

ORIGINAL

OPEN MEETING

MEMORANDUM



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Arizona Corporation Commission

DOCKETED

NOV 24 2015

2015 NOV 24 P 4: 32

AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: November 24, 2015

DOCKETED BY *[Signature]*

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ITS 2016 RENEWABLE ENERGY STANDARD IMPLEMENTATION FOR RESET OF RENEWABLE ENERGY ADJUSTOR. (DOCKET NO. E-01345A-15-0241)

On July 1, 2015, Arizona Public Service Company ("APS" or "Company") filed its 2016 Renewable Energy Standard and Tariff Plan ("REST Plan" or "Plan").

In the 2016 REST Plan, APS requests funding for existing projects and commitments, including legacy performance-based incentives, renewable purchase power costs and ongoing program administrative costs, including costs associated with rooftop solar interconnection applications. APS has not proposed any new programs in the Plan.

The 2016 REST Plan requests approval of a budget of approximately \$147.9 million for 2016. This would include approximately \$118.2 million that APS would collect through the APS RES adjustor in 2016.

APS proposes an adjustment to Adjustment Schedule REAC-1 lowering both the monthly RES adjustor caps and kWh charge.

	2016 Forecasted Production	2016 Requirement	2017 Forecasted Production	2017 Requirement
Residential DE (MWh)	292,320	256,690	292,320	304,464
Non-Residential DE (MWh)	515,149	256,690	524,155	304,464
Total DE	807,469	513,380	816,475	608,929
Renewable Generation (MWh)	2,561,160	1,197,886	2,541,191	1,420,833
Total RES	3,368,629	1,711,266	3,357,666	2,029,762

APS projects that by the end of 2016, not including non-incented distributed energy ("DE") installations, it will have 3,368,629 megawatt-hours ("MWh") of renewable energy production in its service territory.

By the end of 2016, APS projects that it will be in compliance with the non-residential DE targets through 2021 and the residential DE targets through 2016, excluding DE systems that did not receive an incentive.

APS proposes to continue all of its existing authorized programs and commitments in the 2016 Rest Plan, with an exception for Solar Water Heating ("SWH"). APS proposes to carry over any remaining 2015 budget funds into 2016 and continue marketing and implementing the SWH program until the existing program funds from 2015 are depleted.

APS also proposes to extend, for the 2016 year, its Green Choice Program and the associated Green Power Rate Schedules GPS-1, GPS-2, and GPS-3. The revenues collected in the Green Choice Program are to be used to offset the amount of budget funds that need to be collected through the RES adjustor.

APS has completed the deployment of two 10 megawatt ("MW") AZ Sun projects. These projects include a 10 MW facility at Luke Air Force Base and the 10 MW Desert Star Solar Plant at the City of Phoenix's Buckeye landfill.

Decision No. 74949, which approved APS's 2015 REST Plan, directed APS to consider SWH as a potential energy efficiency program. As directed, APS evaluated SWH as a potential energy efficiency program. The report of that evaluation, based on current costs and savings estimates, had SWH not passing the societal cost test. Thus, APS did not propose SWH as an energy efficiency program in its 2016 Demand-side Management Implementation Plan ("DSM Plan").

Decision No. 74949 ordered APS to include in its 2016 Plan a study on the feasibility, costs, benefits, and other aspects associated with large-scale utility-owned distributed generation ("DG") facilities, sized at one MW or larger and located within a utility's grid. The study was also to include a comparison between company-owned and customer-owned DG options. APS filed this study as a supplement to its 2016 REST Plan on September 15, 2015. The study concluded that large-scale DG provides numerous benefits over small-scale DG including but not limited to cost savings, reliability and improved technical capabilities. APS is currently offering its Solar Partner Program, allowing customers for the first time to participate in a solar program at no cost.

APS currently has six REST customer categories. The current customer categories are: residential, extra small commercial, small commercial, medium commercial, large commercial, and industrial.

RES Adjustor charges are applied based on kWh usage, and there is an adjustor cap for each of the categories. Customers who installed a DG system and received an incentive after July 1, 2012, and customers who installed a DG system and interconnected with APS after February 1, 2013, regardless of incentive, pay the average cap for the relevant customer classification.

Table 1: Current and APS Proposed RES Adjustor Schedules.

