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BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission

DOCKETED

DEC 23 2014

DOCKETED BY *nr*

IN THE MATTER 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

IN THE MATTER OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ITS 2015 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN FOR RESET OF RENEWABLE ENERGY ADJUSTOR

DOCKET NO. E-01345A-14-0250

DECISION NO. 74878

ORDER

Open Meeting
December 18 and 19, 2014
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS" or "Company") is certificated to provide electric service as a public service corporation in the State of Arizona.
2. During the Arizona Corporation Commission ("Commission") deliberations concerning the 2014 APS Renewable Energy Standard and Tariff ("REST") Plan, the Commission queried APS about its need for 30 MW of AZ Sun projects to meet its 2009 Rate Case Settlement Agreement ("2009 Settlement") obligations.
3. In Decision No. 74237 (January 7, 2014), the Commission ordered APS to submit information in this docket by April 15, 2014 "regarding whether it is necessary to continue the final 30

1 MW phase of AZ Sun in order to comply with the 2009 Settlement Agreement.” APS was also
2 required to discuss, in its filing, the “cost-effectiveness of utility-owned generation and third party
3 wholesale purchased power agreements in completing this final 30 MW phase of AZ Sun.”

4 4. APS docketed its compliance filing in this matter on April 15, 2014. APS said that
5 recent data indicated that “APS does not need all 30 MW of AZ Sun to meet its obligations under the
6 2009 Settlement to acquire 1,700,000 MWh of new renewable energy resources by December 31,
7 2015.”

8 5. APS did request, in its April 15 filing, authorization to construct a 20 MW utility-
9 owned solar PV project that would be located at APS’s Redhawk Power Station.

10 6. In its April 15, 2014, filing, APS compared the advantages and disadvantages of third
11 party-owned solar projects to those of utility-owned projects. APS asserted that “utility-owned
12 resources often provide significant economic and non-economic benefits for customers over the long-
13 term, and pose less overall risk.” APS also asserted that “...utility ownership is a prudent option for
14 reliable, low-cost renewable energy.”

15 7. On July 28, 2014, APS filed a Supplemental Application, proposing the AZ Sun DG
16 Program. The AZ Sun DG Program is an alternative to the 20 MW Redhawk project. This 20 MW
17 utility-owned DG program would “strategically deploy DG to maximize system benefits.”

18 8. In this Solar DG Program, APS would install solar DG systems on the residential
19 customer’s roof and on the utility side of the meter. APS would use local solar contractors, selected
20 competitively, to install the Solar DG systems throughout the APS service territory. APS would
21 “rent” the customer rooftop for a \$30 per month bill credit. All of the solar-generated electricity
22 would be resold by APS to its customers.

23 9. On October 7, 2014, APS filed a “Project Description of the Proposed AZ Sun
24 Residential Rooftop Project”. This filing included program administration details.

25 Verification of the Need for an Additional 20-30 MW of Solar

26 10. In Decision No. 74237, the Commission ordered APS to “submit information to this
27 docket regarding whether it is necessary to continue the final 30 MW phase of AZ Sun in order to
28 comply with the 2009 Settlement Agreement, as well as discuss the cost effectiveness of utility-owned

1 generation and third party wholesale purchased power agreements in completing this final 30 MW
2 phase of AZ Sun.”

3 11. The Commission further ordered “that when Staff files its recommendations regarding
4 Arizona Public Service Company’s 2015 REST Implementation Plan, it shall include a discussion of
5 whether or not Arizona Public Service Company needs to install any portion of the final 30 MW phase
6 of AZ Sun in order to comply with the REST Rules and/or the 2009 Settlement Agreement. These
7 recommendations shall consider the information filed by Arizona Public Service Company and any
8 interested parties regarding the cost effectiveness of utility-owned generation and third party wholesale
9 purchased power agreements in completing this final 30 MW phase of AZ Sun.”

10 12. In a letter dated August 14, 2014, Commissioner Susan Bitter-Smith asked APS the
11 following question: “Does APS need 20 MW for its Arizona Sun Program in order to meet its
12 Arizona Sun energy requirements?” APS responded in a letter dated August 29, 2014, stating: “APS
13 might reach this requirement based on estimated third-party installation activity. But it might not.”
14 APS went on to say: “An additional 20 MW of AZ Sun is a reasonable amount that would ensure APS
15 achieves compliance, but not exceed the target by too much.” A total of 18.1 MW of third party
16 owned DG was installed in the APS territory in the first three quarters of 2014.

17 Staff’s Review of APS’s Assertion that 20 MW of New Solar Resources are Needed

18 13. In order to determine the possible need for an additional 20-30 MW of AZ Sun
19 projects, Staff sent data requests to APS requesting information showing how many MWh of the 2009
20 Settlement requirements are currently being provided by installed and operating systems, how many
21 MWh are expected from systems under construction or reserved; and how many MWh of the
22 requirements are currently uncommitted. Staff also requested APS to show how many MWh would
23 be provided by the Redhawk proposal and how many would be provided by the APS Solar DG
24 proposal. The responses by APS to Staff form the basis of the calculations shown in Table 1.

