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NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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ARIZONA CORP COMMISSION
DOCKET CONTROL

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COMMISSIONERS

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

E-01025A-14-0209

DOCKET NO.

IN THE MATTER OF THE APPLICATION
OF AJO IMPROVEMENT COMPANY
ELECTRIC DIVISION – FOR APPROVAL OF
ITS 2015 AND 2016 RENEWABLE ENERGY
STANDARD TARIFF IMPLEMENTATION PLAN

**APPLICATION AND REQUEST
FOR PARTIAL WAIVER**

Ajo Improvement Company (“AIC”) submits its proposed 2015 and 2016 Renewable Energy Standard Tariff Implementation Plan (“2015-16 REST Plan”) – which includes its Plan for Distributed Renewable Energy Resources – required by the Arizona Corporation Commission’s Renewable Energy Standard Tariff Rules. Given the particular facts and circumstances of AIC (including its small customer base and service territory), AIC believes its implementation plans for renewable energy should be approved for two years.

As part of its 2015-16 REST Plan, AIC is proposing to reinstate its Renewable Energy Standard Surcharge (“RESS”), which has been suspended since the decision approving its 2012 REST Plan – Decision No. 72894 (February 17, 2012). AIC estimates having about \$15,325 remaining in its renewable energy surcharge account to procure its requirements for 2015 and 2016; this amount includes funds remaining for incentives should any customer make such a request for an eligible distributed renewable energy project. AIC will need additional funding to meet its requirement. AIC is requesting that the RESS be reinstated at the same rate and caps as it was before the suspension, which is also equal to the rate and caps set forth in Appendix A: Sample Tariff to the Renewable Energy Standard Tariff Rules.

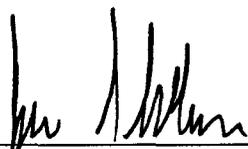
Further, AIC has not received any new inquiries for incentives from any other customer and does not anticipate any new requests. Given AIC’s unique customer profile and the unlikelihood of

1 additional requests for incentives, AIC requests that the waiver of the Distributed Energy
2 requirement granted in Decision No. 73881 (May 8, 2013) continue for 2015 and 2016. The
3 Company, however, intends to continue to notify its customers of the availability of incentives and
4 maintain its incentives at the same level.

5 Finally, AIC proposed 2015-16 REST Plan maintains the approach with its 2013-14 REST
6 Plan that was approved in Decision No. 73881 (May 8, 2013). Further, AIC's proposal has remained
7 substantially consistent since 2008. It takes AIC considerable time and resources to develop and file
8 its REST Plans each year; so a two-year approval does save AIC costs to comply. Because AIC's
9 plan remains the same as in 2013 and 2014, because it has no plans to change offering distributed
10 renewable energy incentives for eligible resources from current levels for the next two years, and due
11 to the time and resources it takes to seek approval, AIC believes that its 2015-16 REST Plan, and the
12 waiver request, should be approved for two years and through 2016. If approved, AIC would file its
13 next REST Plan on July 1, 2016 (for 2017 and 2018).

14
15 RESPECTFULLY SUBMITTED this 25th day of June, 2014.

16 AJO IMPROVEMENT COMPANY

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18
19
20 By 

21 Jason D. Gellman
22 KOSHKAWULF & PATTEN, PLC.
23 One Arizona Center
24 400 East Van Buren Street, Suite 800
25 Phoenix, Arizona 85004
26
27

1 Original and thirteen copies of the foregoing
2 filed this 25th day of June, 2014, with:

3 Docket Control
4 ARIZONA CORPORATION COMMISSION
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 Copy of the foregoing hand-delivered
8 this 25th day of June, 2014, to:

9 Lyn A. Farmer, Esq.
10 Chief Administrative Law Judge
11 Hearing Division
12 ARIZONA CORPORATION COMMISSION
13 1200 West Washington Street
14 Phoenix, Arizona 85007

15 Janice Alward, Esq.
16 Chief Counsel, Legal Division
17 ARIZONA CORPORATION COMMISSION
18 1200 West Washington Street
19 Phoenix, Arizona 85007

20 Steve Olea
21 Director, Utilities Division
22 ARIZONA CORPORATION COMMISSION
23 1200 West Washington Street
24 Phoenix, Arizona 85007

25
26
27


Ajo Improvement Company

2015 and 2016 Renewable Energy Standard Implementation Plan ("2015-16 REST Plan")

1. Introduction

Ajo Improvement Company ("AIC") submits 2015-16 REST Plan to comply with the Renewable Energy Standard Tariff Rules ("REST Rules").

AIC is a small electric utility that serves about 1,027 customers in and around the town of Ajo, Arizona. Its current customer base (per its 2011 Utilities Division Annual Report) consists of approximately 843 residential customers, 183 non-residential customers and 1 resale customer. Many of AIC's residential customers are retired or on fixed incomes. None of the 183 non-residential customers has demand over 3 MW. Presently, AIC owns no generation and procures all of its power from the wholesale market to meet load. It is interconnected with the transmission grid only at the Ajo 69 kV substation. AIC's service territory is remote and is approximately one square mile.

AIC lacks the resources, personnel and expertise to own, operate, or to solely develop renewable generation. AIC will continue to procure Eligible Renewable Energy Resources to the extent necessary and offer incentives for eligible Distributed Renewable Energy Resources.

2. Renewable Energy Requirements

AIC is required to submit an REST Plan annually on July 1st outlining how it intends to comply with the Rules. In Decision No. 73881 (May 8, 2013), the Commission approved AIC's last REST Plan to be in effect for two years (that is, for 2013 and 2014). AIC requested that this plan be in effect for two years as well (that is, in 2015 and 2016).

AIC's 2015-16 REST Plan includes the following information, as required under the REST Rules:

- A description of Eligible Renewable Energy Resources to be added per year for the next five (5) years. A description of each technology, the kW and kWh to be obtained and the estimated cost per kWh and total cost per year.
- A description of how each Eligible Renewable Energy Resource is to be obtained.
- A proposed evaluation of whether AIC's existing funding will allow it to recover its reasonable and prudent costs of complying with the RES.

- A line-item budget allocating specific funding for Distributed Renewable Energy Resources, for the Customer Self-Directed Renewable Energy Option, for power purchase agreements, for utility-owned systems, and for each Eligible Energy Resource described in the REST Plan.

The REST Rules require that 5.0% of total kWh retail sales be from eligible Renewable Energy Resources in 2015, 6.0% in 2016, 7.0% in 2017, 8.0% in 2018 and 9.0% in 2019. The REST Rules further require that 30% of the total Renewable Energy Resource Requirement come from Distributed Renewable Energy Resources for each year.

The attached Table 1 (in accordance with the REST Format Working Group Report submitted August 31, 2012) summarizes the targeted and expected resources for the next five years. Table 2 summarizes AIC's budget projections per the assumptions described in Section 6 of this plan.

A. Request for approving AIC's REST Plan through 2016 (for two years).

It takes considerable time and expense for AIC to develop and file its REST Plan each year. Further, AIC is not planning to change its programs within the plan for at least the next two years. AIC does not anticipate needing to alter the per-kWh rate or caps its customers are charged for implementing the programs in this plan. For this reason, AIC applied for a two-year approval for its REST Plan, with its next filing to take place July 1, 2016, for 2017 and 2018.

3. Annual Renewable Energy Requirement

AIC forecasts that its energy sales for 2015 and 2016 will be approximately 12,500,000 kWh. Based on that average, AIC anticipates that its Annual Renewable Energy Requirement will be as follows:

- approximately 625,000 kWh in 2015;
- approximately 750,000 kWh in 2016;
- approximately 875,000 kWh in 2017;
- approximately 1,000,000 kWh in 2018;
- approximately 1,125,000 kWh in 2019; and
- approximately 1,875,000 kWh in 2025.