Current RES Adjustor Schedule - Budget \$121.8 Million Surcharge Collection						
	Residential	XS Commercial (≤20 kW)	Small Commercial (21-100 kW)	Medium Commercial (101-400 kW)	Large Commercial (401-3,000 kW)	Industrial (>3,000 kW)
\$/kWh	\$0.011060	\$0.011060	\$0.011060	\$0.011060	\$0.011060	\$0.011060
Cap	\$4.42	\$164.32		\$276.50	\$553.00	\$3,594.00
Average	\$3.99	\$9.40 Minimum Charge	\$46.18 Minimum Charge	\$241.42	\$531.93	\$3,594.00
APS Proposed RES Adjustor Schedule - Budget \$118.2 Million Surcharge Collection						
	Residential	XS Commercial (≤20 kW)	Small Commercial (21-100 kW)	Medium Commercial (101-400 kW)	Large Commercial (401-3,000 kW)	Industrial (>3,000 kW)
\$/kWh	\$0.010963	\$0.010963	\$0.010963	\$0.010963	\$0.010963	\$0.010963
Cap	\$4.39	\$162.88		\$274.08	\$548.15	\$3,562.00
Average	\$4.00	\$9.15 Minimum Charge	\$45.77 Minimum Charge	\$235.06	\$479.33	\$3,562.00

APS believes that it will need a 2016 RES budget of approximately \$147.9 million in order for it to meet previously approved commitments. These commitments include Power Purchase Agreements (“PPAs”), Production – Based Incentives (“PBIs”), Legacy Payments, the AZ Sun Program, and the financial needs of previously approved initiatives currently being implemented. APS proposes to apply budget offsets that will be used to reduce the amount that APS will collect through the RES adjustor for 2016.

After the offsets, APS proposes to collect \$118.2 million through the RES adjustor. There will be approximately \$30 million in offsets for 2016. These offsets will include \$6 million collected from base rates, production tax credits (“PTCs”) of approximately \$8 million, green choice revenue of approximately \$1.7 million, and \$14 million in reallocated program funds. The 2016 and 2017 REST budgets will utilize a total of approximately \$38 million in available program funds to be reallocated for the purpose of budget mitigation.

After the \$14 million dollar budget credit in 2016, APS would have an additional \$24 million in carry-over funds available to be reallocated for future years. APS proposes that the additional funds be applied in subsequent years to reduce adjustor collections and minimize budget impacts on customers.

APS receives PTCs from the State of Arizona due to APS ownership of the AZ Sun projects. APS expects to receive approximately \$8 million in PTCs from AZ Sun projects in 2016. This \$8 million in PTCs is used to reduce the amount to be collected through the RES adjustor.

Table 2: Current & Proposed Budget (\$million)

Line No.		YTD OCT. 2015 Actuals	Current Budget	APS Proposed 2016 Budget	Staff Proposed 2016 Budget
1	Renewable Generation				
2	Renewable Generation Contracts, O&M				
3	Purchases and Generation ^{1,2}	\$71.9	\$98.1	\$96.6	\$96.6
4	Administration	0.3	0.2	0.6	0.6
5	Implementation	1.0	1.3	1.0	1.0
6	Total Renewable Generation	\$73.3	\$99.6	\$98.2	\$98.2
7					
8	Customer Sited Distributed Energy				
9	Existing Contracts and Commitments				
10	Flagstaff Community Power Project	\$0.0	\$0.2	\$0.2	\$0.2
11	DE RFP	3.6	5.8	5.6	5.6
12	Production-based Incentives	20.4	26.5	24.4	24.4
13	Schools and Government Program Incentives ³	5.0	8.6	7.7	7.7
14	APS Schools and Government Program ^{1,4}	0.2	4.9	4.7	4.7
15	Total Existing Contracts and Commitments	\$29.2	\$46.0	\$42.6	\$42.6
16					
17	Proposed Programs				
18	Solar Water Heater Incentives ⁶	\$0.1	\$0.5	\$0.4	\$0.2
19	Total Proposed Programs ⁶	\$0.1	\$0.5	\$0.4	\$0.2
20					
21	Non-Energy Distributed Energy Costs				
22	Administration	\$0.3	\$0.3	\$0.6	\$0.6
23	Implementation ⁵	3.5	5.2	6.2	6.2
24	Information Technology	-	0.1	0.1	0.1
25	Educational Outreach: Non-Incentive Costs	-	0.1	0.1	0.1
26	Total Non-Incentive DE Costs	\$3.8	\$5.7	\$7.0	\$7.0
27					
28	Total Customer Sited DE (line 15 + line 26)	\$33.1	\$52.2	\$49.6	\$49.6
29					
30	Total RES Budget ⁵ (line 6 + line 28)	\$106.3	\$151.8	\$147.9	\$147.9
31					
32	Offsets to Base Budget				
33	Base Rates	\$(5.0)	\$(6.0)	\$(6.0)	\$(6.0)
34	Production Tax Credits	(3.6)	(8.3)	(8.0)	(8.0)
35	Estimated Green Choice Revenue Credit	(0.7)	(1.7)	(1.7)	(1.7)

36	Previous Years Rollover Funds & Other Credits	(2.9)	(14.0)	(14.0)	(31.4)
37	RE Surcharge Collection	\$94.1	\$121.8	\$118.2	\$100.8

Notes:

- ¹ Assumes rate case adjudication in July 2017.
- ² Includes RES costs totaling approximately \$0.2M for Sexton (Glendale Landfill) PPA for 2014-2017.
- ³ Third-party owned portion of the current 2011, 2012 and expanded Schools and Government Programs.
- ⁴ APS owned portion of the 2011 and 2012 School and Government Programs.
- ⁵ Includes revenue requirements for the production metering as required by Decision No. 72737.
- ⁶ Highlighted cells represent a pass-through for monies collected in the 2015 budget.

