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January 30, 2014

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

RE: Arizona Public Service Company Report on Carbon Tracking Mechanism
Docket No. E-01345A-08-0172

Pursuant to Decision No. 71448 dated December 30, 2009:

Arizona Public Service Company shall establish a carbon credit tracking mechanism designed to track and set aside all carbon credits generated from its non-carbon emitting generation fleet, including all renewable energy and energy efficiency projects identified in this Settlement Agreement. The Company shall file a report on the tracking mechanism, and any potential for trading of the credits contained within it, with Docket Control as a compliance item in this docket, annually, on or before January 31 of each year, beginning in 2011.

Attached please find Arizona Public Service Company's report for 2013.

If you have any questions regarding this information, please contact Greg Bernosky at (602)250-4849.

Sincerely,

Lisa Malagon

LM/cd
Attachments

Arizona Corporation Commission
DOCKETED
JAN 30 2014

DOCKETED BY
NR

cc: Brian Bozzo
Terri Ford

Arizona Public Service Company Carbon Tracking Report for 2013

In Arizona Corporation Commission (“Commission” or “ACC”) Decision No. 71448,¹ the Commission directed Arizona Public Service Company (“APS”) to establish a carbon credit tracking mechanism:

IT IS FURTHER ORDERED that Arizona Public Service Company shall establish a carbon credit tracking mechanism designed to track and set aside all carbon credits generated from its non-carbon emitting generation fleet, including all renewable energy and energy efficiency projects identified in this Settlement Agreement. The Company shall file a report on the tracking mechanism, and any potential for trading of the credits contained within it, with Docket Control as a compliance item in this docket, annually, on or before January 31 of each year, beginning in 2011.²

While it appeared likely at the time of the Decision³ that some form of federal carbon legislation, particularly a cap and trade type program, would be passed, the proposed federal carbon legislation was not enacted.

In light of the possibility that a national carbon pricing policy could be approved in the near future - either through a federal cap and trade or carbon tax program - we believe that the company should be closely tracking and setting aside for the benefit of future ratepayers all credits it is accruing associated with ratepayer-financed non-carbon generation.⁴

In 2013 there were no federal legislative activities related to the establishment of a carbon cap and trade program or a carbon tax, or the passage of federal legislation establishing carbon cap and trade or carbon tax programs. However, in January 2013, California began its own cap and trade program to limit greenhouse gas emissions.

Under that program, electricity imports into California are subject to rules that require the submission of emission allowances in accordance with California Air Resources Board rules. APS periodically sells power in the California Independent System Operator market. Therefore, APS purchases and submits the associated allowances in accordance with the program. However APS does not trade those allowances.

With the lack of a legislative program or national carbon pricing policy active at this time, and the fact that APS does not trade allowances, developing a tracking mechanism is premature at this time. APS will continue to monitor legislative activities and provide updates to the Commission on the development of a carbon tracking mechanism as required by Commission Decision No. 71448.

¹ Docket No. E-01345A-08-0172

² Decision No. 71448, p. 61 at 26

³ December 30, 2009

⁴ Decision No. 71448, p. 58 at 28