AIC anticipates its annual Distributed Renewable Energy Requirement will be the following:

- approximately 187,500 kWh in 2015;
- approximately 225,000 kWh in 2016;
- approximately 262,500 kWh in 2017;

		Table 1						
Targeted Generation Resources	Ownership	Targeted Completion	Production from 2015 through 2019 (kWh)					
			2015	2016	2017	2018	2019	Total
Existing Generation Resources as of January 1, 2015								
1. Procurement from Santa Cruz County landfill gas-to-electricity project	Private	Uncertain	0	0	0	0	0	0
2. Procurement from other providers	N/A	N/A	437,500	525,000	612,500	700,000	787,500	3,062,500
Existing and Expected Distributed Energy Resources								
			Total kW					
1. Non-Residential (3 DG PV Installations @ Ajo Plaza)	Int'l Sonoran Desert Alliance	2012	10,800	10,800	10,800	10,800	10,800	54,000
2. Residential	N/A	N/A	0	0	0	0	0	0

Targeted Generation Resources	Ownership	Targeted Completion	Cost of renewable resources from 2015 to 2019					Total
			2015	2016	2017	2018	2019	
1. Procurement from Santa Cruz County landfill gas-to-electricity project	Private	Uncertain	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2. Procurement from other providers	N/A	N/A	\$ 19,687.50	\$ 23,625.00	\$ 27,562.50	\$ 31,500.00	\$ 35,437.50	\$ 137,812.50
Expected Distributed Energy Resources								
1. Non-Residential (additional \$ paid in incentives)	Int'l Sonoran Desert Alliance	2012	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
2. Residential (\$ paid in incentives)	N/A	N/A	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Other Plan Costs (expected costs in administration, marketing, etc.)			\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 5,000
Total RES Budget			\$ 20,687.50	\$ 24,625.00	\$ 28,562.50	\$ 32,500.00	\$ 36,437.50	\$ 142,812.50

- approximately 300,000 kWh in 2018;
- approximately 337,500 kWh in 2019; and
- approximately 562,500 kWh in 2025.

4. Renewable Energy Program (non-distributed).

In 2009, AIC spent approximately \$49,000 for the purchase and delivery of renewable energy and the acquisition of Renewable Energy Credits (RECs) to its service territory. This purchase allowed AIC to meet its projected Annual Renewable Energy Requirement through 2012. In 2012, AIC procured additional renewable energy and RECs for purchase and delivery to meet its requirements – specifically landfill gas production credits from Tucson Electric Power Company (“TEP”) through Morenci Water and Electric Company (“MWE). AIC met its 2013 non-distributed requirement acquiring additional energy and RECs stemming from TEP for similar credits.

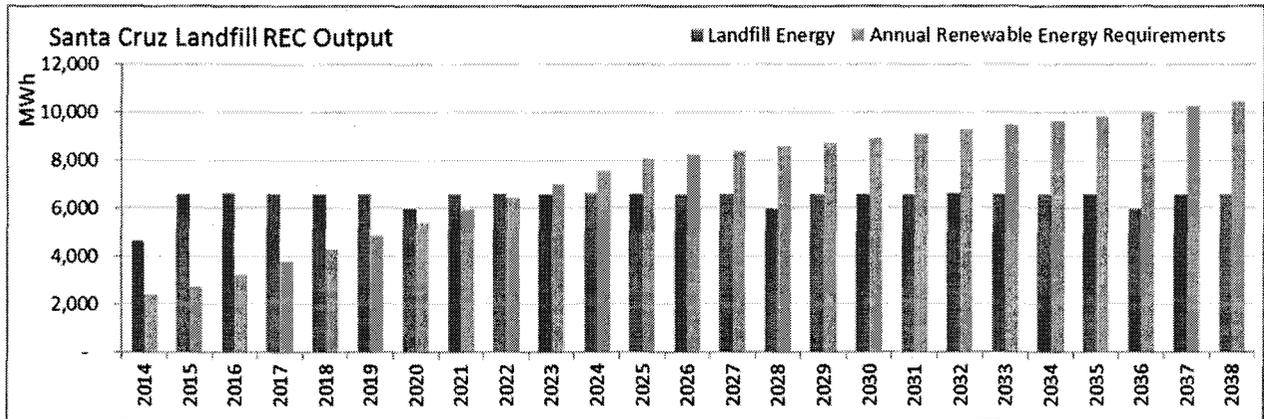
AIC had been involved in the development of the Santa Cruz County Landfill gas-to-electricity project. AIC would have purchased power off of the landfill gas project once it was in commercial operation. Originally slated to be operational by mid-2014, AIC recently learned that Santa Cruz County has now made the decision to attempt to sell the facility to private interests without first developing the gas-to-energy project. AIC had believed that the project could have been operational starting in mid-2014. AIC will also need to eventually obtain long-term transmission rights from TEP to deliver the power to load.

AIC will pursue the landfill gas-to-energy project with the new owners once the sale is final. Presuming that the project eventually is developed, AIC would attempt to negotiate a long-term Purchase Power Agreement to acquire energy and RECs.¹

As the chart below shows, AIC had projected that the project would have allowed it to meet the non-distributed portion of its Annual Renewable Energy Requirement through at least 2022.² AIC hopes that the new owners will ultimately develop the gas-to-energy project.

¹ MWE could also acquire the energy and RECs for AIC’s benefit – and then enter into a separate agreement with AIC to transfer AIC the necessary energy and RECs it needs.

² The “Annual Renewable Energy Requirements” depicted in green on the chart is for MWE and AIC in aggregate.



Because the landfill project will not be completed as anticipated – AIC will attempt to procure additional resources through one or multiple bi-lateral transactions with one or more counterparties (including TEP). The ability to do so would depend on many factors – including addressing uncertainties related to operational performance, deliverability of such resources and sufficiency of transmission

Renewable generation has the potential to not meet scheduled commercial operation and may not match needed delivery schedules and planned quantities. AIC is aware of the potential for renewable contract termination or major delays in delivering renewable energy. Nonetheless, AIC will make best efforts to procure the necessary amount of Eligible Renewable Energy Resources to meet its requirements for 2015, 2016 and future years.

AIC maintains that the pricing for it to procure and deliver such renewable generation to its service territory is at a premium of approximately \$45 per MWh over generation from Conventional Energy Resources. This is based on past experience regarding the cost of both acquiring the renewable energy credits associated with the generation as well as the cost to deliver the energy and meet the requirements under R14-2-1803(D) through (F).

In the meantime, AIC has and will continue to procure eligible energy from generation on per-kWh (energy) basis. Based on AIC’s information and belief, the following tables best summarize the description of kWh, and cost above conventional resources for AIC:

Planned Renewable Generation Procurement (MWh)

Year	2015	2016	2017	2018	2019	Total
Energy – Prospective Procurement	437.50	525.00	612.50	700.00	787.50	3,062.50

Cost Above Conventional Generation (\$'s)³

Year	2015	2016	2017	2018	2019	Total
Total Energy – Prospective Procurement	19,688	23,625	27,563	31,500	35,438	137,813

The above-generation cost is an estimate based upon past experience. The actual premium for renewable energy may be higher or lower depending on the variables identified in this section.

5. Distributed Renewable Energy Program.

To date, three distributed photovoltaic systems within its service territory are operational. These facilities were all installed at the downtown Ajo Plaza – by the International Sonoran Desert Alliance (ISDA) a non-profit organization that develops projects to enrich the environment, culture and economy in the Sonoran Desert. The Ajo Plaza is made up of various small businesses which includes the Ajo Post Office and Library. It is located and considered downtown Ajo as there are also churches, the county courthouse and the bank which surround the Ajo Plaza. According to the ISDA website – <http://www.isdanet.org> – it is considered the center of the Ajo townsite.

Each facility is has a capacity of 2.07 kW DC with anticipated output of 3,600 kWh per year per system. AIC provided incentives to all three facilities in the Ajo Plaza. These systems were installed in November 2012. AIC understands that two of these facilities were to serve residents while one would be serving non-residential establishments at the Ajo Plaza. There were no additional installations in 2013 or to date in 2014.

AIC will continue to offer incentives to customers to encourage the promulgation of eligible Distributed Renewable Energy Resources. These payments are designed to defray some of the costs of a system designed to offset a customer's typical load. Many of the incentives AIC will continue to offer are above what is being offered by other Arizona electric utilities.

A. Continuing the waiver of the Distributed Requirement granted in Decision No. 73881 (May 8, 2013).

The Company intends to continue to notify its customers of the availability of incentives and maintain its incentives at the same level. Even so, AIC has not received any new inquiries for incentives from any other customer and does not anticipate any new requests. Given AIC's unique customer profile and the unlikelihood of additional requests for incentives, AIC requests that the waiver of the Distributed Energy requirement granted in Decision No. 73881 (May 8, 2013) continue for 2015 and 2016.

³ Based on a premium for renewable generation at about \$45.0 per MWh.

B. Types and Requirements for Eligible Distributed Renewable Energy Systems

Examples of eligible Distributed Renewable Energy Resources include:

- Photovoltaic Systems;
- Solar Space Cooling;
- Non-Residential Solar Water Heating and Space Cooling;
- Small Residential Solar Water Heating;
- Small Residential Solar Space Heating;
- Biomass/Biogas Cooling;
- Non-Residential Solar Daylight; and
- Small Wind Generator.