ANALYSIS

Staff has reviewed the APS 2016 REST Plan and the supporting APS working papers. Staff has the following recommendations.

Changes in Monthly RES Adjustor Caps

Staff agrees with the proposed 2016 Budget with exception to the proposed \$14 million dollar rollover. Given that there is approximately \$38 million in rollover funds available, Staff believes the Company should more generously apply these funds to offset the 2016 RES Budget. In doing so, the Company would effectively lower the adjustor rate and caps.

Below are two tables outlining possible RES Adjustor Caps and Rates with resulting 2016 and 2017 Budget impacts. These tables are based on two possible rollover fund scenarios.

Table 3: Scenario 1 - All \$38 million applied to the 2016 Budget \$0 applied to the 2017 Budget:

Proposed 2016 RES Adjustor Schedule - Budget \$94.2 Million Surcharge Collection						
	Residential	XS Commercial (≤20 kW)	Small Commercial (21-100 kW)	Medium Commercial (101-400 kW)	Large Commercial (401-3,000 kW)	Industrial (>3,000 kW)
\$/kWh	\$0.008742	\$0.008742	\$0.008742	\$0.008742	\$0.008742	\$0.008742
Cap	\$3.50	\$129.88		\$218.55	\$437.10	\$2,840.00
Average	\$3.19	\$7.30 Minimum Charge	\$36.50 Minimum Charge	\$187.44	\$382.22	\$2,840.00
Proposed 2017 RES Adjustor Schedule- Budget \$107.4 Million Surcharge Collection						
	Residential	XS Commercial (≤20 kW)	Small Commercial (21-100 kW)	Medium Commercial (101-400 kW)	Large Commercial (401-3,000 kW)	Industrial (>3,000 kW)

\$/kWh	\$0.009733	\$0.009733	\$0.009733	\$0.009733	\$0.009733	\$0.009733
Cap	\$3.89	\$144.60		\$243.33	\$486.65	\$3,162.00
Average	\$3.54	\$8.13 Minimum Charge	\$40.64 Minimum Charge	\$208.69	\$425.55	\$3,162.00

Table 4: Scenario 2 - \$38M applied to make 2016/17 Budgets equal (\$31.4M in 2016 & \$6.6M in 2017)

Proposed 2016 RES Adjustor Schedule - Budget \$100.8 Million Surcharge Collection						
	Residential	XS Commercial (≤20 kW)	Small Commercial (21-100 kW)	Medium Commercial (101-400 kW)	Large Commercial (401-3,000 kW)	Industrial (>3,000 kW)
\$/kWh	\$0.009355	\$0.009355	\$0.009355	\$0.009355	\$0.009355	\$0.009355
Cap	\$3.74	\$138.99		\$233.88	\$467.75	\$3,040.00
Average	\$3.41	\$7.81 Minimum Charge	\$39.06 Minimum Charge	\$200.58	\$409.03	\$3,040.00
Proposed 2017 RES Adjustor Schedule - Budget \$100.8 Million Surcharge Collection						
	Residential	XS Commercial (≤20 kW)	Small Commercial (21-100 kW)	Medium Commercial (101-400 kW)	Large Commercial (401-3,000 kW)	Industrial (>3,000 kW)
\$/kWh	\$0.009135	\$0.009135	\$0.009135	\$0.009135	\$0.009135	\$0.009135
Cap	\$3.65	\$135.72		\$228.38	\$456.75	\$2,968.00
Average	\$3.32	\$7.63 Minimum Charge	\$38.14 Minimum Charge	\$195.87	\$399.41	\$2,968.00

Staff believes that both of the aforementioned scenarios are viable options; however, Staff prefers to avoid decreasing rates in one year just to raise them in the next. Thus, Staff has recommended that the 2016 RES Budget be offset by a \$31.4 million dollar rollover credit instead of APS's proposed \$14 million. Further, Staff suggests that the remaining rollover funds be credited in the 2017 RES Budget.

Staff has recommended that the 2016 monthly RES adjustor caps and kWh charge be adjusted to include the figures outline in Table 4. Based on the Company's proposed 2016 budget of \$147.9 million with an adjusted \$47.1 million budget offset, \$100.8 million would be collected through the RES adjustor.

Solar Water Heating Incentive Program

In Decision No. 74949, the Commission directed APS to consider SWH as a potential energy efficiency program. In the same Decision, the Commission put stakeholders on notice that the SWH program appeared to be under-subscribed and was unlikely to be funded in future REST plans. Staff notes that, thus far during the 2015 program year, 100 customers have utilized the SWH program. Of the \$500,000 program year budget available, only \$91,831 has been used to incent customers, leaving \$408,169 in program funds available.

