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BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
Chairman

BOB STUMP
Commissioner

BOB BURNS
Commissioner

DOUG LITTLE
Commissioner

TOM FORESE
Commissioner

Arizona Corporation Commission

DOCKETED

FEB - 9 2015

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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

DOCKET NO. E-01345A-14-0250

DECISION NO. 74949

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

ORDER

Open Meeting
February 3 and 4, 2015
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. On July 1, 2014, APS filed its 2015-2019 Renewable Energy Standard and Tariff ("REST") Plan.

3. In the 2015 REST Plan, APS requests funding for existing commitments and programs, including the incentive program for solar water heating that was approved by the Arizona Corporation Commission ("Commission") in 2014. APS requests approval of a new battery-solar photovoltaic ("PV") integration research and development program.

1 4. APS proposes a change to the monthly RES adjustor caps to address concerns of small
2 and extra small commercial and industrial customers. This change was requested by the Commission
3 during the proceedings on the 2014 REST Plan.

4 5. The 2015 REST Plan requests approval of a budget of approximately \$154 million for
5 2015. This would include approximately \$124 million that APS would collect through the APS REST
6 adjustor in 2015.

7 6. APS projects that, by the end of 2015, it will have 1,250 megawatts of installed
8 renewable capacity in its service territory.

9 7. APS proposes to continue all of its existing authorized programs and commitments in
10 the 2015 REST Plan program. APS proposes allocating \$500,000 for incentives for solar water
11 heating, just as was approved for 2014.

12 8. APS also proposes to extend, for the 2015 year, its Green Choice Program and the
13 associated Green Power Rate Schedules GPS-1, GPS-2, and GPS-3. The revenues collected in the
14 Green Choice Program are to be used to offset the amount of budget funds that need to be collected
15 through the RES adjustor.

16 9. APS will be continuing the deployment of two AZ Sun projects in 2015. The two
17 projects are the 10 MW project at the City of Phoenix and the 10 MW project at Luke Air Force Base.

18 10. On April 15, 2014, APS filed a request to build a 20 MW AZ Sun single-axis tracking
19 PV project at the APS Redhawk facility. On July 28, 2014, APS filed an alternative proposal to fund
20 20 MW of APS-owned distributed generation ("DG") systems. Either the Redhawk proposal or the
21 APS-owned DG system proposal could be selected to meet the renewable requirements in the APS
22 2009 settlement agreement, if needed.

23 11. APS is proposing a new battery-solar PV integration demonstration research program.
24 APS is requesting \$2 million to conduct this battery storage program. APS would purchase and install
25 the battery storage systems that would be integrated into the APS distribution system. These systems
26 would be monitored and managed by APS. APS asserts that the project will increase the hands-on
27 technical capabilities of APS employees and will increase APS's understanding of the impacts of
28 storage. This knowledge will allow APS to better integrate storage technology into its system.

12. In the 2014 REST Plan, the Commission required APS to expand the REST customer categories from three to five and authorized new monthly payment caps for each category of customer. The current customer categories are: residential, small commercial, medium commercial, large commercial, and industrial. The small commercial category includes both extra small and small classes.

13. REST Adjustor charges are applied based on kWh usage and there is an adjustor cap for each of the categories. Customers who receive a direct cash incentive for their solar system are required to pay the average cap for the relevant customer classification.

14. During the proceedings for the 2014 REST Plan, the Commission required APS to submit a proposal that would add a sixth customer category. This category would address concerns regarding small and extra small commercial and industrial customers.

Table 1: RES Adjustor Examples (From Figure A in the APS REST Plan)

Example 1: Continue five customer classes without extra small/small commercial cap floors						
Small Commercial						
	Residential	Extra Small Commercial	Small Commercial	Medium Commercial	Large Commercial	Industrial
RES Budget (in \$M)\$	123.8					
\$/kWh	\$ 0.011270	\$ 0.011270	\$ 0.011270	\$ 0.011270	\$ 0.011270	\$ 0.011270
Cap	4.51	167.44	167.44	281.75	563.50	3,662.00
Average	4.07	25.60	25.60	246.00	542.03	3,662.00
Example 2: Six customer classes with extra small/small commercial cap floors						
Small Commercial						
	Residential	Extra Small Commercial	Small Commercial	Medium Commercial	Large Commercial	Industrial
RES Budget (in \$M)\$	123.8					
\$/kWh	\$ 0.011241	\$ 0.011241	\$ 0.011241	\$ 0.011241	\$ 0.011241	\$ 0.011241
Cap	4.50	167.01	167.01	281.03	562.05	3,652.00
Average Cap	4.06	n/a	n/a	245.37	540.64	3,652.00
Cap Floor ("Minimum")	--	9.55	46.93	--	--	--

15. APS proposes a "bifurcated cap and floor structure" that would be used only for Small and Extra Small Commercial and Industrial customers. The usage for the Small or Extra Small customers would be evaluated each month to determine whether they fall into the Extra Small (20 kW or less per month) or into the Small category (between 21 and 100 kW per month).