An eligible distributed renewable energy system (a system applying one or more of the technologies included in A.A.C. R14-2-1802.B.) must include a dedicated performance meter that allows for measurement of system energy production. Systems receiving incentives must be installed according to manufacturers' recommendations and generally accepted industry standards, as well as comply with all applicable federal, state and local regulations, accepted governmental statutes, codes, ordinances, and accepted engineering and installation practices. Any system must be inspected by the jurisdiction having authority over construction projects in the customer's locale. Any distributed renewable energy system must meet all applicable interconnection requirements. Written confirmation of meeting all applicable standards must be provided to AIC. All major components of the distributed renewable energy system must be purchased no more than 180 days before AIC receives an application for incentive payments from a customer.

Further, some technology-specific criteria reference third-party standards. The requirements of those standards are fully applicable when referenced as part of technology specific criteria. Rapid growth in national and international renewable energy programs is resulting in greater need for the development of standardization in design, implementation, performance measurement, system integrity, and installation. New standards may possibly develop in the near future for technologies included below; AIC may add these new standards as they become available. The following standards or standard development bodies are referenced below as part of the technology criteria for specific eligible Distributed Renewable Generation Resources:

- The Active Solar Heating Systems Design Manual developed by the American Society of Heating, Refrigerating, and Air Conditioning Engineers, Inc. ("ASHRAE") in cooperation with the Solar Energy Industries Association ("SEIA") and the ACES Research and Management Foundation (the Design Manual)
- The select technology specific qualification developed by the California Energy Commission ("CEC")

- Solar Rating and Certification Corporation (“SRCC”). The SRCC criteria and ratings can be viewed at www.solar-rating.org.
- Arizona state boiler regulations (see R4-13-406)
- The Underwriters Laboratory (“UL”).
- IEEE-929 standard for utility interconnection of PV systems.

The eligible distributed renewable energy system must meet Company and Arizona Corporation Commission interconnection requirements for self-generation equipment. See <http://images.edocket.azcc.gov/docketpdf/0000074361.pdf> for these requirements.

Further, AIC reserves the right to modify standards as technology changes on a case by case basis, pending independent laboratory analysis, Professional Engineer (“PE”) stamp, or AIC engineering analysis.

For certain systems, AIC may require proper labeling of all system components, including AC & DC disconnects, service panel (outside cover) and breakers (inside the service panel).

Off Grid Systems are not included in this program and are not eligible for incentives.

C. Technology Specific Criteria

The following *equipment qualifications* listed are mandatory requirements which must be met at the time of project commissioning to receive an incentive from AIC. The *installation guidance* is intended to provide consumers with information on installation and operation practices which are most likely to achieve the systems designed output. AIC now mandates that all projects to be installed according to installation guidance in order to receive an incentive; this is because the installation guidance reflects both industry and utility concurrence on those practices that are important for a technology to best achieve the designed output. AIC may consider additional installation guidance items for inclusion as part of future requirements.

Photovoltaic Systems

Equipment Qualifications (All Systems)

- The Customer System components must be certified as meeting the requirements of IEEE-929 - Recommended Practice for Utility Interface of Photovoltaic Systems
- Photovoltaic components must be certified by a nationally recognized testing laboratory as meeting the requirements of UL-1703 - Standard for Flat Plate Photovoltaic Modules and Panels Systems and be covered by a non-prorated manufacturer's warranty of at least 20 years.

- The inverter must be certified as meeting the requirements of IEEE-1547 - Recommended Practice for Utility Interface of Photovoltaic Systems and it must be UL-1741 certified. Inverters must be covered by a manufacturer's warranty of at least ten years.
- All other electrical components must be UL listed.
- The Customer System design and installation must meet the requirements of all federal, state and local building codes and have been successfully inspected by the building official having jurisdiction. Accordingly, the installation must be completed in accordance with the requirements of the latest edition of National Electrical Code in effect in the jurisdiction where the installation is being completed (NEC), including, without limitation, Sections 200-6, 210-6, 230-70, 240-3, 250-26, 250-50, 250-122, all of Article 690 pertaining to Solar Photovoltaic Systems, thereof, all as amended and superseded.
- The Customer System must meet Company and Arizona Corporation Commission interconnection requirements for self-generation equipment. See <http://images.edocket.azcc.gov/docketpdf/0000074361.pdf> for these requirements.
- Other equipment qualifications may be specifically required as determined by AIC.

Installation Guidance

- A grid-connected Residential Customer System must have a total solar array nameplate rating of at least 1,200 watts DC and no more than 20,000 watts AC.
- The Customer System installation must meet the following requirements:

"AN AC DISCONNECT MEANS SHALL BE PROVIDED ON ALL UNGROUNDED AC CONDUCTORS and SHALL CONSIST OF A LOCKABLE GANG OPERATED DISCONNECT CLEARLY INDICATING OPEN OR CLOSED. THE SWITCH SHALL BE VISUALLY INSPECTED TO DETERMINE THAT THE SWITCH IS OPEN. THE SWITCH SHALL BE CLEARLY LABELED STATING "DG SERVICE DISCONNECT."
- The utility meter and utility disconnect will be installed in a location readily accessible by AIC during normal business hours.
- Products must be installed according to manufacturers' recommendations.
- The Customer System photovoltaic panels and modules must face within +/- 100 degrees of true south, and be substantially unshaded from 9 am to 3 pm. System arrays which are facing at an azimuth angle of more than 20 degrees from true south

or shaded for more than one hour per day may be subject to a reduced amount of incentive payment. This reduced amount will depend on the array azimuth angle from due south as well as the number of shaded hours.

- The Customer System photovoltaic panels and modules must be fitted at an angle of 0 degrees to 60 degrees from horizontal. System arrays which are fitted with an elevation angle of less than 20 degrees or more than 35 degrees above horizontal may be subject to a reduced amount of incentive payment.
- For Residential Customer Systems, Company will provide a meter and meter socket that will be installed in a readily accessible outdoor location by the Customer between the DC to AC converter and the connection to the over-current device in the Customer's electric service panel. For Non-Residential Customer Systems, Company shall provide the meter only, to be installed in a Customer supplied meter socket to be installed in a readily accessible outdoor location by the Customer between the DC to AC converter and the connection to the over-current device in the Customer's electric service panel. Installer must notify AIC of wiring configuration so that AIC may provide the appropriate 3-phase meter.
- Total voltage drop on the DC and AC wiring from the furthest PV module to the AC meter will not exceed 2%.
- PV panels and DC to AC inverter will be installed with sufficient clearance to allow for proper ventilation and cooling. At a minimum, manufacturer clearance recommendations will be observed. PV modules may be mounted less than four inches above any surface and an additional inch of clearance for each foot of continuous array surface area beyond four feet in the direction parallel to the mounting support surface, only in cases when arrays are flush-mounted to roof pitch. Otherwise, the four-inch spacing and an additional inch of clearance for each foot of continuous array surface area minimum is required.
- Storage Batteries are not allowed as part of the Customer System unless the inverter is a separate component and AIC can locate the Solar Meter at the inverter's output. If configured otherwise, battery losses will adversely reflect in the annual AC metered energy output. Customer's solar energy generation and energy storage system must meet all of the applicable requirements for Photovoltaic Systems contained within this section.
- The DC to AC inverter used must provide maximum power point tracking for the full voltage and current range expected from the photovoltaic panels used and the temperature and solar insolation conditions expected in AIC's service territory.
- The DC to AC inverter must be capable of adjusting to "sun splash" from all possible combinations of cloud fringe effects without interruption of electric production.
- AIC reserves the right to modify standards as technology changes on a case by case

basis, pending independent laboratory analysis, Professional Engineer ("PE") stamp, or AIC engineering analysis.

Additional Guidance

The following resources provide information regarding system installation and performance forecasting:

The California Energy Commission's Guide to Buying a Photovoltaic Solar Electric System at http://energy.ca.gov/reports/2003-03-11_500-03-014F.PDF

The Arizona Consumers Guide to Buying a Solar Electric System at www.azsolarcenter.com/design/azguide-1.pdf

Additional requirements may apply to photovoltaic systems larger than 100 kW.