25 14. The APS calculations, shown in Table 1, indicate that the 20 MW APS Solar DG
26 proposal would be deficient in meeting the Settlement requirements. However, a larger APS-owned
27 DG program, with more than 3,000 homes, could be designed to meet the 2009 Settlement
28 requirements.

Table 1. APS Calculations of MWh Needed to Meet the 2009 Settlement Requirements^{1,2}

Category	MWh Provided	MWh Needed
I. Existing and Operating Systems	1,560,594	
II. Systems under construction/reserved	98,463	
Subtotal	1,659,057	
III. Additional MWh Needed		40,943
IV. 20 MW Redhawk Output	56,064	None: 15,121 extra
V. 20 MW APS DG Output	33,000	7,943

¹ APS's Supplemental Response to Staff's Fifth Set of Data Requests provided by APS on September 26, 2014.

² Includes 18.1 MW of third party owned DG installed in the first three quarters of 2014.

15. After having reviewed APS's two filings and APS's responses to Staff's data requests, along with APS's August 29th reply to Commissioner Bitter-Smith, Staff believes that there may be questions as to whether APS has established an absolute need for at least 20 MW of new solar in order to meet APS's 2009 Settlement agreement requirements. Especially considering that over 18 MW of third party capacity was installed in the first three quarters of 2014. At that pace, over 20 MW would be installed in 2015.

Staff Recommendations

16. Based on the above, Staff does not believe that APS has reasonably demonstrated that an additional 20 MW of AZ Sun is needed to meet the requirements of the 2009 Settlement. Therefore, Staff recommends that APS submit information in its next REST Implementation Plan filing, due July 1, 2015, discussing whether APS will meet its 1,700,000 MWh of renewable resources by December 31, 2015. If APS cannot meet that requirement, APS should be granted, at this time, a one year extension of that requirement.

Discussion

17. On December 3, 2014, APS filed a new proposal for installing and owning residential rooftop DG. The primary revisions to its original proposal are that the project would now only be 10 MW (instead of 20 MW) and that APS would no longer be seeking cost recovery through the REST surcharge, but would instead seek recovery in a future rate case just as it does for all plant investment between rate cases.

1 18. APS is also seeking Commission approval of its proposal to own residential rooftop
2 DG, even though no such approval is legally required. Since APS is not seeking cost recovery prior to
3 putting this plant into service, it may seek cost recovery in its next rate case after this plant is actually
4 being used.

5 19. The Commission agrees with Staff that the proposed 20 MW AZ Sun DG project
6 may not be needed to meet the Company's 2009 Settlement requirements. However, a modified pilot
7 program may be useful to better understand the effectiveness and efficiencies that could be gained
8 related to technical and operational considerations of utility-owned DG. This modified pilot program
9 will also address solar availability to underserved customers, as APS has committed to do, and provide
10 a cushion if the market does not reach the levels prescribed in the 2009 Settlement or REST
11 requirements.

12 20. Our current method of energy delivery is rapidly changing with the advent of emerging
13 technologies and the rooftop solar market is a significant part of this evolution. Thus, there appears
14 to be an opportunity for sensible and cost-effective utility involvement in distributed solar in order to
15 ensure grid reliability and resiliency as energy generation and delivery continues to evolve. A targeted
16 project would: (1) balance the project costs with the potential benefits identified by APS; (2) permit
17 APS to study grid benefits that might come with strategically locating solar and to assess the benefit of
18 orienting solar panels towards the southwest and west to maximize production during system peak
19 periods; and (3) apply this project capacity to the REST DG requirement while utilizing the existing
20 30% Federal Investment Tax Credit.

21 21. Therefore, the Commission has no objection to APS implementing an 8-10 MW pilot
22 project of utility-owned DG to target specific distribution feeders in an effort to maximize potential
23 system benefits from the deployment. The first stage should be 8 MW in size followed by a 2 MW
24 second stage. The additional 2 MW should only be deployed if coupled with distributed storage in
25 order to achieve operational benefits.

26 22. The Commission's non-objection to this pilot project should not be viewed as pre-
27 approval for rate making purposes in a future rate case. No determination of prudence is being made
28 ...

1 at this time. Such a determination will be made during the rate case in which APS requests cost
2 recovery of this project.

3 23. The 8-10 MW program is subject to a total operation and maintenance cost cap of
4 \$25/kW per year and a total capital cost cap of \$28.5 million. APS should use competitive bids
5 solicited through an independently-monitored RFP process.