Based on past Commission Decisions and lack of program subscription, Staff is hesitant to agree with the Company's proposal which would carry over close to \$400,000 in excess 2015 solar water heater program funds into the 2016 budget. Further, Staff believes that a solar water heater operates in a capacity similar to an energy efficiency technology, reducing the amount of electrons a utility customer consumes; whereas, solar PV produces renewable electrons which can be used to support electric loads from both the producer of the electron, as well as the grid.

Pursuant to direction given by the Commission, APS addressed the SWH program in its 2016 DSM Implementation Plan (Docket No. E-01345A-15-0182). Unfortunately, the Company has indicated that the program did not pass the societal cost test and thus was not proposed as a measure in the 2016 DSM Plan. Staff believes that, if the Commission desires to continue incentives for Solar Water Heaters in the 2016 REST Plan, the program budget should be cut in half, carrying-over \$200,000 from the 2015 budget to fund the program in 2016. Staff believes it appropriate for the solar water heater incentive to remain the same at \$0.30/kWh; Staff also suggests that further discussion involving solar water heaters be addressed in the pending 2016 DSM plan.

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

Since the revenues collected in the Green Choice Program are used to offset the budget funds that must be collected through the RES adjustor, the positive impacts of this program are twofold. It allows those who choose to contribute to green energy programs the ability to meet their individual environmental goals and objectives, while reducing the total RES adjustor burden from other rate payers. Staff has recommended the extension of the Green Choice Program and the associated Green Power Rate Schedules.

Compliance

Having reviewed the Company's compliance report filed with the Commission on April 1, 2015, the REST plan filed on July 1, 2015, and other applicable information, Staff concludes that Arizona Public Service Company has not used any RECs not owned by the utility to comply with the Commission's REST rules in 2014.

Pursuant to A.A.C. R14-2-1812, APS is required to file an annual compliance report. Staff recommends that, beginning in 2016, APS file its annual REST compliance reports in a new docket to be opened by Staff.

RECOMMENDATIONS

Staff recommends that the Commission approve Staff's proposed REST budget of \$147.9 million, consisting of \$100.8 million in Renewable Energy Surcharge funds and \$47.1 million from base rates, production tax credits, Green Choice revenues and previous years' rollover funds, and other credits.

Staff further recommends that the Commission approve the RES adjustor rate and monthly caps for 2016 outlined in Table 4.

Staff further recommends that the Commission approve the continuation of the SWH incentive program with \$200,000 of the remaining 2015 funds carried over and applied to the 2016 SWH program.

Staff further recommends that the remaining carried over SWH funds be applied to offset the 2017 budget.

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

Staff further recommends that, beginning in 2016, APS file its annual REST compliance reports in a docket to be opened by Staff.



Thomas M. Broderick
Director
Utilities Division

TMB:EMV:red\BES

ORIGINATOR: Eric Van Epps

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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

IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR APPROVAL OF ITS 2016
RENEWABLE ENERGY STANDARD
IMPLEMENTATION FOR RESET OF
RENEWABLE ENERGY ADJUSTOR.

DOCKET NO. E-01345A-15-0241
DECISION NO. _____
ORDER

Open Meeting
December 8 and 9, 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, 2015, APS filed its 2016 Renewable Energy Standard and Tariff Plan (“REST Plan” or “Plan”).
3. In the 2016 REST Plan, APS requests funding for existing projects and commitments, including legacy performance-based incentives, renewable purchase power costs and ongoing program administrative costs, including costs associated with rooftop solar interconnection applications. APS has not proposed any new programs in the Plan.
4. The 2016 REST Plan requests approval of a budget of approximately \$147.9 million for 2016. This would include approximately \$118.2 million that APS would collect through the APS RES adjustor in 2016.

1 5. APS proposes an adjustment to Adjustment Schedule REAC-1 lowering both the
2 monthly RES adjustor caps and kWh charge.

3 6. APS projects that by the end of 2016, not including non-incented distributed energy
4 (“DE”) installations, it will have 3,368,629 megawatt-hours (“MWh”) of renewable energy production
5 in its service territory.

	2016 Forecasted Production	2016 Requirement	2017 Forecasted Production	2017 Requirement
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11 7. By the end of 2016, APS projects that it will be in compliance with the non-residential
12 DE targets through 2021 and the residential DE targets through 2016, excluding DE systems that did
13 not receive an incentive.

14 8. APS proposes to continue all of its existing authorized programs and commitments in
15 the 2016 Rest Plan, with an exception for Solar Water Heating (“SWH”). APS proposes to carry over
16 any remaining 2015 budget funds into 2016 and continue marketing and implementing the SWH
17 program until the existing program funds from 2015 are depleted.

18 9. APS also proposes to extend, for the 2016 year, its Green Choice Program and the
19 associated Green Power Rate Schedules GPS-1, GPS-2, and GPS-3. The revenues collected in the
20 Green Choice Program are to be used to offset the amount of budget funds that need to be collected
21 through the RES adjustor.