Biomass/Biogas Electric, Hydroelectric and Geothermal Electric

Equipment Qualifications

- Biomass system installations involving a regulated boiler or pressure vessel are required to comply with all Arizona state boiler regulations; provide a qualifying boiler inspection identification number; and keep all applicable permits in good standing.
- System must include a dedicated performance meter to allow for monitoring of the amount of electricity produced.
- Energy savings and designed output for the system will be verified by submitting either a testing certification for a substantially similar system prepared by a publicly funded laboratory or by submitting an engineering report stamped by a registered professional engineer. The engineering report must provide a description of the system and major components, design criteria and performance expectations, applicable standards and/or codes, and a brief history of components in similar applications. This certification or engineering report must be provided in Step #6 of the Application Process detailed below.
- The system must have a material and labor warranty of at least five (5) years.
- The system must meet Arizona Department of Environmental Quality ("ADEQ") environmental standards.

Installation Guidance

Because of the individual nature of biomass systems, care should be taken to make sure the system complies with all applicable permitting and regulatory requirements, including but not limited to air emission standards and air permit regulations.

Solar Non-Residential Daylighting

Equipment Qualifications

All systems shall include the following components as part of the day lighting system:

- Skylights must adhere to the 2009 International Energy Conservation Code with regard to the U-factor and solar heat gain coefficient and must have a minimum visible transmittance based on the California Public Utilities Commission (CPUC) Savings by Design program (Note: U-value and SHGC ratings should be based on a 20 degree ratings, now standard through the National Fenestration Rating Council (NFRC)):
 - Maximum U-factor of 0.75
 - Maximum solar heat gain coefficient of 0.35
 - Minimum visible transmittance of 0.45
- Skylight can be in a toplighting configuration only.
- Skylight area may not exceed 3% of the gross roof area.
- Skylights must be certified by the National Fenestration Rating Council (NFRC).
- If artificial lighting systems remain a part of the installation, the system shall include automated lighting control(s) which are programmed to keep electric lights off/dimmed during daylight hours of sufficient solar insolation to provide minimum design illumination levels.
- The system will have a material and labor warranty of at least five years.

Installation Guidance

All systems should be installed such that the skylight dome is substantially unshaded and have substantially unobstructed exposure to direct sunlight between the hours of 9 a.m. and 3 p.m.

Small Wind Generator

A small wind generator is a system with a nameplate rating of one MW or less. The technology criteria described below are intended for small wind generators with a nameplate rating of 100kW or less. Larger systems will be required to submit a detailed package describing site selection, energy production modeling, and an engineered system design and installation report.

Equipment Qualifications

- Eligible small wind systems must be certified and nameplate rated by the CEC.⁴ See www.consumerenergycenter.org/erprebate/equipment.html for a list of certified generators. For grid-tied wind generators where an inverter is used, the CEC listed nameplate rating of the wind generator will be multiplied by the CEC approved weighted efficiency percentage listed for the inverter in the “List of Eligible Inverters” at www.consumerenergycenter.org/cgi-bin/eligible_inverters.cgi to calculate the wind turbine nameplate rating for use in determining the UFI payment.
- Grid connected inverters used as part of the system shall carry a UL listing certifying full compliance with Underwriter’s Laboratory (“UL”)-1741
- A system must include a dedicated performance meter installed to allow for measurement of the amount of electricity produced.
- The performance meter and utility disconnect will be installed in a location readily accessible to AIC during normal business hours.
- The tower used in the installation must be designed by an Arizona registered engineer and must be suitable for use with the wind generator. Tower installation must be designed and supervised by individuals familiar with local geotechnical conditions.
- The wind generator and system must include a 10-year manufacturer’s warranty and a material and labor warranty of at least five (5) years.

Installation Guidance

- **Location:** a wind turbine hub should be at least 20 feet above any surrounding object and at least 28 feet above the ground within a 250-foot radius. Wind generators should be installed in locations with an elevation at or above the general elevation of the surrounding terrain.
- **Lot Size:** should be at minimum one-half acre. Municipalities and public facilities such as schools and libraries are exempt from the minimum lot size requirements.

⁴ AIC notes that the Uniform Credit Purchase Program (“UCPP”) Working Group had recommended review of the SWCC standards for rating small wind generators once they become available for purposes of supplanting the CEC requirement in this Technology Criterion.

This is to ensure there is ample space to safely accommodate any small system, and incorporated this requirement based on its review of approved plans for other Arizona utilities, and is in lieu of any other height or setback requirements that AIC could put into place.

The Applicant should demonstrate its proposed system is able to obtain at least a 15% annual capacity factor. The following are readily available methods for helping to demonstrate the potential for a 15% capacity factor, but other methods may be used. The installation location should have a demonstrated average annual wind speed of at least 10 MPH as measured at a height of no more than 50 feet above the ground. Average annual wind speed can be demonstrated by wind speed records from an airport, weather station or university within 20 miles of the proposed wind generator location, or by a 50 meter wind power density classification of Class 2 “Marginal” or higher on the “State of Arizona Average Annual Wind Resource map dated July 16, 2005 or later as published by Sustainable Energy Solutions of Northern Arizona University. Northern Arizona University provides detailed wind resource maps as well as other resource services. For more information contact Northern Arizona University at <http://wind.nau.edu/maps/>.

Solar Space Cooling

Equipment Qualifications

- The minimum cooling capacity of the system will be 120,000 BTU (10 tons) per hour.
- Solar collector panels used will have a Solar Rating and Certification Corporation (“SRCC”) OG-100 rating or laboratory documentation showing the panel energy output under controlled and replicable test conditions.
- Energy savings and designed output for the system will be verified by submitting either a testing certification for a substantially similar system prepared by a publicly funded laboratory or by submitting an engineering report stamped by a registered professional engineer. The engineering report shall provide a description of the system and major components, design criteria and performance expectations, applicable standards and/or codes, and a brief history of components in similar applications.
- System must include a dedicated performance meter to allow for monitoring of the amount of heat input to the thermal cooling device or system. Energy production will be calculated at one kW-hr per 3,415 Btu of metered heat delivered to the thermal cooling device or system.
- The system must have a material and labor warranty of at least five (5) years.

Installation Guidance

- The horizontal tilt angle of the collector panels should be between 20 and 60 degrees and the panel orientation should be between +/- 45 degrees of south.
- All systems should be installed such that the energy collection system is substantially unshaded and should have substantially unobstructed exposure to direct sunlight between the hours of 9 a.m. and 3 p.m.
- The system installation should comply with the design manual.

Non-residential Solar Water Heating and Space Heating

Equipment Qualifications

- Solar collector panels used will have a SRCC OG-100 certification or laboratory documentation showing the panel energy output under controlled and replicable test conditions.
- The system must include a dedicated performance customer-supplied meter to allow for monitoring of the amount of useful heat produced – if annual energy production is expected to exceed 10,000 kWh or equivalent. Otherwise, compliance reporting production will be based on the design energy savings submitted at the time of application.
- Energy savings and designed output for the system will be verified by submitting either a testing certification for a substantially similar system prepared by a publicly funded laboratory or by submitting an engineering report stamped by a registered professional engineer. The engineering report shall provide a description of the system and major components, design criteria and performance expectations, applicable standards and/or codes, and a brief history of components in similar applications.
- The solar collector, heat exchangers and storage elements must have an equipment warranty of at least 10 years and the entire system must have a material and full labor warranty of at least five (5) years.

Installation Guidance

- The horizontal tilt angle of the collector panels should be between 20 and 60 degrees and the panel orientation should be between +/- 45 degrees of south.
- All systems should be installed such that the energy collection system is substantially unshaded and should have substantially unobstructed exposure to direct sunlight between the hours of 9 am and 3 pm.
- The system installation should comply with the design manual.

Small Residential Solar Water Heating and Space Heating

Equipment Qualifications

- Residential (*i.e.*, Domestic) Solar Water Heating systems will be rated by the SRCC and meet the OG-300 system standard. Systems that include OG-100 collectors but are not certified under OG-300 will need to be verified by submitting either a testing certification for a substantially similar system prepared by a publicly funded laboratory or by submitting an engineering report stamped by a registered professional engineer detailing annual energy savings. Solar Space Heating systems will utilize OG-100 collectors.
- Residential Water Heating systems shall be selected and sized according to the geographic location and hot water needs of the specific application. Reservation requests will include a manufacturer's verification disclosing that the system size and collector type proposed is appropriate for the specific application. The manufacturer's verification may be presented as a manufacturer's product specification sheet and will be included in the reservation request.
- Solar Space Heating systems will be sized in conformance with the Solar Space Heating Incentive Calculation Procedure attached to AIC's REST Plan as Exhibit 1.
- Active, open-loop systems are not eligible for any incentives except for active, open-loop systems that have a proven technology or design that limits scaling and internal corrosion of system piping, and includes appropriate automatic methods for freeze protection and prevents stagnations temperatures that exceed 250 degrees Fahrenheit under all conditions at the location of installation. Details disclosing conformance with this exception shall be submitted as part of the manufacturer's verification documentation.
- Integrated Collector System ("ICS") systems shall have a minimum collector piping wall thickness of 0.058 inches. Details disclosing conformance with this requirement must be submitted as part of the Manufacturer's verification documentation. ICS units must include certification that collector stagnation temperature will never exceed 250 degrees Fahrenheit under any possible conditions at the location of the installation.