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1 16. The Extra Small customers would pay a minimum (“cap floor”) charge of \$9.55 per
2 month plus the cents per kWh charge for each kWh above 835 kWh, up to the cap for the Extra
3 Small/Small category. Small Commercial customers would pay a higher minimum charge of \$46.93
4 per month plus the cents per kWh charge for every kWh above 4,175 kWh up to the cap for the Extra
5 Small/Small category. These are shown in Example 2 of Table 1.

6 17. APS believes that it will need a 2015 RES budget of \$153.8 million in order for it to
7 meet previously approved commitments. These commitments include Power Purchase Agreements
8 (“PPAs”), Production-Based Incentives (“PBIs”), Legacy Payments, the AZ Sun Program, among
9 other commitments, and the financial needs of newly-proposed programs. APS proposes to apply
10 budget offsets that will be used to reduce the amount that APS will collect through the RES adjustor
11 for 2015.

12 18. After the offsets, APS proposes to collect \$123.8 million through the REST adjustor.
13 There will be approximately \$30 million in offsets for 2015. These offsets will include \$6 million
14 collected from base rates, production tax credits of approximately \$8.3 million, green choice revenue
15 of approximately \$1.7 million, and \$14 million in reallocated program funds. There is a total of \$28
16 million in available funds to be reallocated in future years.

17 19. The additional \$14 million in carry-over funds available to be reallocated for future
18 years. APS proposes that the additional \$14 million in carry-over funds be applied to offset the 2016
19 RES budget.

20 20. APS receives Production Tax Credits (“PTCs”) from the State of Arizona due to the
21 APS ownership of the AZ Sun projects. APS expects to receive approximately \$8.3 million in PTCs
22 from AZ Sun projects in 2015. This \$8.3 million in PTCs will be used to reduce the amount to be
23 collected through the RES adjustor.

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Table 2: APS Proposed Budget from 2015 APS REST Plan (Exhibit 3A)

Line No.		2015
1	Renewable Generation	
2	<i>Renewable Generation Contracts, O&M</i>	
3	Purchases and Generation ^{1,2}	\$ 98.1
4	Administration	0.2
5	Implementation	1.3
6	Total Renewable Generation	\$ 99.6
7		
8		
9	Customer Sited Distributed Energy	
10	<i>Existing Contracts and Commitments</i>	
11	Flagstaff Community Power Project	\$ 0.2
12	DE RFP	5.8
13	Production-based Incentives	26.5
14	Schools and Government Program Incentives ³	8.6
15	APS Schools and Government Program ^{1,4}	4.9
16	Total Existing Contracts and Commitments	\$ 46.0
17		
18	<i>Proposed Programs</i>	
19	Solar Water Heater Incentives	\$ 0.5
20	Total Proposed Programs	\$ 0.5
21		
22	<i>Non-Energy Distributed Energy Costs</i>	
23	Administration	\$ 0.3
24	Implementation ⁵	5.2
25	Battery Integration Intelligence R&D ⁶	2.0
26	Information Technology	0.5
27	Educational Outreach: Non-Incentive Costs	0.1
28	Total Non-Incentive DE Costs	\$ 7.7
29		
30	Total Customer Sited DE (line 16 + line 20)	\$ 54.2
31		
32	TOTAL RES BUDGET⁵ (line 6 + line 30)	\$ 153.8
33		
34	Offsets to Base Budget	
35	Base Rates	\$ (6.0)
36	Production Tax Credits	(8.3)
37	Estimated Green Choice Revenue Credit	(1.7)
38	Previous Years Rollover Funds and Other Credits	(14.0)
39	RE Surcharge Collection²	\$ 123.8

Notes:¹Assumes rate case adjudication in July 2016.²Includes RES costs totaling approximately \$0.2M for Sexton (Glendale Landfill) for 2014-2017.³Third-party owned portion of the current 2011, 2012 an expanded Schools and Government Programs.⁴APS-owned portion of the 2011 and 2012 School and Government Programs.⁵Includes revenue requirements for production metering as required by Decision No. 72737.⁶Details on the Battery Integration Intelligence project can be found on pg 5 of Exhibit 1 of the 2015 RES Implementation Plan.Staff's Recommendations