22 10. APS has completed the deployment of two 10 megawatt (“MW”) AZ Sun projects.
23 These projects include a 10 MW facility at Luke Air Force Base and the 10 MW Desert Star Solar
24 Plant at the City of Phoenix’s Buckeye landfill.

25 11. Decision No. 74949, which approved APS’s 2015 REST Plan, directed APS to
26 consider SWH as a potential energy efficiency program. As directed, APS evaluated SWH as a
27 potential energy efficiency program. The report of that evaluation, based on current costs and savings
28

1 estimates, had SWH not passing the societal cost test. Thus, APS did not propose SWH as an energy
2 efficiency program in its 2016 Demand-side Management Implementation Plan (“DSM Plan”).

3 12. Decision No. 74949 ordered APS to include in its 2016 Plan a study on the feasibility,
4 costs, benefits, and other aspects associated with large-scale utility-owned distributed generation
5 (“DG”) facilities, sized at one MW or larger and located within a utility’s grid. The study was also to
6 include a comparison between company-owned and customer-owned DG options. APS filed this
7 study as a supplement to its 2016 REST Plan on September 15, 2015. The study concluded that large-
8 scale DG provides numerous benefits over small-scale DG including but not limited to cost savings,
9 reliability and improved technical capabilities. APS is currently offering its Solar Partner Program,
10 allowing customers for the first time to participate in a solar program at no cost.

11 13. APS currently has six REST customer categories. The current customer categories are:
12 residential, extra small commercial, small commercial, medium commercial, large commercial, and
13 industrial.

14 14. RES Adjustor charges are applied based on kWh usage, and there is an adjustor cap for
15 each of the categories. Customers who installed a DG system and received an incentive after July 1,
16 2012, and customers who installed a DG system and interconnected with APS after February 1, 2013,
17 regardless of incentive, pay the average cap for the relevant customer classification.

18 Table 1: Current and APS Proposed RES Adjustor Schedules.

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21							
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23	\$/kWh	\$0.011060	\$0.011060	\$0.011060	\$0.011060	\$0.011060	
24	Cap	\$4.42	\$164.32	\$276.50	\$553.00	\$3,594.00	
25	Average	\$3.99	\$9.40 Minimum Charge	\$46.18 Minimum Charge	\$241.42	\$531.93	
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27							
28	APS Proposed RES Adjustor Schedule - Budget \$118.2 Million Surcharge Collection						

	Residential	XS Commercial (≤20 kW)	Small Commercial (21-100 kW)	Medium Commercial (101-400 kW)	Large Commercial (401-3,000 kW)	Industrial (>3,000 kW)
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Cap	\$4.39	\$162.88		\$274.08	\$548.15	\$3,562.00
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15. APS believes that it will need a 2016 RES budget of approximately \$147.9 million in order for it to meet previously approved commitments. These commitments include Power Purchase Agreements (“PPAs”), Production – Based Incentives (“PBIs”), Legacy Payments, the AZ Sun Program, and the financial needs of previously approved initiatives currently being implemented. APS proposes to apply budget offsets that will be used to reduce the amount that APS will collect through the RES adjustor for 2016.

16. After the offsets, APS proposes to collect \$118.2 million through the RES adjustor. There will be approximately \$30 million in offsets for 2016. These offsets will include \$6 million collected from base rates, production tax credits (“PTCs”) of approximately \$8 million, green choice revenue of approximately \$1.7 million, and \$14 million in reallocated program funds. The 2016 and 2017 REST budgets will utilize a total of approximately \$38 million in available program funds to be reallocated for the purpose of budget mitigation.

17. After the \$14 million dollar budget credit in 2016, APS would have an additional \$24 million in carry-over funds available to be reallocated for future years. APS proposes that the additional funds be applied in subsequent years to reduce adjustor collections and minimize budget impacts on customers.

18. APS receives PTCs from the State of Arizona due to APS ownership of the AZ Sun projects. APS expects to receive approximately \$8 million in PTCs from AZ Sun projects in 2016. This \$8 million in PTCs is used to reduce the amount to be collected through the RES adjustor.

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Table 2: Current & Proposed Budget (\$million)