- The 'high' limit on all Residential Water Heating controllers shall be set no higher at 160 degrees Fahrenheit.
- Active thermal storage for solar space heating systems shall use water as the storage element.
- Contractors must provide minimum of a five-year equipment warranty as provided by the system manufacturer, including a minimum warranty period of five (5) years for repair/ replacement service to the customer.
- Residential Water Heating systems that are installed as an addition to an existing system or are submitted as a customer-designed system or not certified to OG-300 must be specifically reviewed and approved by the utility.
- The solar collector, heat exchangers and storage elements must have an equipment warranty of at least 10 years.

Installation Guidance

- The system shall be installed with a horizontal tilt angle between 20 degrees and 60 degrees, and azimuth angle of +/- 60 degrees of due south. It is recommended that collectors be positioned for optimum winter heating conditions at a minimum tilt angle of 45 degrees above horizontal, or as recommended by the manufacturer for the specific collector type and geographic location of installation.
- All systems should be installed such that the energy collection system is substantially unshaded and should have substantially unobstructed exposure to direct sunlight between the hours of 9 a.m. and 3 p.m.
- Heat exchange fluid in glycol systems should be tested and flushed and refilled with new fluid as necessary or every five (5) years or sooner per manufacturer's recommendations.
- It is recommended that the anode rod be checked and replaced per manufacturer's recommendations, but no less frequently than every five (5) years.
- It is recommended that the system design include a timer, switch, or other control device on the backup element of the storage tank.
- The collectors and storage tank should be in close proximity to the backup system and house distribution system to avoid excessive pressure or temperature losses.
- It is recommended that in areas where water quality problems are reported to have reduced expected life of a solar water heater, that a water quality test is performed for each residence to screen for materials that through interaction with the materials of

the proposed system may reduce the expected operational life of the system components. The customer should consider contacting the manufacturer to determine if warranty or operational life will be affected.

- In areas subject to snow accumulation, sufficient clearance will be provided to allow a 12” snowfall to be shed from a solar collector without shadowing any part of the collector.
- Each system should have a comprehensive operation and maintenance manual at the customer’s site – including a spare parts list, data sheets, and flow diagrams indicating operating temperatures and pressures, maintenance schedules and description of testing methods. Further, each customer must complete an initial start up and operation training review with the contractor at the time of system start up.
- Ball valves should be used throughout the system. Gate valves should not be used.
- Pipes carrying heated fluids shall be insulated for thermal energy conservation as well as personnel protection when exposed to ambient conditions, although this is highly recommended in either situation.

***Biogas/Biomass Thermal, Geothermal – Space Heating and Process Heating
(including Residential or Commercial Ground Source Heat Pumps)***

Equipment Qualifications

- Biomass/Biogas or geothermal system installations involving a regulated boiler or pressure vessel are required to comply with all Arizona state boiler regulations; provide a qualifying boiler inspection identification number; and keep all applicable permits in good standing.
- Energy savings and designed output for the system will be verified by submitting either a testing certification for a substantially similar system prepared by a publicly funded laboratory or by submitting an engineering report stamped by a registered professional engineer. The engineering report shall provide a description of the system and major components, design criteria and performance expectations, applicable standards and/or codes, and a brief history of components in similar applications.
- Energy production for space heating, space cooling and process heating will be calculated as one kWh of energy per 3,415 Btu of useful heat delivered by the system as measured by a dedicated heat delivery measuring meter and used by the building space or process.
- The system will have a material and labor warranty of at least five years.
- The system must meet ADEQ environmental standards.

- For Residential and Commercial Ground Source Heat Pumps, the most current Energy Star Standards must be achieved. These can be found at:
<http://www.energystar.gov/index.cfm?c=geoheat.prcritgeoheatpumps>.

Installation Guidance

Because of the individual nature of biomass/biogas or geothermal systems, care should be taken to make sure the system complies with all applicable permitting and regulatory requirements including, but not limited to, air emission standards and air permit regulations.

Technologies without Technology Specific Criteria and Non-Conforming Projects

AIC is not aware of any technology-specific criteria developed for the following qualifying technologies:

- Biogas/Biogas Combined Heat and Power (“CHP”)
- Fuel Cells
- Other

For applicants requesting incentives for the above technologies or for applicants requesting installation of a technology with conforming project technology criteria but where some criteria cannot be met, the applicant will need to submit design and output documentation.

Applicants installing these systems will at minimum need to provide an energy savings and designed output report for the system. The report must include either a testing certification for a substantially similar system prepared by a publicly funded laboratory or an engineering report stamped by a registered professional engineer. The engineering report and/or testing certification shall provide a description of the system and major components, design criteria and performance expectations, applicable standards and/or codes, and a brief history of components in similar applications. Additional information may be required as part of the utility specific Uniform Credit Purchase Program (“UCPP”) requirements.

D. Installation

The installer for any and all distributed renewable energy systems must possess a valid license on file with the Arizona Registrar of Contractors (“AZROC”), with a license classification appropriate for the technology being installed, or the installer must identify use of a contractor holding an appropriate license on file with the AZROC for the technology being installed. The installer must also have proof of liability insurance, which is to be provided when Applicant submits the application. Further, any equipment

dealer must provide proof of a business license showing that the dealer is in good standing with the appropriate agency(ies) and must also provide proof of liability insurance.

E. Reporting Requirements

Applicants must submit a report demonstrating energy savings and that projected output will be achieved. The report must show that the distributed renewable energy system meets all applicable requirements including – if necessary – testing certification and/or an engineering report stamped by a registered professional engineer. The report must also describe the system and its major components and include designed performance and system output.

F. Inspections

Any and all distributed renewable energy systems must be inspected by the entity having authority to inspect construction projects within AIC's certificated service area. AIC's inspections are in addition to, and not instead of, any building and construction-related inspections. AIC must have access to any distributed renewable energy system during normal business hours for any inspection by AIC. AIC will inspect any and all grid-tied systems to ensure the system is connected to the grid in conformance with AIC's interconnection requirements. Under no circumstances is any grid-tied system to be installed in parallel or otherwise connected with the AIC system until the time that AIC has inspected the distributed renewable energy system and gives written authorization. This inspection will only take place after the appropriate building and construction-related inspection has been performed.

Further, AIC may conduct further inspections to ensure any distributed renewable energy system continues to conform to applicable codes, regulations and standards. AIC will conduct these inspections solely within its discretion. AIC may also conduct other inspections to ensure the system is operated in compliance with the Applicant's original request and the Company's approval of the request.

G. Metering

All distributed renewable energy systems must include a system-dedicated kWh performance meter, which allows AIC to measure system energy production. The Applicant must include performance meters as part of the system designed and the Applicant will be responsible for the cost of the performance meter. The performance meter must be installed according to AIC's meter installation standards and is subject to inspection. These meters are in addition to billing meters and must be calibrated to meet industry standards and provide direct kWh readings.

Those customers who receive distributed renewable generation incentives are also eligible to receive benefits under net metering. The Commission approved Net Metering Rules in Decision No. 70567 (October 28, 2008). Those rules have been filed with the Arizona Secretary of State on March 24, 2009, and became effective May 23, 2009. The Commission approved AIC's net metering tariff in Decision No. 71828 (August 10, 2010).

H. System Operation and Maintenance

An Applicant must operate and maintain any distributed renewable energy system appropriately and must do so for the duration detailed in his or her request and the Company's approval of such request.

If an Applicant fails to maintain and operate the distributed renewable energy system in AIC's certificated service area for the period detailed in the AIC's approval of the application, then Applicant will be in default of the terms and conditions of the agreement between Applicant and AIC. Applicant will be responsible for reimbursing AIC the total amount of the incentive payment. In addition, liquidated damages may also apply. AIC, however, has the ability in its sole discretion to determine that the distributed renewable energy system is not operational due to equipment malfunction or other disrepair; further Applicant will and is making best efforts to repair the system and return it to an operable condition. In that case, the reimbursement requirement will not apply.

