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2014 APR 15 P 4:47

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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Arizona Corporation Commission

DOCKETED

APR 15 2014

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

DOCKET NO. E-01345A-13-0140

APPLICATION

-and-

**RESPONSE TO COMMISSION
INQUIRY IN DECISION 74237**

This Application is provided in compliance with the requirements of Decision No. 74237 and addresses the question of whether it is necessary for APS to build the final 30 MW of AZ Sun in order to comply with its 2009 Rate Case Settlement Agreement ("2009 Settlement") obligations. See Decision No. 71448 (December 30, 2009). Customers continue to install roof top solar throughout Arizona and the growth in this market represents an ever-increasing resource in APS's generation portfolio. An analysis of the most recent data available suggests that APS does not need all 30 MW of AZ Sun to meet its obligations under the 2009 Settlement to acquire 1,700,000 MWh of new renewable energy resources by December 31, 2015. However, to ensure that it can meet compliance given the dynamic distributed generation market, APS requests in this

1 filing authorization to proceed with the construction of a 20 MW utility-owned solar
2 project to be located at APS's Redhawk Power Station. In addition, this filing discusses
3 the cost effectiveness and benefits of utility-owned generation verses third-party solar
4 purchased power agreements ("PPAs"). Over the long term, utility-owned renewable
5 generation is cost effective and is better for customers.

6 Because it will take approximately fifteen months to develop and place on-line a
7 new solar installation, APS asks that the Commission hear this Application and make a
8 decision before the end of August of 2014 if possible.

9 **I. The Commission Approved 100 MW of Solar Generation for the Second**
10 **Phase of AZ Sun.**

11 In January of 2012, the Commission approved the second phase of APS's AZ Sun
12 program, which included authorization to build 100 MW of utility-owned solar
13 generation to count toward the Company's 2009 Settlement obligation. *See* Decision
14 No. 72737 (January 18, 2012). Of these 100 MW authorized, approximately 38 MW are
15 in commercial operation, approximately 32 MW are under construction, and the
16 Commission deferred a decision regarding the remaining 30 MW.

17 Most recently, in APS's 2014 RES Implementation Plan, the Commission
18 approved construction of 20 MW of projects. *See* Decision No. 74237 (January 7,
19 2014). Specifically, the Commission authorized APS to move forward with a 10 MW
20 project slated for Luke Air Force Base and a 10 MW project at a City of Phoenix
21 landfill. At the time, the Commission temporarily deferred making a decision as to the
22 remaining 30 MW, at least in part due to the dynamic growth of distributed generation
23 ("DG") and to provide additional time to assess the impact that the lack of residential
24 DG incentives and the new LFCR-DG charge (*see* Decision No. 74202) might have on
25 DG uptake.

26 **II. Residential DG Expansion Is Difficult to Forecast.**

27 APS takes its compliance obligations very seriously and works hard to ensure that
28 it is complying with all regulatory requirements. Because DG market activity depends

1 upon events outside of APS's control, it is impossible to predict with any degree of
2 certainty, the amount of residential DG that will be installed in APS's service territory
3 before the December 2015 settlement compliance deadline. During the first quarter of
4 2014, APS received 1,100 residential DG applications, which if installed would
5 comprise approximately 7.5 MW. If this pace of applications continues between now
6 and the end of 2015, APS anticipates that it would be very close to meeting its 2009
7 Settlement obligation. If residential DG applications were to slow, additional utility-
8 scale solar capacity would be needed to meet the settlement obligation.

9 The 2009 Settlement obligation is an energy requirement. Therefore, APS counts
10 energy associated with DG installed without a cash incentive toward this requirement
11 even though the Company cannot currently claim any corresponding renewable energy
12 credits ("RECs") under the RES Rules. If the Commission were to decide in the
13 pending Track and Record docket (ACC Docket Nos. E-01345A-10-0394, E-01345A-
14 12-0290, E-01933A-12-0296, E-04204A-12-0297) that non-incented DG projects may
15 not be counted toward APS's settlement compliance due to potential concerns about
16 affecting the value of the RECs for those projects, APS would fall far short of its
17 settlement obligation.