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3	Purchases and Generation ^{1,2}	\$71.9	\$98.1	\$96.6	\$96.6
4	Administration	0.3	0.2	0.6	0.6
5	Implementation	<u>1.0</u>	<u>1.3</u>	<u>1.0</u>	<u>1.0</u>
6	Total Renewable Generation	\$73.3	\$99.6	\$98.2	\$98.2
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8	Customer Sited Distributed Energy				
9	Existing Contracts and Commitments				
10	Flagstaff Community Power Project	\$0.0	\$0.2	\$0.2	\$0.2
11	DE RFP	3.6	5.8	5.6	5.6
12	Production-based Incentives	20.4	26.5	24.4	24.4
13	Schools and Government Program Incentives ₃	5.0	8.6	7.7	7.7
14	APS Schools and Government Program ^{1,4}	<u>0.2</u>	<u>4.9</u>	<u>4.7</u>	<u>4.7</u>
15	Total Existing Contracts and Commitments	\$29.2	\$46.0	\$42.6	\$42.6
16					
17	Proposed Programs				
18	Solar Water Heater Incentives ⁶	<u>\$0.1</u>	<u>\$0.5</u>	<u>\$0.4</u>	<u>\$0.2</u>
19	Total Proposed Programs ⁶	\$0.1	\$0.5	\$0.4	\$0.2
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21	Non-Energy Distributed Energy Costs				
22	Administration	\$0.3	\$0.3	\$0.6	\$0.6
23	Implementation ⁵	3.5	5.2	6.2	6.2
24	Information Technology	-	0.1	0.1	0.1
25	Educational Outreach: Non-Incentive Costs	-	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
26	Total Non-Incentive DE Costs	\$3.8	\$5.7	\$7.0	\$7.0
27					
28	Total Customer Sited DE (line 15 + line 26)	\$33.1	\$52.2	\$49.6	\$49.6
29					
30	Total RES Budget ⁵ (line 6 + line 28)	\$106.3	\$151.8	\$147.9	\$147.9
31					
32	Offsets to Base Budget				
33	Base Rates	\$(5.0)	\$(6.0)	\$(6.0)	\$(6.0)
34	Production Tax Credits	(3.6)	(8.3)	(8.0)	(8.0)
35	Estimated Green Choice Revenue Credit	(0.7)	(1.7)	(1.7)	(1.7)
36	Previous Years Rollover Funds & Other Credits	<u>(2.9)</u>	<u>(14.0)</u>	<u>(14.0)</u>	<u>(31.4)</u>
37	RE Surcharge Collection	\$94.1	\$121.8	\$118.2	\$100.8

Notes:¹ Assumes rate case adjudication in July 2017.

² Includes RES costs totaling approximately \$0.2M for Sexton (Glendale Landfill) PPA for 2014-2017.

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⁴ APS owned portion of the 2011 and 2012 School and Government Programs.

⁵ Includes revenue requirements for the production metering as required by Decision No. 72737.

⁶ Highlighted cells represent a pass-through for monies collected in the 2015 budget.

Analysis

19. Staff has reviewed the APS 2016 REST Plan and the supporting APS working papers. Staff has the following recommendations.

Changes in Monthly RES Adjustor Caps

20. Staff agrees with the proposed 2016 Budget with exception to the proposed \$14 million dollar rollover. Given that there is approximately \$38 million in rollover funds available, Staff believes the Company should more generously apply these funds to offset the 2016 RES Budget. In doing so, the Company would effectively lower the adjustor rate and caps.

21. Below are two tables outlining possible RES Adjustor Caps and Rates with resulting 2016 and 2017 Budget impacts. These tables are based on two possible rollover fund scenarios.

Table 3: Scenario 1 - All \$38 million applied to the 2016 Budget \$0 applied to the 2017 Budget:

Proposed 2016 RES Adjustor Schedule - Budget \$94.2 Million Surcharge Collection						
	Residential	XS Commercial (≤20 kW)	Small Commercial (21-100 kW)	Medium Commercial (101-400 kW)	Large Commercial (401-3,000 kW)	Industrial (>3,000 kW)
\$/kWh	\$0.008742	\$0.008742	\$0.008742	\$0.008742	\$0.008742	\$0.008742
Cap	\$3.50	\$129.88		\$218.55	\$437.10	\$2,840.00
Average	\$3.19	\$7.30 Minimum Charge	\$36.50 Minimum Charge	\$187.44	\$382.22	\$2,840.00
Proposed 2017 RES Adjustor Schedule- Budget \$107.4 Million Surcharge Collection						
	Residential	XS Commercial (≤20 kW)	Small Commercial (21-100 kW)	Medium Commercial (101-400 kW)	Large Commercial (401-3,000 kW)	Industrial (>3,000 kW)
\$/kWh	\$0.009733	\$0.009733	\$0.009733	\$0.009733	\$0.009733	\$0.009733

1	Cap	\$3.89	\$144.60		\$243.33	\$486.65	\$3,162.00
2	Average	\$3.54	\$8.13 Minimum Charge	\$40.64 Minimum Charge	\$208.69	\$425.55	\$3,162.00
3							
4							