Should a system cease to be operational, the Applicant must notify AIC within five (5) business days after the distributed renewable energy system is either removed from the property or fails to be operational. Short outages (lasting less than 30 days) that are for planned maintenance or system repair are not part of this requirement.

An Applicant who has been in default at any time will be completely disqualified for any future funding permanently.

I. Sale of Property

Applicant must notify AIC if Applicant sells the property on which the distributed renewable energy system is located by notifying AIC in writing. Applicant may be required to reimburse payment incentive and may be determined to be in default – unless the subsequent owner agrees in writing to operate and maintain the distributed renewable energy system per the terms and conditions agreed to between Applicant and AIC.

In any event, Applicant or its assignee would be required to notify AIC of the sale of property for the entire term of the 20-year agreement.

J. Renewable Energy Credits

AIC will receive complete and irrevocable ownership of all Renewable Energy Credits (RECs) expected from system production for the effective life of the distributed renewable energy system – when it makes any incentive payment to an Applicant. These RECs will be applied toward AIC’s requirements under the REST Rules.

All RECs derived from any Applicant receiving incentive payment(s) for any distributed renewable energy system, including generation and Extra Credit Multipliers, will be applied to satisfy AIC’s Annual Renewable Energy Requirement and Distributed Renewable Energy Requirement.

K. Incentives

Any incentive payment will be a one-time up-front payment and will be determined based on system capacity (Watts) or estimated annual production (kWh), as well as based on a 20-year agreement with AIC. The following chart highlights the incentives per type of eligible Distributed Renewable Energy Resources:

Type	2013 – 2017
Biomass/Biogas (Electric, Thermal, Cooling)	To be determined (“TBD”)
Biomass/Biogas CHP (Electric, Thermal) ⁵	TBD
Daylighting ⁶	\$0.20 / kWh
Geothermal (Electric)	\$0.50 / Watt
Geothermal (Thermal)	\$1.00 / Watt
Hydroelectric	TBD
Small Wind	\$2.50 / Watt AC
Solar Electric – Residential ⁷	\$3.50 / Watt DC for all residential and non-residential systems.
Solar Electric – Non-Residential ⁸	
Solar Space Cooling ⁹	TBD
Non-Residential Solar Water Heating / Space Heating ¹⁰	TBD
Residential Solar Water Heating / Space Heating ¹¹	\$0.75 / kWh for projected first year savings only.
Non-Residential Pool Heating	TBD

⁵ The CHP incentives may be used in combination for the appropriate components of one system.

⁶ Rate applies to first year energy savings only.

⁷ This incentive had been at \$5.00 for the first installation and \$4.00 for the second. But because of the installations at the Ajo Plaza, those incentives were taken, leaving the \$3.50 incentive for all additional installations. Some installations may require an adjustment of the incentive. As stated in the technical specifications for photovoltaic installations, reduced incentives may apply if panels and modules are shaded, or are facing at an angle more than 20 degrees from due south. Reduced incentives may also apply if the elevation angle is not between 20 and 35 degrees.

⁸ This incentive had been at \$5.00 for the first installation and \$4.00 for the second. But because of the installations at the Ajo Plaza, those incentives were taken, leaving the \$3.50 incentive for all additional installations. Some installations may require an adjustment of the incentive. As stated in the technical specifications for photovoltaic installations, reduced incentives may apply if panels and modules are shaded, or are facing at an angle more than 20 degrees from due south. Reduced incentives may also apply if the elevation angle is not between 20 and 35 degrees.

⁹ Solar space heating and cooling incentives may be used in combination for the appropriate components of one system.

¹⁰ Solar space heating and cooling incentives may be used in combination for the appropriate components of one system.

¹¹ This category includes both traditional water heating and those systems combined with residential solar water heating used for space heating. Space heating applications require a report detailing energy savings for the complete system. Energy savings rating is based on the SRCC OG-300 published rating or the Uniform Credit Purchase Program Space Heating Calculator. The customer contribution must be a minimum of 15% of the project cost after accounting for and applying all available Federal and State incentives.

The incentives identified in the chart were derived from the UCPP Working Group Incentive Matrix. For those categories where the incentive is “TBD” (to be determined) the incentive amounts will be determined on a case-by-case basis and will include consideration of capital costs, capacity (kW), and estimated annual production (kWh).

Incentives will be dealt on a first-come first-serve basis and it is AIC’s intent to split total annual incentive payments, so that it complies with the requirement that 50% of its annual Distributed Renewable Energy Requirement comes from eligible residential Distributed Renewable Energy Resources. Eligibility requirements for which an Applicant may receive incentive payments to develop and install distributed renewable energy resources are described in the Company’s schedule entitled “Applications for Distributed Renewable Energy Resources Schedule” – Sheet No. 34.0 – that was approved in Decision No. 70304.

Funds for incentive payments are made available for distributed renewable energy systems on the first working day after January 1st of each calendar year. If funds collected for distributed renewable energy systems are not used during the calendar year, they will then be applied to the next calendar year. *AIC will only accept applications for as long as funds are available. Once funds are expired, those seeking incentives will have to wait until when funds are available for incentives to apply.*

Despite the above, funds for any one project will not exceed 60% of the total cost of the project. This 60% cap will apply to entire system costs for the project (*i.e.*, including financing costs). But at no time will more than \$11,000 be provided in incentives for any one project. This \$11,000 cap will include the costs of financing (*i.e.*, no more than \$11,000 will be provided towards the total system cost of any one project).

L. Distributed Renewable Energy System Program Monitoring

AIC will track progress toward program goals by compiling data received from conducting maintenance inspections, meter readings and analyzing trends in customer participation and technology installation. New information, changing market conditions, changing assumptions and/or technological innovations may lead to changing certain facets of the REST Plan regarding Distributed Renewable Energy Resources. AIC will bring those issues to the Commission’s attention in a timely manner. AIC will report on the productivity for all distributed renewable energy systems annually by reporting on the total installed capacity and projected productivity. AIC will also continue to participate in the “Go Solar Arizona” website development as ordered in Decision No. 71470 (January 26, 2010).

M. System Removal

No qualifying system or any components of that system will be removed (by either the application or future owners or occupants of the property) until December 31st of the 20th

full calendar year following completion of system installation of the renewable energy system, without express agreement of AIC.

If a system is removed by any party in violation of this provision, then the customer must immediately reimburse AIC all incentive amounts paid to customer by AIC or on behalf of customer to an authorized third party. *This requires applicant or assignee to reimburse AIC a pro-rata share of incentive payments in accordance with the Distributed Renewable Energy Application.*

Should a distributed renewable energy system be removed before its agreement term expires and without AIC's permission – or if an Applicant does not repair a system – then AIC will continue to reflect in the annual compliance reporting the annual historic energy production for the system until the agreement term for the system has been completed. The actions AIC would take, if any, to address removal of the system contrary to the agreement or failure to make needed repairs to a system would depend on the particular circumstances of the removal. AIC would note – in its annual compliance reporting – that the system had been removed and what the annual historic energy production had been before the system was removed.

N. Application Process

1. Applicant submits a Distributed Renewable Generation System Reservation Application to AIC (i.e. “the Application”).

This includes any and all required interconnection documentation.

2. Applicant receives approval from AIC.

This approval will be a written agreement between Applicant and AIC, and will constitute the terms and conditions that Applicant must agree to in order to receive any incentive payment. The approval will detail the time period for which the agreement applies. The approval will constitute the entire agreement between the Applicant and AIC regarding the specific distributed renewable energy system contained within the application. The approval will also specify a timeframe for which Applicant has to install and receive all approvals before having to place system in operation. Should Applicant fail to do so, then the approval will be automatically terminated and Applicant will have to submit a completely new application.

If the application is deficient, AIC will inform the Applicant of the nature of the deficiency(ies). Applicant will have an opportunity to correct the deficiency(ies) within a specific time period indicated on AIC's notification of deficiency. If deficiencies are not addressed within that time period to AIC's satisfaction, then the application will automatically be deemed denied. If an application cannot be approved because funding is not available, then the application will be put on a waiting list and AIC will send written notification to the Applicant.

AIC anticipates reviewing an application within 30 days of receipt (Step 2 of the Application Process). AIC would, under normal circumstances, provide an applicant up to 60 days to correct any deficiencies, but could be flexible depending on the demand for incentives at that time.

- 3. Applicant agrees to terms and conditions contained in the approval through written and signed confirmation explicitly agreeing to those terms and conditions.**

- 4. Applicant submits proof – no later than 90 days before installation – that Applicant is going forward with installing the distributed renewable energy system approved.**

This is to ensure that funds are reserved to projects that will actually be installed.