21. Staff has reviewed the APS 2015 REST Plan and the APS responses to Staff's data requests. Staff has the following recommendations:

1 AZ Sun Proposals

2 22. APS has proposed to utilize 20 MW of tracking PV systems at its Redhawk plant or 20
3 MW of APS-owned DG systems in homes throughout its service territory in order to meet its
4 renewable obligations under the 2009 Rate Case Settlement Agreement. Staff's analysis and
5 recommendations regarding this issue are included in a separate Staff Report that was docketed in
6 Docket No. E-01345A-13-0140 on November 3, 2014.

7 23. In summary, Staff's analysis has shown that APS may be able to satisfy its 2009
8 Settlement Agreement obligations without additional capacity from either the Redhawk plant or the
9 APS-owned DG alternative. APS is presently approximately 25 MW short of the capacity it needs
10 under the Settlement Agreement. However, APS customers have installed 18.1 MW of residential DG
11 in the first three quarters of 2014, and Staff believes it is reasonable to assume comparable amounts of
12 DG capacity in 2015.

13 Changes in Monthly RES Adjustor Caps

14 24. Staff agrees with the proposed changes to the customer categories and the changes in
15 the monthly RES adjustor caps as proposed by APS in its "bifurcated cap and floor structure"
16 outlined in the 2015 REST Plan. Staff believes that the minimum charges and new caps appear to
17 collect the RES charges in a fair manner. Staff recommends Commission approval of the addition of
18 a sixth customer category for extra small commercial customers and the revised monthly RES caps
19 and cap floors.

20 Solar Water Heating Incentive Program

21 25. Staff agrees with the APS proposal to fund solar water heating incentives at a level of
22 \$500,000. The current solar water heating program in 2014 appears to be successful in encouraging
23 APS customers to adopt the use of solar water heating systems, which will contribute to meeting the
24 APS REST requirements. Staff recommends approval of the \$500,000 funding level for the solar
25 water heating incentive program.

26 Battery-Solar Integration Research Program

27 26. Staff has reviewed the APS proposal to integrate battery storage with PV arrays in the
28 APS distribution system. Staff believes that such a research, development, and demonstration

1 program will be helpful to APS planners as they calculate how to combine solar electricity with
2 appropriate storage measures. Staff recommends approval of the proposed \$2 million battery-solar
3 integration research program.

4 Extension of the Green Choice Program and the Associated Green Power Rate Schedules

5 27. Since the revenues collected in the Green Choice Program are used to offset the
6 budget funds that must be collected through the RES adjustor, this program has a double positive
7 effect. It allows those who choose to contribute to green energy programs to meet their individual
8 environmental goals and objectives while reducing the funds needed to be collected through the RES
9 adjustor from other rate payers. Staff recommends the extension of the Green Choice Program and
10 the associated Green Power Rate Schedules.

11 Large Scale, Utility-Owned DG Facilities

12 28. Staff has had discussions with Tucson Electric Power Company about large scale
13 distributed generation facilities located within a utility's grid, consisting of 1 MW or more of utility-
14 owned DG systems, which could provide most of the benefits of rooftop DG at a reduced rate.

15 29. Staff believes that this option, or a purchased power agreement for such a facility, is
16 worthy of further exploration and recommends that APS, as part of its 2016 REST Plan filing, include
17 a report on the feasibility, costs, benefits, and other aspects of this option and if APS wishes, an
18 implementation proposal, as part of APS's REST activities. APS's analysis should include a
19 comparison of this option with company-owned and customer-owned distributed generation options.

20 Summary of Staff's Recommendations

21 30. Staff recommends that the Commission approve the monthly RES adjustor caps and
22 cap floors and the new extra small customer category as proposed by APS in Figure A, Example 2 in
23 the 2015 APS REST Plan.

24 31. Staff further recommends that the Commission approve the continuation of the solar
25 water heating incentive program funding of \$500,000 for 2015.

26 32. Staff further recommends that the Commission approve the APS-proposed Battery-
27 Solar Integration Research Program at a funding level of \$2 million for 2015.

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1 33. Staff further recommends that the Commission approve the extension of the Green
2 Choice Program and the associated Green Power Rate Schedules.

3 34. Staff further recommends that the Commission approve the proposed APS REST
4 budget of \$153.8 million, consisting of \$123.8 million in Renewable Energy Surcharge funds and \$30
5 million from base rates, production tax credits, Green Choice revenues and previous years' rollover
6 funds, and other credits.