6 24. The Commission seeks to ensure that the cost of the APS program is similar to that of
7 third-party programs; therefore, APS commits to cost parity with current net metering rates, and if
8 rate design is addressed in the future in a way that materially impacts existing net metering
9 participants, APS should evaluate options for existing solar customers, as well as APS DG customers,
10 to minimize any cost parity issues between the two groups and unintended impacts. The Company will
11 not collect costs for this program through the REST surcharge, but will address cost recovery in
12 APS's next rate case in the same manner as traditional rate base additions. The Company is on notice
13 that the Commission's approval of this pilot project is not a determination of prudence for rate
14 making purposes.

15 25. Since this is a unique pilot project, APS should form an unpaid, voluntary advisory
16 committee that would advise on a defined set of research goals. This advisory committee would be
17 convened by APS and include representatives involved in technological and operational aspects of
18 rooftop solar and supporting infrastructure. This group of stakeholders should include, but not be
19 limited to: Commission Staff, the Electric Power Research Institute ("EPRI"), the Residential Utility
20 Consumer Office ("RUCO"), other Arizona electrical utility system operators or engineers, a rooftop
21 solar industry representative, an inverter manufacturer representative, and university power systems
22 engineering departments. The group would review the direction of the project and provide feedback
23 on program design. Reports on the program results as compared to delineated program research
24 objectives should be made public. Finally, if coupled with storage, APS may deploy the final 2 MW of
25 the project. The research objectives of this 8-10 MW project include, but are not limited to:

26 ...

27 ...

28 ...

- 1 a. Understanding feeder capacity benefits
- 2 b. Ascertaining distribution effects of solar penetration
- 3 c. Discovering ways to enhance grid flexibility
- 4 d. Gain a better understanding of the capabilities of inverter controls
- 5 e. Provide opportunities to study energy storage and PV coordination and management at the feeder level.

CONCLUSIONS OF LAW

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

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

10 3. The Commission, having reviewed Arizona Public Service Company's application and
11 Staff's Memorandum dated November 3, 2014, concludes that it is in the public interest to deny 20
12 MW for AZ Sun at this time and to also not object to APS's proposed 8-10 MW utility-owned DG
13 pilot project as described herein.

14 4. The Commission's non-objection to this pilot project is not to be viewed as pre-
15 approval for rate making purposes in a future rate case and no determination of prudence is being
16 made at this time.

ORDER

17
18 IT IS THEREFORE ORDERED that the Arizona Public Service Company proposals to
19 build a 20 MW Redhawk facility or to build 20 MW of Arizona Public Service Company-owned DG
20 systems are denied. However, APS may pursue an 8-10 MW, utility-owned, DG pilot project as
21 described herein. Under this smaller 8-10 MW DG project, APS should only install rooftop solar
22 where doing so will assist APS in determining whether and how solar can be strategically located to
23 provide grid benefits.

24 IT IS FURTHER ORDERED that any determination of prudence of Arizona Public Service
25 Company's 8-10 MW, utility-owned DG pilot project for rate making purposes shall not be made until
26 the project is fully in service and Arizona Public Service Company requests cost recovery in a future
27 rate case.

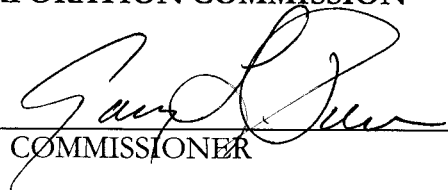
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1 IT IS FURTHER ORDERED that when Arizona Public Service Company files its
 2 recommendations regarding Arizona Public Service Company's 2016 REST Implementation Plan, it
 3 shall include a discussion of whether or not Arizona Public Service Company will meet its 1,700,000
 4 MWh of renewable resources requirement of the 2009 Settlement by December 31, 2015.

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

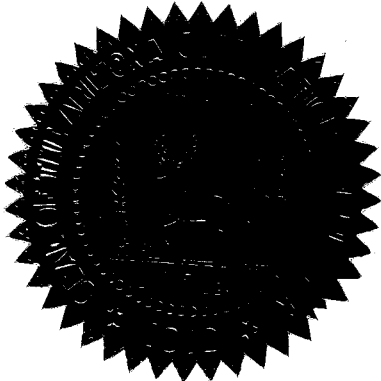
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 7 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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 9 
 CHAIRMAN

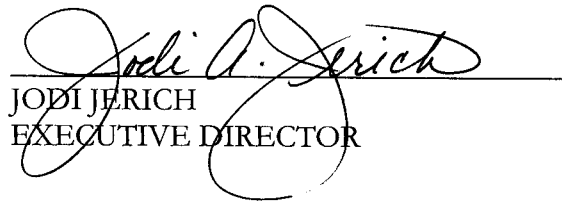

 COMMISSIONER

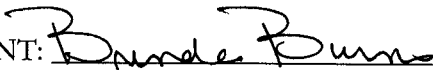
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 COMMISSIONER


 COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 23rd day of December, 2014.


 JODI JERICH
 EXECUTIVE DIRECTOR

20 DISSENT: 
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22 DISSENT: _____

23 SMO:RTW:lh\MAS
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