The proof would include the following: (1) a project agreement; (2) an executed installation agreement including all project participants; (3) building and/or construction permits and/or a full set of design development or construction drawings (80% or more complete); and (4) an executed interconnection agreement.

- 5. Applicant submits a system design for review and approval by AIC.**

AIC must approve system design before Applicant proceeds with installation.

The level of detail would be that required to ensure that the system conforms with all technical requirements in the plan and that all interconnection requirements are met, including a full set of construction development or construction drawings (80% or more complete), but AIC will work with the customer to ensure adequate level of detail is provided.

- 6. Applicant has system installed. AIC inspects the system to ensure it is connected to the grid per AIC's interconnection requirements.**

This will take place after AIC receives proof that the system has been inspected by the appropriate entity to inspect construction and building. Applicant also must include proof that installation has been performed per the terms and conditions of the REST Plan. AIC will provide Applicant with written confirmation that the system passed its installation inspection. At no time will Applicant make any material change from the approved application without prior written consent from AIC.

Applicant must submit a Proposed Modification to Application in order to receive such written consent. AIC will then determine whether additional funding is

available, should additional funding be requested or required due to the material change. Should additional funding not be available, then Applicant will only receive the incentive payment amount originally approved.

7. Applicant receives one-time up-front incentive payment.

Once a system passes its installation inspection and receives written confirmation, AIC anticipates providing applicant with an incentive payment within 30 days.

AIC anticipates the entire process to take 180 days from the point AIC approves an application.

O. Eligibility Requirements

Eligibility requirements are set forth in the Company's schedule entitled "Applications for Distributed Renewable Energy Resources Schedule" – Sheet No. 34.0 – that was approved in Decision No. 70304. Any customer of AIC is eligible to apply for and, if approved, receive incentive payment for an eligible Distributed Renewable Energy Resource as defined in A.A.C. R14-2-1802.

1. The Applicant must apply for – and receive approval for – funding in accordance with the procedure set forth above.
2. The distributed renewable energy system must be established physically within the Company's certificated service area.
3. Any project applied for must meet the requirements for a Distributed Renewable Energy Resource described in the Arizona Corporation Commission's REST Rule A.A.C. R14-2-1802.
4. The Company will assume no liability for any incentive payment subsequently assigned to third party(ies) from the Applicant.

P. Self-Direction

Any customers paying Tariff funds of at least \$25,000 annually for any number of related accounts or services within an Affected Utility's service area are eligible for the Customer Self-Directed Renewable Energy Option. That Schedule – approved in Decision No. 70304 (Sheet No. 35.0) – details the requirements to be met when submitting a written application. One half of the funding must come from the Eligible Customer for each project proposed. Per A.A.C. R14-2-1809.C., all RECs derived from the project(s) will apply to satisfy AIC's Annual Renewable Energy Requirement.

The Company does not currently have – nor does it anticipate having in 2013 or 2014 – any customers that pay over \$25,000 in tariff charges annually and in total, for any number of related service accounts within AIC’s certificated service area. Therefore, AIC has and will likely have no customers eligible for the “Customer Self-Directed Renewable Energy Option” as codified in A.A.C. R14-2-1809. Its budget for this option is therefore zero.

6. 2015-16 Renewable Energy Standard Plan Budget

Given the uncertainties AIC continues to encounter in acquiring the RECs to meet the requirements, the following budget is AIC’s best estimate as to the costs of compliance with the REST Rules. AIC also has sought to minimize the costs for administration, implementation, commercialization and integration, and marketing and outreach. Even so, the figures contained in the following budget are preliminary estimates.

Further, AIC has not seen any interest in incentives for eligible distributed renewable energy projects within its service territory. Customers may not be willing or able to finance such systems even after receiving incentives to cover a significant amount of the cost.

Regarding the distributed incentive line-item in the budget, AIC submits a budget that meets its understanding of the intent of A.A.C R14-2-1813. For the individual years, the incentives represent what it would take to go from the amount of energy existing installations actually produce (kWh) to the amount that would meet the distributed energy requirement for that particular year. The amount listed in the last column represents the amount of actual incentives paid out over the course of five years that would allow AIC to meet the requirement as if it was met in 2015 and for the subsequent four years through 2019. In other words, the total incentive amount is not the sum of the five years in the previous columns. **Assuming that enough photovoltaic (PV) solar installations were installed to meet the distributed requirement for 2015 and enough incremental PV solar installations were made to meet the requirement in 2016, AIC estimates the cost of providing incentives in 2015 and 2016 would equal approximately \$370,257.**

Interest in distributed renewable generation has been limited to the three installations mentioned in Section 4; no other applications for incentives for any other distributed renewable energy systems have been submitted. Thus, AIC cannot currently justify increasing the per-kWh rate or caps to the levels of the estimated budget designed to meet the REST standards. AIC would have funds available for incentives for distributed energy projects from what remains after procuring its non-distributed energy requirement.

AIC's Estimated RES Budget (\$'s)

	2015	2016	2017	2018	2019	5-year period (2015-2019)
Renewable Energy Resources						
Total Energy – Prospective Procurement (Eligible Renewable Resources) ¹²	19,688	23,625	27,653	31,500	35,438	137,813
Utility-Owned Systems	0	0	0	0	0	0
Administration, Implementation, Commercialization & Integration	1,000	1,000	1,000	1,000	1,000	5,000
Renewable Energy – Subtotal	20,688	24,625	28,653	32,500	36,438	142,813
Distributed Renewable Energy Resources						
Incentives ¹³	305,436	370,256	435,077	499,898	564,719	565,720
Customer Self-Directed Renewable Energy Option ¹⁴	0	0	0	0	0	0
Administration, Implementation, Marketing & Outreach, Commercialization & Integration.	5,000	5,000	5,000	5,000	5,000	25,000
Distributed Energy – Subtotal	310,436	375,256	440,077	504,898	569,719	590,720
TOTAL	334,124	399,881	468,730	537,398	606,157	733,533

AIC will continue to rollover any unused funds from previous years to be used towards the REST Rules requirements in subsequent years.

¹² Assuming the renewable premium remains at \$45.0 per MWh. AIC may procure future years requirements (including 2015 and 2016) in 2014 for reasons explained in Section 3 of this plan.

¹³ This assumes the cost of installing solar photovoltaic systems with an average installation cost of \$5.30 per watt as reported in the Lawrence Berkeley National Laboratory (LBNL) report entitled “Tracking the Sun VI: An Historical Summary of the Installed Price of Photovoltaics in the United States from 1998 to 2012” Galen Barbose, Naim Darghouth, Samantha Weaver and Ryan Wiser, (LBNL-6350E, July 2013) available at <http://emp.lbl.gov/sites/all/files/lbnl-6350e.pdf>. Further, these figures assume a 21% annual capacity factor (down from 25% and based on Commission Staff analysis of the Morenci Water and Electric Company proposed 2013-14 REST Plan) and that AIC provides incentives equaling 60% of the total cost to install the requisite number of systems to meet the requirements each year. Finally, depending on the number of systems already installed still in operation from previous years, the amount in incentives could be significantly less the following year.

¹⁴ AIC considers this option to be a subset of the total Distributed Energy Incentive budget. AIC has no customers that could be eligible for the Customer Self-Directed Renewable Energy Option.

AIC may consider participating in existing and future studies to enhance and accelerate the development, deployment, commercialization and use of renewable resource technologies to the benefit of AIC customers.

RES funding is intended to cover the cost of utility scale renewable generation in excess of the cost of conventional generation resource alternatives, incentive payments for distributed renewable energy resources, marketing expenses and program implementation and administration.

AIC collected no additional funds in 2013 and will not collect any funds in 2014. As of June 2012, AIC had approximately \$66,198.71 in funds available for renewable energy procurement and distributed energy incentives. Of that amount, \$25,875.00 went toward incentives for the three ISDA Ajo Plaza photovoltaic projects, and AIC spent about \$25,000 to acquire its non-distributed requirements in late 2012 and late 2013 – to procure its requirement through 2013. This leaves approximately \$15,325 remaining to procure its requirement for 2014 and future years – and to provide any distributed energy incentives if someone were to make a request. Even without any new incentives provided for distributed renewable energy resources, AIC anticipates costs to procure renewable energy to equal approximately \$45,300 in 2015 and 2016. AIC therefore believes that reinstating the surcharge is appropriate starting in 2015.