7 Commission Changes to the APS Proposed Budget

8 35. The Commission has reviewed APS's budget request for \$500,000 in solar water
9 heating incentives as shown in the APS proposed budget included in Table 2 on Line 19 of this Order.
10 The Commission approves funding for solar water heating incentives at this time, but all stakeholders
11 are put on notice that this program appears to be under-subscribed and is unlikely to be funded in
12 future REST plans. APS should consider proposing solar water heating as an energy efficiency
13 measure.

14 36. The Commission has reviewed APS's budget request for \$2 million research,
15 development and demonstration program to study battery storage and PV integration. The
16 Commission denies funding for the Battery Integration Intelligence R&D program included on Line
17 25 of Table 2 of this Order.

18 CONCLUSIONS OF LAW

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

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

23 3. The Commission, having reviewed Arizona Public Service Company's application and
24 Staff's Memorandum dated November 3, 2014, concludes that it is in the public interest to approve
25 Arizona Public Service Company's 2015 REST Plan, the REST Plan budget, and funding for the new
26 Customer DG Incentive Program as discussed herein.

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ORDER

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2 IT IS THEREFORE ORDERED that the solar water heating incentive program funding of
3 \$500,000 for 2015 is approved. APS may use up to \$10,000 of the funds from this program to install
4 up to 20 meters on participating customers' systems to conduct a metering study.

5 IT IS FURTHER ORDERED that the extension of the Green Choice Program and the
6 associated Green Power Rate Schedules are hereby approved.

7 IT IS FURTHER ORDERED that the 2015 Arizona Public Service Company plan budget of
8 \$151.8 million is hereby approved.

9 IT IS FURTHER ORDERED that Arizona Public Service Company is authorized to collect
10 \$121.8 million through the Renewable Energy Surcharge to pay for a portion of the 2015 REST Plan
11 budget.

12 IT IS FURTHER ORDERED that the remaining \$30 million in the 2015 REST Plan budget
13 shall come from carry-forward funds from base rates, production tax credits, Green Choice revenues,
14 and previous years' rollover funds and other credits.

15 IT IS FURTHER ORDERED that for residential customers without a DG system, those that
16 installed a DG system prior to July 1, 2012, and those that installed a DG system after July 1, 2012,
17 but before February 1, 2013, and did not receive an incentive, the monthly surcharge shall be
18 \$0.011060 per kWh up to a monthly cap of \$4.42. For residential customers who installed a DG
19 system and received a direct cash incentive beginning July 1, 2012, and those who install a DG system
20 and interconnect with the APS distribution system beginning February 1, 2013, regardless of incentive,
21 the monthly surcharge shall be \$3.99.

22 IT IS FURTHER ORDERED that for extra-small general service customers without a DG
23 system, those that installed a DG system prior to July 1, 2012, and those that installed a DG system
24 after July 1, 2012, but before February 1, 2013, and did not receive an incentive, the monthly
25 surcharge shall be \$0.011060 per kWh up to a monthly cap of \$164.32. For extra-small general service
26 customers who installed a DG system and received a direct cash incentive beginning July 1, 2012, and
27 those who install a DG system and interconnect with the APS distribution system beginning February
28

1 1, 2013, regardless of incentive, the monthly surcharge shall be \$0.011060 per kWh, subject to a
2 monthly minimum charge of \$9.40 and a monthly surcharge cap of \$164.32.

3 IT IS FURTHER ORDERED that for small general service customers without a DG system,
4 those that installed a DG system prior to July 1, 2012, and those that installed a DG system after July
5 1, 2012, but before February 1, 2013, and did not receive an incentive, the monthly surcharge shall be
6 \$0.011060 per kWh up to a monthly cap of \$164.32. For small general service customers who
7 installed a DG system and received a direct cash incentive beginning July 1, 2012, and those who
8 install a DG system and interconnect with the APS distribution system beginning February 1, 2013,
9 regardless of incentive, the monthly surcharge shall be \$0.011060 per kWh, subject to a monthly
10 minimum charge of \$46.18 and a monthly surcharge cap of \$164.32.

11 IT IS FURTHER ORDERED that for medium general service customers without a DG
12 system, those that installed a DG system prior to July 1, 2012, and those that installed a DG system
13 after July 1, 2012, but before February 1, 2013, and did not receive an incentive, the monthly
14 surcharge shall be \$0.011060 per kWh up to a monthly cap of \$276.50. For medium general service
15 customers who installed a DG system and received a direct cash incentive beginning July 1, 2012, and
16 those who install a DG system and interconnect with the APS distribution system beginning February
17 1, 2013, regardless of incentive, the monthly surcharge shall be \$241.42.

