2014, APS  
15 projects that it will meet its obligations in 2015.

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

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

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

1 100-400 kW of demand, and those rates with any applicable riders. Any customer  
2 consuming 25,000 kWh or above would pay the cap (if one exists).

- 3 • **Large Commercial** (*Estimated at 1,000 customers*) – Applicable to customers on rate  
4 schedules E-32 Large and E-32 TOU Large customers and E-221 (Water Pumping)  
5 with 400-3,000 kW of demand, and those rates with any applicable riders. Any  
6 customer consuming 50,000 kWh or above would pay the cap (if one exists).
- 7 • **Industrial** (*Estimated at 116 customers*) – Same as current, applicable to Industrial  
8 customers, generally E-34 and E-35 customers. Any customer consuming 100,000  
9 kWh or above would pay the cap (if one exists).

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

15 APS Example 1 Option (Shown at top of Table 1.)

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

19 APS Example 2 Option (Shown in Table 1.)

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

27 APS Example 3 Option (Shown in Table 1.)

28 10. 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.

1           11.     Staff has reviewed the APS proposed REST adjustor examples shown in Figure D  
2 of the APS filing. Staff believes that the increase in the adjustor charge in Example 3 (with no  
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  
6 REST program. By expanding to five customer categories, the costs of the REST program will  
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.

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

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

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

| Customer Class  | Residential           | Small Commercial<br>E-32 XS/S, E-32 | Medium Commercial<br>E-32M, E-32M TOU, E-32L, E-32L TOU, | Large Commercial<br>E-221 100-400kW, E-221 400-3,000kW | Industrial<br>E-34, E-35 |
|---|-----------------------|-------------------------------------|--|--|--------------------------|
| Rate Schedule   |                       | <100kW                              |  |  |                          |
| <b>Example 1 (Current)</b> Continue from customer class proportionality                     |                       |                                     |  |  |                          |
| 2014  | RES Adjustor (in \$M) | \$ 114.4                            |  |  |                          |
|   | \$/kWh                | \$ 0.011212                         |  |  |                          |
|   | Cap                   | \$ 4.48                             | \$ 166.58  |  | \$ 3,500.00              |
|   | Average               | \$ 4.28                             | \$ 33.04   |  | \$ 3,500.00              |
| <b>Example 2</b> Continue proportionality, but with expansion to five customer classes      |                       |                                     |  |  |                          |
| 2014  | RES Adjustor (in \$M) | \$ 114.4                            |  |  |                          |
|   | \$/kWh                | \$ 0.010772                         |  |  |                          |
|   | Cap                   | \$ 4.31                             | \$ 180.04  | \$ 289.90  | \$ 598.80                |
|   | Average               | \$ 3.92                             | \$ 25.76   | \$ 235.43  | \$ 500.71                |
| 2015  | RES Adjustor (in \$M) | \$ 129.6                            |  |  |                          |
|   | \$/kWh                | \$ 0.011978                         |  |  |                          |
|   | Cap                   | \$ 4.79                             | \$ 177.96  | \$ 299.45  | \$ 598.90                |
|   | Average               | \$ 4.38                             | \$ 28.30   | \$ 262.90  | \$ 556.77                |
| 2016  | RES Adjustor (in \$M) | \$ 122.6                            |  |  |                          |
|   | \$/kWh                | \$ 0.011088                         |  |  |                          |
|   | Cap                   | \$ 4.44                             | \$ 164.73  | \$ 277.20  | \$ 554.40                |
|   | Average               | \$ 4.04                             | \$ 25.79   | \$ 243.37  | \$ 515.40                |
| 2017  | RES Adjustor (in \$M) | \$ 88.8                             |  |  |                          |
|   | \$/kWh                | \$ 0.007804                         |  |  |                          |
|   | Cap                   | \$ 3.12                             | \$ 115.84  | \$ 195.10  | \$ 380.20                |
|   | Average               | \$ 2.84                             | \$ 17.68   | \$ 171.29  | \$ 362.75                |
| 2018  | RES Adjustor (in \$M) | \$ 77.1                             |  |  |                          |
|   | \$/kWh                | \$ 0.006582                         |  |  |                          |
|   | Cap                   | \$ 2.64                             | \$ 97.84   | \$ 164.80  | \$ 329.80                |
|   | Average               | \$ 2.40                             | \$ 15.00   | \$ 144.69  | \$ 306.41                |
| <b>Example 3</b> No caps. Move adjustor to \$/kWh charge based on actual energy consumption |                       |                                     |  |  |                          |
| 2014  | RES Adjustor (in \$M) | \$ 114.4                            |  |  |                          |
|   | \$/kWh                | \$ 0.004047                         |  |  |                          |
|   | Average               | \$ 4.48                             | \$ 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  | \$ 188.46  | \$ 868.82                |
| 2018  | RES Adjustor (in \$M) | \$ 77.1                             |  |  |                          |
|   | \$/kWh                | \$ 0.002552                         |  |  |                          |
|   | Average               | \$ 2.82                             | \$ 3.66  | \$ 159.14  | \$ 741.38                |