5 Table 4: Scenario 2 - \$38M applied to make 2016/17 Budgets equal (\$31.4M in 2016 & \$6.6M in 2017)

6 Proposed 2016 RES Adjustor Schedule - Budget \$100.8 Million Surcharge Collection							
7	Residential	XS Commercial (≤20 kW)	Small Commercial (21-100 kW)	Medium Commercial (101-400 kW)	Large Commercial (401-3,000 kW)	Industrial (>3,000 kW)	
8							
9	\$/kWh	\$0.009355	\$0.009355	\$0.009355	\$0.009355	\$0.009355	
10	Cap	\$3.74	\$138.99		\$233.88	\$467.75	\$3,040.00
11	Average	\$3.41	\$7.81 Minimum Charge	\$39.06 Minimum Charge	\$200.58	\$409.03	\$3,040.00
12							
13							
14 Proposed 2017 RES Adjustor Schedule - Budget \$100.8 Million Surcharge Collection							
15	Residential	XS Commercial (≤20 kW)	Small Commercial (21-100 kW)	Medium Commercial (101-400 kW)	Large Commercial (401-3,000 kW)	Industrial (>3,000 kW)	
16							
17	\$/kWh	\$0.009135	\$0.009135	\$0.009135	\$0.009135	\$0.009135	
18	Cap	\$3.65	\$135.72		\$228.38	\$456.75	\$2,968.00
19	Average	\$3.32	\$7.63 Minimum Charge	\$38.14 Minimum Charge	\$195.87	\$399.41	\$2,968.00
20							
21							

22 22. Staff believes that both of the aforementioned scenarios are viable options; however,
 23 Staff prefers to avoid decreasing rates in one year just to raise them in the next. Thus, Staff has
 24 recommended that the 2016 RES Budget be offset by a \$31.4 million dollar rollover credit instead of
 25 APS's proposed \$14 million. Further, Staff would suggest that the remaining rollover funds be
 26 credited in the 2017 RES Budget.

27 23. Staff has recommended that the 2016 monthly RES adjustor caps and kWh charge be
 28 adjusted to include the figures outlined in Table 4. Based on the Company's proposed 2016 budget of

1 \$147.9 million with an adjusted \$47.1 million budget offset, \$100.8 million would be collected through
2 the RES adjustor.

3 *Solar Water Heating Incentive Program*

4 24. In Decision No. 74949, the Commission directed APS to consider SWH as a potential
5 energy efficiency program. In the same Decision, the Commission put stakeholders on notice that the
6 SWH program appeared to be under-subscribed and was unlikely to be funded in future REST plans.
7 Staff notes that, thus far during the 2015 program year, 100 customers have utilized the SWH
8 program. Of the \$500,000 program year budget available, only \$91,831 has been used to incent
9 customers, leaving \$408,169 in program funds available.

10 25. Based on past Commission Decisions and lack of program subscription, Staff is
11 hesitant to agree with the Company's proposal which would carry over close to \$400,000 in excess
12 2015 solar water heater program funds into the 2016 budget. Further, Staff believes that a solar water
13 heater operates in a capacity similar to an energy efficiency technology, reducing the amount of
14 electrons a utility customer consumes; whereas, solar PV produces renewable electrons which can be
15 used to support electric loads from both the producer of the electron, as well as the grid.

16 26. Pursuant to direction given by the Commission, APS addressed the SWH program in
17 its 2016 DSM Implementation Plan (Docket No. E-01345A-15-0182). Unfortunately, the Company
18 has indicated that the program did not pass the societal cost test and thus was not proposed as a
19 measure in the 2016 DSM Plan. Staff believes that, if the Commission desires to continue incentives
20 for solar water heaters in the 2016 REST Plan, the program budget should be cut in half, carrying-
21 over \$200,000 from the 2015 budget to fund the program in 2016. Staff believes it appropriate for the
22 solar water heater incentive to remain the same at \$0.30/kWh; Staff also suggests that further
23 discussion involving solar water heaters be addressed in the pending 2016 DSM plan.

24 *Extension of the Green Choice Program and the Associated Green Power Rate Schedules*

25 27. Since the revenues collected in the Green Choice Program are used to offset the
26 budget funds that must be collected through the RES adjustor, the positive impacts of this program
27 are twofold. It allows those who choose to contribute to green energy programs the ability to meet
28 their individual environmental goals and objectives, while reducing the total RES adjustor burden

1 from other rate payers. Staff has recommended the extension of the Green Choice Program and the
2 associated Green Power Rate Schedules.

3 *Compliance*

4 28. Having reviewed the Company's compliance report filed with the Commission on
5 April 1, 2015, the REST plan filed on July 1, 2015, and other applicable information, Staff concludes
6 that APS has not used any RECs not owned by the utility to comply with the Commission's REST
7 rules in 2014.

8 29. Pursuant to A.A.C. R14-2-1812, APS is required to file an annual compliance report.
9 Staff recommends that, beginning in 2016, APS file its annual REST compliance reports in a new
10 docket to be opened by Staff.

11 **Recommendations**

12 30. Staff has recommended that the Commission approve Staff's proposed REST budget
13 of \$147.9 million, consisting of \$100.8 million in Renewable Energy Surcharge funds and \$47.1 million
14 in offsets from base rates, production tax credits, Green Choice revenues and previous years' rollover
15 funds, and other credits.

16 31. Staff has further recommended that the Commission approve the RES adjustor rate
17 and monthly caps for 2016 outlined in Table 4.

