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January 22, 2016

Docket Control  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, AZ 85007

Arizona Corporation Commission  
DOCKETED

JAN 22 2016

DOCKETED BY 

RE: Arizona Public Service Company Report on Carbon Tracking Mechanism  
Docket No. E-01345A-08-0172

Pursuant to Decision No. 71448 (December 30, 2009):

Arizona Public Service Company shall establish a carbon credit tracking mechanism designed to track and set aside all carbon credits generated from its non-carbon emitting generation fleet, including all renewable energy and energy efficiency projects identified in this Settlement Agreement. The Company shall file a report on the tracking mechanism, and any potential for trading of the credits contained within it, with Docket Control as a compliance item in this docket, annually, on or before January 31 of each year, beginning in 2011.

Attached please find Arizona Public Service Company's report for 2015.

If you have any questions regarding this information, please contact me at 602-250-3341.

Sincerely,

Kerri A. Carnes

KC/bgs  
Attachment

c: Brian Bozzo  
Terri Ford

## **Arizona Public Service Company Carbon Tracking Report for 2015**

In Arizona Corporation Commission (Commission) Decision No. 71448 (December 30, 2009),<sup>1</sup> the Commission directed Arizona Public Service Company (APS) to establish a carbon credit tracking mechanism:

IT IS FURTHER ORDERED that Arizona Public Service Company shall establish a carbon credit tracking mechanism designed to track and set aside all carbon credits generated from its non-carbon emitting generation fleet, including all renewable energy and energy efficiency projects identified in this Settlement Agreement. The Company shall file a report on the tracking mechanism, and any potential for trading of the credits contained within it, with Docket Control as a compliance item in this docket, annually, on or before January 31 of each year, beginning in 2011.<sup>2</sup>

• • •

In light of the possibility that a national carbon pricing policy could be approved in the near future - either through a federal cap and trade or carbon tax program - we believe that the Company should be closely tracking and setting aside for the benefit of future ratepayers all credits it is accruing associated with ratepayer-financed non-carbon generation.<sup>3</sup>

While it appeared likely at the time of the Decision that some form of federal carbon legislation, particularly a cap and trade type program, would be passed, the proposed federal carbon legislation was not enacted.

The Environmental Protection Agency (EPA) finalized the Clean Power Plan (CPP) on October 23, 2015. The CPP will require affected electric generating units to reduce carbon dioxide emissions through one or a combination of the following mitigation factors: energy efficiency, voluntary reduction of emissions based on reduced generation from fossil fuels, renewables or other zero carbon emissions, increased gas production to offset coal production, or a trading program. Although the CPP went into effect in December 2015, no compliance obligation exists until 2022. The CPP process requires a large group of stakeholders (including the State of Arizona, affected utilities, the Commission, renewable and energy efficiency providers, and other organizations) to work together to arrive at a workable State plan. Currently, all parties are still working through the details of the CPP, therefore no plan exists from which APS can determine which of these options (or combination of options) will be appropriate for the Company, other affected utilities, and the State of Arizona. Accordingly, it is premature to develop a carbon tracking program related to the CPP at this time.

APS notes that, in January of 2013, the California legislature enacted its own cap and trade program to limit greenhouse gas emissions. Under that program, electricity imports into California potentially create an emission allowance obligation in accordance with California Air Resources Board rules. As APS routinely sells power in the California Independent System Operator market, APS enters into market purchases and surrenders the associated allowances in accordance with the program.

The Company will continue to monitor progress under the CPP and will provide updates to the Commission on the development of a carbon tracking mechanism as required by Commission Decision No. 71448.

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<sup>1</sup> Docket No. E-01345A-08-0172

<sup>2</sup> Decision No. 71448, p. 61 at 26

<sup>3</sup> *Id.*, p. 58 at 28