7. 2015-16 Proposed Surcharge

In Decision No. 72894 (February 17, 2012) the Commission suspended AIC's renewable energy standard surcharge ("RESS") for the remainder of 2012, starting with the first billing cycle following its issuance on February 17, 2012. This suspension was continued in Decision No. 73881 through 2014.

For 2015 and 2016, AIC proposes to reinstate the surcharge at the rates and caps that had been in existence from May 2008 through February 2012 with the RESS. This is to ensure that funds are available so that AIC can continue to procure energy and RECs to meet its Annual Renewable Energy Requirement. As stated above, AIC estimates having about \$15,325 remaining to procure its requirements for 2015 and 2016; this amount includes funds remaining for incentives should anyone request them for an eligible distributed renewable energy project.

A copy of the proposed RESS tariff is attached as Exhibit 2. As stated above, AIC will procure Eligible Renewable Energy Resources for 2015, 2016, and future years. During May 2008 through March 2012, AIC collected the RESS. The RESS was initially established in Commission Decision No. 70304 (April 24, 2008). The Company collected – through the RESS – \$0.004988 per kWh capped at:

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

The RESS would be shown as a separate item on customer bills, in accordance with AIC's tariff schedule – Sheet No. 36.0.

AIC collected approximately \$20,796 annually – or about \$1,733 per month – through the RESS, when in effect. Of that, approximately 40% was funded by residential customers. AIC's customer profile has not changed significantly since 2010. Thus, AIC anticipates that it would likely collect between \$20,000 and \$22,000 per year under the RESS (when not suspended). The following table shows: (1) the percentage of customers that would reach the monthly RESS caps, by customer class; (2) the average monthly RESS charge, by customer class; and (3) the total monthly collection of RESS funds, by customer class (based on the number of customers in 2011):

	Avg # of Customers	Avg Total Monthly RESS Bill	Avg Monthly RESS	% of Cust to Reach Max
Residential	857	\$680	\$0.79	54%
Non-Residential	172	\$1,090	\$6.34	4%
Non-Residential(<3MW)	N/A	N/A	N/A	N/A
Total	1,029	\$1,770	N/A	46%

Based on the number of customers as of December 31, 2013 (843 residential and 183 non-residential customers), the *maximum* AIC could collect through the RESS in 2015 and 2016 is approximately \$96,265 if the RESS were in effect for a full year under the sample rate and caps. Below is the average amount different types of customers would be assessed though the RESS (based on the rate and caps in effect prior to suspension).

Sample Customer	Average kWh per Month	Monthly REST (\$'s)
School	64,009	39.00
Restaurant	3,574	17.83
Church	3,180	15.86
Health Clinic	16,763	39.00
Bank	4,440	22.15
Municipal Building	8,880	39.00
Pharmacy	2,733	13.63
Distributing Co	8,620	39.00
Dentist Ofc.	2,956	14.74
Residential	475	1.05

AIC does not believe reinstating the RESS at a rate or caps over its previous rate and caps is necessary or appropriate at this time. This is because there has not been any further interest from customers to install distributed renewable generation at their premises. AIC may propose to increase rates and caps should there be any additional interest in distributed renewable energy incentives. In the alternative, AIC may seek further waivers of the renewable energy requirements, if the RESS does not generate sufficient funds to meet the requirements within the REST Rules.

EXHIBIT

"1"

Solar Space Heating UFI Incentive Calculation Procedure.

In Advance, please perform the Design Review and Utility Bill Review (if Applicable) for numbers to enter in Steps #1, #2 and #5.

Min Elevation	Max Elevation	Heating Season Days	Daily Panel Heat Output
-1000	1000	105	0
1001	3000	140	0
3001	5000	175	0
5001	7000	210	0
7001	9000	245	0
9001	11000	280	0

Category:	Delta T	Clear Day
A	-9 Deg. F.	0
B	+9 Deg. F.	0
C	+36 Deg. F.	0
D	+90 Deg. F.	0
E	+144 Deg. F.	0

Enter Solar Panel Make and Model Number Selected for Project:

Step #1:	Enter the result of the Design Review of the Design Annual Building Loss =	0	BTU/Year
Step #2:	Enter the result of the Utility Bill Review of the Actual Annual Building Loss: (If not Electric, Natural Gas or Propane Heat, enter 0) =	0	BTU/Year
Step #3:	Calculate the Lesser of the Result in Step #1 & Step #2 = This is the Annual Building Heat Requirement.	0	BTU/Year
Step #4:	Enter Elevation of the Solar Space Heated Building:	0	Feet AMSL
Step #4 cont:	Number of Heating Days per Heating Season from Elevation Zone Table:	105	Days per Year
Step #4 cont:	Calculate Average Daily Building Heat Requirement =	0	BTU/Day
Step #5:	Enter Passive Heat Storage Specific Heat Capacity from Building Design Review:	0	BTU/Deg. F.
Step #5 cont:	Enter Maximum Daily Room Temperature Variation Allowed by Building Occupants: (Max of 10 Degrees F.)	0	Degrees F.
Step #5 cont:	Calculate Maximum Passive Heat Storage Capacity =	0	BTU
Step #5 cont:	Enter Total Active Heat Storage Heat Capacity from Building Design Review:	0	BTU
Step #5 cont:	Calculate Maximum Total Heat Storage Capacity =	0	BTU
Step #6:	Calculate the Lesser of the Average Daily Building Heat Requirement in Step #4 and the Maximum Total Storage Capacity in Step #5. This is the Maximum Useful Daily Solar Heat Input.	0	BTU/Day
Step #7:	Size the Solar Panels based on a total daily solar heat input no greater than the Maximum Useful Daily Solar Heat Input. Enter the single panel SRCC OG-100 Collector Thermal Performance Rating data in the Table Above.	0	BTU/Day per Panel
Step #7cont:	Enter the Total number of solar panels to be installed:	0	# of Panels
Step #7cont:	Calculate the Average Expected Daily Solar Heat Input:	0	BTU/Day
Step #8:	Calculate the Expected Annual Useful Solar KWH Heat Input using the Number of Heating Days times the Average Expected Daily Solar Heat Input / 3415 BTU/KWH:	0	KWH/Year
Step #9:	Enter the UFI per first year KWH UCPP Incentive Rate:	\$0.75	\$/KWH
Step #9 cont:	Calculate the Total Maximum UFI Payment Subject to Possible Limitation by the 50% of Initial Cost Cap & 15% Minimum Customer Contribution:	\$0.00	\$
Step #10:	Enter the Total Solar Space Heating System Initial Cost: This should not include costs for Passive Heat Storage or Building Heating System.	\$0.00	\$
Step #10 cont:	Calculate the Total Expected Federal and Arizona Incentives for this Project:	\$0.00	\$
Step #10 cont:	Calculate the 15% minimum of the Total Solar Space Heating System Initial Cost to be paid by Customer	\$0.00	\$
Step #10 cont:	Calculate the Total Actual UFI Payment:	\$0.00	\$

EXHIBIT

"2"

RES TARIFF: RENEWABLE ENERGY STANDARD SURCHARGE

Applies to: Ajo Improvement Company Service Area
Pima County, Arizona

AIC’s Renewable Energy Standard Surcharge (“RESS”) originally established in Decision No. 70303 (April 24, 2008) but discontinued in Decision No. 72894 (February 17, 2012) was reinstated in Decision No. XXXXX (Date). It applies to all retail electric service. All provisions of the customer’s current applicable rate schedule will apply in addition to this surcharge. AIC will evaluate – from time to time – its program funding requirements. If necessary, the RESS may be increased if it becomes apparent that more funding is needed for AIC to meet the standards contained within the REST Rules in future years. The Commission must approve any increases to the RESS. Any change to the RESS amounts will be applied in billing cycle beginning in the month following Commission approval and will not be prorated. The RESS rates and charges below are in accordance with the Commission Decision No. XXXXX (DATE).

Adjustor:

An RESS of \$0.004988 per kWh, but capped as follows:

Residential Customers:	\$1.05 per month per service
Non-residential Customers:	\$39.00 per month per service
Non-residential Customers with demand of 3 MW per month for three consecutive months:	\$117.00 per month per service

The RESS will be shown as a separate item on customer bills. The RESS is in accordance with the REST Rules, A.A.C. R14-2-1801 through R14-2-1816, which was approved by the Commission in Decision No. 69127 (November 14, 2006).

Effective: January 1, 2015

ISSUED BY:
Roy Archer
Ajo Improvement Company
P.O. Drawer 9
Ajo, Arizona 85321