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<br>(Same as 2013) | 2014 APS Example 2<br>Option | 2014 APS Example 3<br>Option |
|--|--------------------------------|------------------------------|------------------------------|
| 5 Residential Average                  | \$3.37                         | \$3.92                       | \$4.46                       |
| 6 Small C/I Average*<br>(under 100 kW) | \$28.43                        | \$25.76                      | \$32.35                      |
| 7 Medium C/I Average<br>(100-400 kW)   |                                | \$236.43                     | \$252.19                     |
| 8 Large C/I Average<br>(400 kW-3 MW)   |                                | \$500.71                     | \$1,174.81                   |
| 9 Large C/I Average<br>(over 3 MW)     | \$2,200.00                     | \$3,500.00                   | \$12,983.23                  |

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

11  
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

| 15 <b>Example Customer<br/>Types</b> | kWh/month  | APS Option 1<br>(Same as 2013) | 2014 APS Example<br>2 Option | 2014 APS<br>Example 3 Option |
|--------------------------------------|------------|--------------------------------|------------------------------|------------------------------|
| 16 Residence Consuming<br>400 kWh    | 400        | \$3.83                         | \$4.31                       | \$1.62                       |
| 17 Residence Consuming<br>869 kWh    | 869        | \$3.83                         | \$4.31                       | \$3.51                       |
| 18 Residence Consuming<br>2,000 kWh  | 2,000      | \$3.83                         | \$4.31                       | \$8.09                       |
| 19 Dentist Office                    | 2,000      | \$19.15                        | \$21.54                      | \$8.09                       |
| 20 Hairstylist                       | 3,900      | \$37.34                        | \$42.01                      | \$15.77                      |
| 21 Department Store                  | 170,000    | \$142.25                       | \$160.04                     | \$687.48                     |
| 22 Mall                              | 1,627,100  | \$142.25                       | \$538.60                     | \$6,579.99                   |
| 23 Retail Video Store                | 14,400     | \$138.26                       | \$155.55                     | \$58.40                      |
| Large Hotel                          | 1,067,100  | \$142.25                       | \$538.60                     | \$4,315.35                   |
| 24 Large Building Supply             | 346,500    | \$142.25                       | \$538.60                     | \$1,401.25                   |
| 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<br>(Same as 2013) | 2014 APS<br>Example 2 Option | 2014 APS<br>Example 3 Option | 2014 Projected<br>Sales (MWH) |
|--------------|--------------------------------|------------------------------|------------------------------|-------------------------------|
| Residential  | \$43,491,610<br>47.2%          | \$49,292,531<br>43.1%        | \$54,328,433<br>47.5%        | 13,433,610<br>47.5%           |
| Small C & I  | \$45,836,461<br>50.4%          | \$38,869,980<br>34.0%        | \$16,487,667<br>14.4%        | 4,076,850<br>14.4%            |
| Medium C & I |                                | \$14,384,616<br>12.6%        | \$14,357,833<br>12.6%        | 3,550,213<br>12.6%            |
| Large C & I  |                                | \$6,992,475<br>6.1%          | \$15,977,536<br>14%          | 3,950,712<br>14.0%            |
| Industrial   | \$2,771,929<br>2.4%            | \$4,860,397<br>4.2%          | \$13,248,431<br>11.6%        | 3,275,920<br>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<br>(Same as 2013) | 2014 APS<br>Example 2 Option | 2014 APS<br>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<br>(Same as 2013) | 2014 APS<br>Example 2 Option | 2014 APS<br>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        | <b>Renewable Generation</b>   |                 |
| 2        | <i>Renewable Generation Contracts and Operation and Maintenance</i> |                 |
| 3        | Purchases and Generation <sup>1,2</sup>                             | \$ 86.8         |
| 4        | Administration  | 0.7             |
| 5        | Implementation  | 1.4             |
| 6        | <b>Total Renewable Generation</b>                                   | <b>\$ 88.9</b>  |
| 7        |   |                 |
| 8        |   |                 |
| 9        | <b>Customer Sited Distributed Energy</b>                            |                 |
| 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 <sup>3</sup>              | 7.8             |
| 15       | APS Schools and Government Program <sup>1,4</sup>                   | 6.0             |
| 16       | <b>Total Existing Contracts and Commitments</b>                     | <b>\$ 46.9</b>  |
| 17       |   |                 |
| 18       | <i>Non-Incentive Distributed Energy Costs</i>                       |                 |
| 19       | Administration  | \$ 0.5          |
| 20       | Implementation <sup>5</sup>   | 6.1             |
| 21       | Information Technology  | 0.5             |
| 22       | Educational Outreach: Non-Incentive Costs                           | 0.1             |
| 23       | <b>Total Non-Incentive DE Costs</b>                                 | <b>\$ 7.2</b>   |
| 24       |   |                 |
| 25       | <b>Total Customer Sited DE (line 16 + line 23)</b>                  | <b>\$ 54.1</b>  |
| 26       |   |                 |
| 27       | <b>TOTAL RES BUDGET<sup>5</sup> (line 6 + line 25)</b>              | <b>\$ 143.0</b> |
| 28       |   |                 |

