BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman

GARY PIERCE
Commissioner

BRENDA BURNS
Commissioner

BOB BURNS
Commissioner

SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ITS 2014 RENEWABLE ENERGY STANDARD IMPLEMENTATION PLAN FOR RESET OF RENEWABLE ENERGY ADJUSTER

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 ADJUSTER

DOCKET NO. E-01345A-14-0250

DECISION NO. 74883

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.


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

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

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

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

8. APS also proposes to extend, for the 2015 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.

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

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

11. APS is proposing a new battery-solar PV integration demonstration research program. APS is requesting $2 million to conduct this battery storage program. APS would purchase and install the battery storage systems that would be integrated into the APS distribution system. These systems would be monitored and managed by APS. APS asserts that the project will increase the hands-on technical capabilities of APS employees and will increase APS's understanding of the impacts of 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)

<table>
<thead>
<tr>
<th>Example: Continue five customer classes without extra small/small commercial cap floors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Small Commercial</strong></td>
</tr>
<tr>
<td>Residential</td>
</tr>
<tr>
<td>RES Budget (in $M)</td>
</tr>
<tr>
<td>$/kWh</td>
</tr>
<tr>
<td>Cap</td>
</tr>
<tr>
<td>Average</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Example: Six customer classes with extra small/small commercial cap floors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Small Commercial</strong></td>
</tr>
<tr>
<td>Residential</td>
</tr>
<tr>
<td>RES Budget (in $M)</td>
</tr>
<tr>
<td>$/kWh</td>
</tr>
<tr>
<td>Cap</td>
</tr>
<tr>
<td>Average</td>
</tr>
<tr>
<td>Cap Floor (&quot;Minimum&quot;)</td>
</tr>
</tbody>
</table>

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

17. APS believes that it will need a 2015 RES budget of $153.8 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, among other commitments, and the financial needs of newly-proposed programs. APS proposes to apply budget offsets that will be used to reduce the amount that APS will collect through the RES adjustor for 2015.

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

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

20. APS receives Production Tax Credits ("PTCs") from the State of Arizona due to the APS ownership of the AZ Sun projects. APS expects to receive approximately $8.3 million in PTCs from AZ Sun projects in 2015. This $8.3 million in PTCs will be used to reduce the amount to be collected through the RES adjustor.
Table 2: APS Proposed Budget from 2015 APS REST Plan (Exhibit 3A)

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Renewable Generation</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Renewable Generation Contracts, O&amp;M</strong></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Purchases and Generation(^1,2)</td>
<td>$98.1</td>
</tr>
<tr>
<td>3</td>
<td>Administration</td>
<td>0.2</td>
</tr>
<tr>
<td>4</td>
<td>Implementation</td>
<td>1.3</td>
</tr>
<tr>
<td>5</td>
<td><strong>Total Renewable Generation</strong></td>
<td>$99.6</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Customer Sited Distributed Energy</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td><strong>Existing Contracts and Commitments</strong></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Flagstaff Community Power Project</td>
<td>$0.2</td>
</tr>
<tr>
<td>8</td>
<td>DE RFP</td>
<td>5.8</td>
</tr>
<tr>
<td>9</td>
<td>Production-based Incentives(^\text{3})</td>
<td>26.5</td>
</tr>
<tr>
<td>10</td>
<td>Schools and Government Program Incentives(^4)</td>
<td>8.6</td>
</tr>
<tr>
<td>11</td>
<td>APS Schools and Government Program(^5)</td>
<td>4.9</td>
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<tr>
<td>12</td>
<td><strong>Total Existing Contracts and Commitments</strong></td>
<td>$46.0</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Line No.</th>
<th>Proposed Programs</th>
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</thead>
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<tr>
<td>13</td>
<td>Solar Water Heater Incentives(^6)</td>
<td>$0.5</td>
</tr>
<tr>
<td>14</td>
<td><strong>Total Proposed Programs</strong></td>
<td>$0.5</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Non-Energy Distributed Energy Costs</th>
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</thead>
<tbody>
<tr>
<td>15</td>
<td>Administration(^7)</td>
<td>0.3</td>
</tr>
<tr>
<td>16</td>
<td>Implementation(^7)</td>
<td>5.2</td>
</tr>
<tr>
<td>17</td>
<td>Battery Integration Intelligence R&amp;D(^8)</td>
<td>2.0</td>
</tr>
<tr>
<td>18</td>
<td>Information Technology</td>
<td>0.5</td>
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<tr>
<td>19</td>
<td>Educational Outreach: Non-Incentive Costs</td>
<td>0.1</td>
</tr>
<tr>
<td>20</td>
<td><strong>Total Non-Incentive DE Costs</strong></td>
<td>$7.7</td>
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</table>