18 IT IS FURTHER ORDERED that for large general service customers without a DG system,
19 those that installed a DG system prior to July 1, 2012, and those that installed a DG system after July
20 1, 2012, but before February 1, 2013, and did not receive an incentive, the monthly surcharge shall be
21 \$0.011060 per kWh up to a monthly cap of \$553.00. For large general service customers who installed
22 a DG system and received a direct cash incentive beginning July 1, 2012, and those who install a DG
23 system and interconnect with the APS distribution system beginning February 1, 2013, regardless of
24 incentive, the monthly surcharge shall be \$531.93.

25 IT IS FURTHER ORDERED that for extra-large general service customers without a DG
26 system, those that installed a DG system prior to July 1, 2012, and those that installed a DG system
27 after July 1, 2012, but before February 1, 2013, and did not receive an incentive, the monthly
28 surcharge shall be \$0.011060 per kWh up to a monthly cap of \$3,594.00. For extra-large general

1 service customers who installed a DG system and received a direct cash incentive beginning July 1,
2 2012, and those who install a DG system and interconnect with the APS distribution system beginning
3 February 1, 2013, regardless of incentive, the monthly surcharge shall be \$3,594.00.

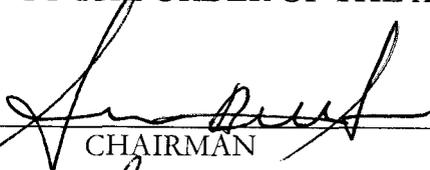
4 IT IS FURTHER ORDERED that Arizona Public Service Company, as part of its 2016
5 REST Plan filing, include a report on the feasibility, costs, benefits, and other aspects of this option
6 and if Arizona Public Service Company wishes, an implementation proposal, as part of Arizona Public
7 Service Company's REST activities. Arizona Public Service Company's analysis should include a
8 comparison of this option with company-owned and customer-owned distributed generation options.

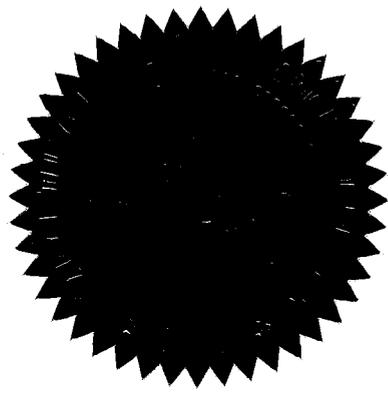
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1 IT IS FURTHER ORDERED that a waiver to the REST requirements contained in R14-2-
 2 1804 and R14-2-1805 will be granted to Arizona Public Service Company if its forecasted Planning
 3 Reserve Margin¹ is greater than or equal to eighteen percent (18%) each year for the next two years.
 4 To obtain this waiver, Arizona Public Service Company must file with the Commission
 5 documentation demonstrating that its forecasted Planning Reserve Margin exceeds eighteen percent
 6 (18%) for at least the next two years and if obtained, the waiver shall apply for each year that the
 7 forecasted Planning Reserve Margin exceeds eighteen percent (18%).

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

9 BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

10
 11  CHAIRMAN  COMMISSIONER
 12
 13  COMMISSIONER  COMMISSIONER  COMMISSIONER
 14



15 IN WITNESS WHEREOF, I, JODI JERICH, Executive
 16 Director of the Arizona Corporation Commission, have
 17 hereunto, set my hand and caused the official seal of this
 18 Commission to be affixed at the Capitol, in the City of
 19 Phoenix, this 9th day of February, 2015.

19 
 20 JODI JERICH
 21 EXECUTIVE DIRECTOR

22 DISSENT: _____

23 DISSENT: _____

24 SMO:RTW:lhmsms\CHH
 25 _____

26 ¹ As defined by North American Electric Reliability Corporation ("NERC"), Planning Reserve Margin equals the
 27 difference in Deliverable or Prospective Resources and Net Internal Demand, divided by Net Internal Demand.
 28 Deliverable Resources are calculated by the sum of Existing, Certain and Future, Planned Capacity Resources plus Net
 Firm Transactions. Prospective Resources include Deliverable Resources and Existing, Other Resources. Net Internal
 Demand equals Total Internal Demand less Dispatchable, Controllable Capacity Demand Response used to reduce
 load.

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NOS. E-01345A-13-0140 and E-01345A-14-0250

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