|   |    |   |                 |
|---|----|---|-----------------|
| 1 | 29 | <b>Offsets to Base Budget</b>                   |                 |
|   | 30 | Base Rates                                      | \$ (6.0)        |
| 2 | 31 | PTC   | (8.2)           |
|   | 32 | Estimated Green Choice Revenue Credit           | (0.4)           |
| 3 | 33 | Previous Years Rollover Funds and Other Credits | (14.0)          |
|   | 34 | <b>RE Surcharge Collection<sup>2</sup></b>      | <b>\$ 114.4</b> |

**Notes:**

<sup>1</sup>Assumes rate case adjudication in July 2016.

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

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

<sup>4</sup>APS-owned portion of the 2011 and 2012 School and Government Programs.

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

Table 8: REST Expenditure Budget/Funding

|    |  |                 |
|----|--|-----------------|
| 7  | 2014 Budget  | \$143.0 million |
| 8  |  |                 |
| 9  | <u>Funding</u>   |                 |
| 10 | Base Rates, PTC, Green Choice, Rollovers, and Credits, i.e. Offsets shown in Table 7 | \$28.6 million  |
| 11 | RES Funding  | \$114.4 million |
| 12 | Total  | \$143.0 million |

Staff Recommendations

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

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

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

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

26 36. Staff recommends Commission approval of the APS plan to move ahead with  
 27 RFPs, sign contracts and begin construction on the final 50 MW phase of the AZ Sun Program in  
 28 2014.

1           37.     However, we do not believe that approval of the final 30 MW of the AZ Sun  
2 Program (currently proposed to be located at the Redhawk facility) is warranted at this time. We  
3 believe that APS will be able to meet its obligations, under the 2009 Settlement Agreement, to  
4 achieve 1.7 million MWhs by December 31, 2015. According to information submitted by APS in  
5 its 2014 RES Application, (Exhibit 2B), there could be enough distributed generation to enable  
6 APS to meet its required target without the 30 MW at Redhawk. We think that it would be more  
7 prudent to wait until the second quarter of 2014 to determine whether or not the final 30 MW at  
8 the Redhawk facility are actually needed for compliance purposes. In addition, SEIA, in a filing  
9 on October 9, 2013, argued that “APS’s Plan should include 25 MW of wholesale PPA projects.”  
10 We believe that is a discussion worth having, and exploring sometime next year.

11           38.     APS and interested parties should submit information to this docket on or before  
12 April 15, 2014 regarding whether it is necessary to continue the final 30 MW phase of AZ Sun for  
13 compliance purposes, and whether third-party wholesale PPAs would be more effective than utility  
14 owned generation in completing the final phase of AZ Sun.