18 Presently, APS is approximately 92% of the way toward meeting its requirement
19 to procure 1,700,000 MWh of new renewable energy by the end of 2015 (not including
20 anticipated DG for 2014 and 2015 or the 20 MW of AZ Sun projects the Commission
21 approved in Decision No. 74237). To ensure that it can fill this gap and fulfill its
22 obligation, the Company requests approval to proceed with building 20 MW of the
23 remaining 30 MW of AZ Sun beginning this year. APS proposes to build and bring to
24 commercial operation by December 31, 2015 a 20 MW single-axis tracking, utility-scale
25 solar project on land located adjacent to APS's Redhawk Power Station West of
26 Phoenix.

27 Because it will take approximately fifteen months to develop and build a utility-
28 scale project, APS requests that the Commission decide before the end of August

1 whether APS may proceed to build 20 MW of AZ Sun at Redhawk.¹ While it has been
2 manageable to defer a decision until this point, further delay will significantly jeopardize
3 APS's ability to ensure it can meet the settlement requirement by the deadline.

4 **III. Utility-Owned Generation Remains more Cost Effective in the Long Term**
5 **than Third-Party PPAs.**

6 The Commission asked whether utility-owned solar generation or third-party
7 solar PPAs are more cost effective. Viewed from the long term perspective, utility
8 ownership is more cost effective for the Company's customers than third-party PPAs for
9 a similarly situated solar resource.

10 The costs to develop a solar generation project are similar irrespective of whether
11 the development is undertaken by a utility or a third-party. Third parties generally do
12 not have an economic advantage over utilities when acquiring resources of a similar
13 technology and with a similar vintage of commercial operation. This is because utilities
14 and non-utilities procure raw materials and labor from the same sources, generally
15 follow similar competitive procurement processes, and will have similar access to tax
16 credits or other incentives. Indeed, APS uses third parties to build its AZ Sun projects.
17 Thus, the procurement costs of a solar resource will be comparable irrespective of
18 whether the resource is procured by a utility or third-party.

19 Although third-party and utility procurement practices are similar, utility-owned
20 resources often provide significant economic and non-economic benefits for customers
21 over the long term, and pose less overall risk. For example, PPAs have a finite contract
22 term (typically 20 to 30 years). The cost and availability of energy to replace the power
23 needed after a PPA expires is highly uncertain. In contrast, the costs to maintain a
24 utility-owned resource beyond the typical life of a PPA are more predictable and are
25 likely to be considerably lower than the price of procuring power from the market when
26 a PPA expires. In addition, utilities are actively engaged in and required to ensure

27 ¹ In its 2014 RES Implementation Plan, APS estimated that the revenue requirement to build 30
28 MW of solar at Redhawk was \$2.6 million in 2015 and \$7.4 million in 2016. If the Commission
approves that APS may proceed with the Redhawk project, APS will provide updated revenue
requirement numbers in its 2015 RES Implementation Plan that will be filed July 1, 2014.

1 reliability of supply for customers. PPA providers, on the other hand, are removed from
2 this responsibility and have no need to actively participate in an overall customer supply
3 strategy. Additionally, utilities are generally more financially stable and more
4 diversified than a PPA provider who is exposed to single industry volatility and a higher
5 credit risk. Utilities can withstand market volatility, whereas PPA providers are more
6 susceptible to events that threaten their ability to provide stable services, such as
7 bankruptcy. PPAs also can be a financial detriment to the utility and its customers
8 because they are treated as debt on utility balance sheets by credit rating agencies. This
9 debt imputation can increase utility financing costs, which ultimately translates into
10 higher rates for customers. The combination of these factors establishes that utility
11 ownership is a prudent option for reliable, low-cost renewable energy that maximizes
12 long term benefits for customers.

13 **IV. Conclusion**

14 Because utility ownership is cost effective and has other significant advantages
15 for APS customers, APS requests authorization to proceed with developing a final 20
16 MW of its AZ Sun program at Redhawk to ensure compliance with its Settlement
17 obligation.

18 Further, APS requests that the Commission issue its approval before the end of
19 August 2014, rather than wait for APS's 2015 RES Implementation Plan because APS
20 needs to begin working on this project by late summer 2014, so that the project can be in
21 commercial operation before the end of 2015 and the renewable energy from this project
22 may be counted toward meeting APS's 2009 Settlement obligation.

23 RESPECTFULLY SUBMITTED this 15th day of April 2014.

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By: 
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1 ORIGINAL and thirteen (13) copies
2 of the foregoing filed this 15th day of
3 April 2014, with:

4 Docket Control
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8 Copies of the foregoing delivered/mailed this 15th
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