18 32. Staff has further recommended that the Commission approve the continuation of the
19 SWH incentive program with \$200,000 of the remaining 2015 funds carried over and applied to the
20 2016 SWH program.

21 33. Staff has further recommended that the remaining carried over SWH funds be applied
22 to offset the 2017 budget.

23 34. Staff has further recommended that the Commission approve the extension of the
24 Green Choice Program and associated Green Power Rate Schedules.

25 35. Staff has further recommended that, beginning in 2016, APS file its annual REST
26 compliance reports in a docket to be opened by Staff.

27 ...

28 ...

CONCLUSIONS OF LAW

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

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

6 3. The Commission, having reviewed Arizona Public Service Company’s application and
7 Staff’s Memorandum dated November 24, 2015, concludes that it is in the public interest to approve
8 Arizona Public Service Company’s 2016 REST Plan, the REST Plan budget, and funding for the
9 Customer DG Incentive Program as discussed herein.

10 ORDER

11 IT IS THEREFORE ORDERED that \$200,000 of the solar water heating incentive funding
12 carried over from the 2015 REST budget shall be applied and used to fund the 2016 solar water
13 heating incentive program.

14 IT IS FURTHER ORDERED that the remaining \$208,169 in 2015 solar water heating
15 incentive funding be carried forward and used to offset the 2017 RES budget.

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

18 IT IS FURTHER ORDERED that the 2015 Arizona Public Service Company REST Plan
19 budget of \$147.9 million is hereby approved.

20 IT IS FURTHER ORDERED that Arizona Public Service Company is authorized to collect
21 \$100.8 million through the Renewable Energy Surcharge to pay for a portion of the 2016 REST Plan
22 budget.

23 IT IS FURTHER ORDERED that the remaining \$47.1 million in the 2016 REST Plan
24 Budget shall come from carry-forward funds from base rates, production tax credits, Green Choice
25 revenues, and previous years’ rollover funds and other credits.

26 IT IS FURTHER ORDERED that Adjustment Schedule REAC-1 be updated to include the
27 new rate and caps as outlined below:

28 ...

	¢/kWh	Monthly Cap	Average (Flat Charge)	Monthly Floor (Minimum)
Residential Customers without a DG system and those installing a system prior to July 1, 2012	\$0.009355	\$3.74	N/A	N/A
Residential Customers who installed DG and received a direct cash incentive beginning July 1, 2012 and those who interconnect beginning February 1, 2013	N/A	N/A	\$3.41	N/A
Extra-Small Commercial Customers without a DG system and those installing a system prior to July 1, 2012	\$0.011060	\$138.99	N/A	N/A
Extra-Small Commercial Customers who installed DG and received a direct cash incentive beginning July 1, 2012 and those who interconnect beginning February 1, 2013	\$0.009355 (over 835 kWh)	\$138.99	N/A	\$7.81
Small Commercial Customers without a DG system and those installing a system prior to July 1, 2012	\$0.009355	\$138.99	N/A	N/A
Small Commercial Customers who installed DG and received a direct cash incentive beginning July 1, 2012 and those who interconnect beginning February 1, 2013	\$0.009355 (over 4,175 kWh)	\$138.99	N/A	\$39.06
Medium Commercial Customers without a DG system and those installing a system prior to July 1, 2012	\$0.009355	\$233.88	N/A	N/A
Medium Commercial Customers who installed DG and received a direct cash incentive beginning July 1, 2012 and those who interconnect beginning February 1, 2013	N/A	N/A	\$200.58	N/A
Large Commercial Customers without a DG system and those installing a system prior to July 1, 2012	\$0.009355	\$467.75	N/A	N/A
Large Commercial Customers who installed DG and received a direct cash incentive beginning July 1, 2012 and those who interconnect beginning February 1, 2013	N/A	N/A	\$409.03	N/A
Extra-Large Commercial Customers without a DG system and those installing a system prior to July 1, 2012	\$0.009355	\$3,040.00	N/A	N/A
Extra-Large Commercial Customers who installed DG and received a direct cash incentive beginning July 1, 2012 and those who interconnect beginning February 1, 2013	N/A	N/A	\$3,040.00	N/A

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1 IT IS FURTHER ORDERED that Arizona Public Service Company file with Docket
2 Control, as a compliance item, a revised REAC-1 Renewable Energy Standard Tariff within 15 days of
3 the effective date of this Order.

4 IT IS FURTHER ORDERED that Arizona Public Service Company, beginning in 2016, file
5 its annual REST compliance reports in a docket to be opened by Staff.

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

7
8

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

9

10

CHAIRMAN

COMMISSIONER

11

12

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COMMISSIONER

COMMISSIONER

COMMISSIONER

14

15

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 _____ day of _____, 2015.

16

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JODI JERICH
EXECUTIVE DIRECTOR

21

22

DISSENT: _____

23

24

DISSENT: _____

25

TMB:EMV:red/BES

26

27

28

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO. E-01345A-15-0241

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19 Ms. Janice M. Alward
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