15           39.     When Staff files its recommendations regarding APS’s 2015 REST Implementation  
16 Plan, it shall include a discussion of whether or not APS needs to install any portion of the final 30  
17 MW phase of the AZ Sun Program in order to comply with the REST Rules and/or the 2009  
18 Settlement Agreement. In developing its recommendations, Staff shall also consider the  
19 information filed by APS and by any interested parties regarding the cost effectiveness of utility  
20 owned generation as compared to third party wholesale PPAs for completing the final 30 MW  
21 phase of AZ Sun.

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

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

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

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

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

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

9           46.     In Docket No. E-01345A-13-0248, APS indicated that the timing of the in-service  
10 date for the Solana Generating Station has resulted in an additional \$7 million in collected (but  
11 unallocated) funds. We will use this \$7 million to further reduce the RES adjuster funding needed  
12 to meet the budget. This changes the amount to be collected from \$114.4 million to \$107.4  
13 million.

14           47.     RUCO is concerned with what appears to be a continuous over collection in each  
15 yearly REST implementation plan. Unlike the energy efficiency adjuster, no interest is currently  
16 accrued on over collection.

17           48.     We believe that REST funds collected but unspent at the end of each year shall  
18 accrue interest at a rate equal to at least the one-year Nominal Treasury Maturities rate from the  
19 Federal Reserve H-15 or its successor publication, adjusted annually on the first business day of  
20 the calendar year with the interest being applied to reduce the following year's REST surcharge.  
21 In addition, we strongly encourage APS to use its best efforts to accrue a greater interest rate than  
22 the one-year Nominal Treasury Maturities rate.

23           49.     For carry forward funds in the 2014 plan, APS is seeking to hold \$14 million and  
24 apply it to the 2015 budget. RUCO supports this proposal but strongly recommends these  
25 ratepayer monies be placed into an interest bearing account. Since these funds will not be touched  
26 for a year, a higher yielding investment vehicle can be utilized than envisioned for general over  
27 collection at the DSMAC-prescribed rate. Therefore, the Company should pay at least a 1%  
28 interest rate with encouragement to find a higher yielding investment vehicle.

1 Voluntary Contribution Program

2 50. Given the widespread support of distributed generation in Arizona as evidenced by  
3 the thousands of communications recently received by the Commission, it is in the public interest  
4 for APS to establish a voluntary contribution program to provide an opportunity for all who would  
5 like to contribute to funding solar rooftop distributed generation projects.

6 51. APS shall file a proposed plan or plans of administration for this voluntary  
7 contributions program for Commission consideration by February 7, 2014. The proposed plan  
8 may include, for example, the following:

- 9 • Establishment of a segregated interest bearing account for voluntary  
10 contributions;
- 11 • How bill format will be modified to allow the voluntary contributions from  
12 customers;
- 13 • Details of method by which persons and entities may make direct voluntary  
14 contributions, i.e., not using the APS bill method;
- 15 • Regular and periodic reporting (at least semi-annually) to the Commission  
16 concerning the funds received, the interest reinvested, the expenditures, and  
17 balance in the voluntary contributions account;
- 18 • Funds in this voluntary contributions account shall be used only for UFIs for  
19 DG installations;
- 20 • The level of the UFIs for each type of DG installation;
- 21 • Method of how and when UFIs will be available from this voluntary  
22 contribution account;
- 23 • Regular and periodic reporting concerning APS's efforts to promote and  
24 advertise to encourage voluntary contributions from ratepayers, stakeholders,  
25 the general public, and any other entities;
- 26 • Regular and periodic reporting concerning the effectiveness of the voluntary  
27 contributions program in promoting DG installations.

28 52. We find that APS's proposed budget for 2014 as found appropriate by Staff, is  
sufficient to include as part of the administration costs, the initial administrative costs to file a  
proposed plan of administration for the voluntary contributions program described herein and for

1 the initial establishment of a segregated interest bearing account for the voluntarily contributed  
2 funds.

3 Commission Modifications to Staff's Proposed Budget

4 53. We believe that solar water heating should contribute to meeting a portion of the  
5 APS REST requirement. Therefore, we will include an incentive of 30 cents per first-year kWh  
6 savings for solar water heaters. The 2014 budget for this incentive will be \$500,000. This will  
7 increase the APS REST Budget from \$143.0 million to \$143.5 million and the Total Sited DE  
8 budget line from \$54.1 million to \$54.6 million.

9 CONCLUSIONS OF LAW

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

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

14 3. The Commission, having reviewed Arizona Public Service Company's application  
15 and Staff's Memorandum dated September 30, 2013, concludes that it is in the public interest to  
16 approve Arizona Public Service Company's 2014 Renewable Energy Standard and Tariff  
17 Implementation Plan as discussed herein.

18 ORDER

19 IT IS THEREFORE ORDERED that the Arizona Public Service Company-proposed 2014  
20 REST budget shall be \$143.5 million.

21 IT IS FURTHER ORDERED that the \$143.5 million budget shall be funded by \$107.9  
22 million from the Arizona Public Service Company RES Adjustor and \$35.6 million from a  
23 combination of base rates (\$6 million), Production Tax Credits (\$8.2 million), Green Choice  
24 Revenue Credits (\$0.4 million), and Previous Years Rollover Funds and Credits (\$21.0 million).

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

28 ...

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

4 IT IS FURTHER ORDERED that the Example 2 RES adjustor of \$0.010264 per kWh,  
5 with a monthly cap of \$4.11 for residential customers, \$152.49 for small commercial customers,  
6 \$256.60 for medium commercial customers, \$513.20 for large commercial customers, and \$3,335  
7 for industrial customers is approved.

8 IT IS FURTHER ORDERED that Arizona Public Service Company's plan to move ahead  
9 with 10 MW at Luke Air Force Base and 10 MW at the City of Phoenix, as described herein, is  
10 approved. However, the plan for 30 MW at Redhawk is not approved, at this time.

11 IT IS FURTHER ORDERED that Arizona Public Service Company and any interested  
12 parties shall submit information to this docket regarding whether it is necessary to continue the  
13 final 30 MW phase of AZ Sun in order to comply with the 2009 Settlement Agreement, as well as  
14 discuss the cost effectiveness of utility owned generation and third party wholesale purchased  
15 power agreements in completing this final 30 MW phase of AZ Sun. This information shall be  
16 submitted by April 15, 2014.

17 IT IS FURTHER ORDERED that when Staff files its recommendations regarding Arizona  
18 Public Service Company's 2015 REST Implementation Plan, it shall include a discussion of  
19 whether or not Arizona Public Service Company needs to install any portion of the final 30 MW  
20 phase of AZ Sun in order to comply with the REST Rules and/or the 2009 Settlement Agreement.  
21 These recommendations shall consider the information filed by Arizona Public Service Company  
22 and any interested parties regarding the cost effectiveness of utility owned generation and third  
23 party wholesale purchased power agreements in completing this final 30 MW phase of AZ Sun."

24 IT IS FURTHER ORDERED that all REST funds collected but unspent at the end of each  
25 year shall accrue interest at a rate equal to at least the one-year Nominal Treasury Maturities rate  
26 from the Federal Reserve H-15 or its successor publication, adjusted annually on the first business  
27 day of the calendar year, with the interest being applied to reduce the following year's REST  
28 surcharge.

1 IT IS FURTHER ORDERED that the Arizona Public Service Company shall pay at least a  
2 1% interest rate on the \$14 million carry over funds designated for 2015.

3 IT IS FURTHER ORDERED that Arizona Public Service Company shall have a budget of  
4 \$500,000 for solar water heating incentives in its 2014 REST budget and offer a solar water  
5 heating incentive of \$0.30 per first-year kWh savings.

6 IT IS FURTHER ORDERED that Arizona Public Service Company shall file by  
7 February 7, 2014, a proposed plan or plans of administration for a voluntary contributions program  
8 consistent with the requirements set forth herein in the Commission's findings.

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

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

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

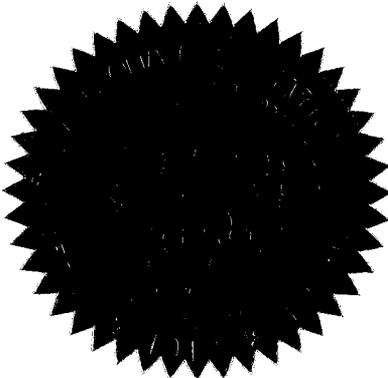
*[Handwritten Signature]*  
CHAIRMAN

*[Handwritten Signature]*  
COMMISSIONER

*[Handwritten Signature]*  
COMMISSIONER

*[Handwritten Signature]*  
COMMISSIONER

*[Handwritten Signature]*  
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 7<sup>th</sup> day of January, ~~2013~~ 2014.

*[Handwritten Signature]*  
JODI JERICH  
EXECUTIVE DIRECTOR

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

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

SMO:RTW:lhм\CHH

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

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