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Total Customer Sited DE (line 16 + line 20)</th>
<th>$54.2</th>
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<tr>
<td>21</td>
<td><strong>TOTAL RES BUDGET(^5) (line 6 + line 30)</strong></td>
<td>$153.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Offsets to Base Budget</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>Base Rates(^9)</td>
<td>(6.0)</td>
</tr>
<tr>
<td>23</td>
<td>Production Tax Credits</td>
<td>(8.3)</td>
</tr>
<tr>
<td>24</td>
<td>Estimated Green Choice Revenue Credit</td>
<td>(1.7)</td>
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<tr>
<td>25</td>
<td>Previous Years Rollover Funds and Other Credits</td>
<td>(14.0)</td>
</tr>
<tr>
<td>26</td>
<td><strong>RE Surcharge Collection(^7)</strong></td>
<td>$123.8</td>
</tr>
</tbody>
</table>

**Notes:**

\(^1\) Assumes rate case adjudication in July 2016.
\(^2\) Includes RES costs totaling approximately $0.2M for Sexton (Glendale Landfill) for 2014-2017.
\(^3\) Third-party owned portion of the current 2011, 2012 an expanded Schools and Government Programs.
\(^4\) APS-owned portion of the 2011 and 2012 School and Government Programs.
\(^5\) Includes revenue requirements for production metering as required by Decision No. 72737.
\(^6\) Details 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:
AZ Sun Proposals

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

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

Changes in Monthly RES Adjustor Caps

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

Solar Water Heating Incentive Program

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

Battery-Solar Integration Research Program

26. Staff has reviewed the APS proposal to integrate battery storage with PV arrays in the APS distribution system. Staff believes that such a research, development, and demonstration
program will be helpful to APS planners as they calculate how to combine solar electricity with appropriate storage measures. Staff recommends approval of the proposed $2 million battery-solar integration research program.

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

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

Large Scale, Utility-Owned DG Facilities

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

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

Summary of Staff’s Recommendations

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

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

32. Staff further recommends that the Commission approve the APS-proposed Battery-Solar Integration Research Program at a funding level of $2 million for 2015.
33. Staff further recommends that the Commission approve the extension of the Green Choice Program and the associated Green Power Rate Schedules.

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

Commission Changes to the APS Proposed Budget:

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

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

CONCLUSIONS OF LAW

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

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

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

...
ORDER

IT IS THEREFORE ORDERED that the solar water heating incentive program funding of $500,000 for 2015 is approved.

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

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

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

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

IT IS FURTHER ORDERED that for residential customers the monthly surcharge shall be $0.01106 per kWh up to a monthly cap of $4.42 or, for customers who received a direct cash incentive, up to an average of $3.99.

IT IS FURTHER ORDERED that for extra small commercial customers the monthly surcharge shall be $0.01106 per kWh for each kWh above 835 kWh plus a minimum cap floor charge of $9.40 per month up to the cap of $164.32.
IT IS FURTHER ORDERED that for small commercial customers the monthly surcharge shall be $0.01106 per kWh for each kWh above 4,175 plus a minimum cap floor charge of $46.18 per month, up to the cap of $164.32.

IT IS FURTHER ORDERED that for medium commercial customers the monthly surcharge shall be $0.01106 per kWh up to a monthly cap of $276.50 or, for customers who received a direct cash incentive, up to an average of $241.42.

IT IS FURTHER ORDERED that for large commercial customers the monthly surcharge shall be $0.01106 per kWh up to a monthly cap of $553.00 or, for customers who received a direct cash incentive, up to an average of $531.93.

IT IS FURTHER ORDERED that for industrial customers the monthly surcharge shall be $0.01106 per kWh up to a monthly cap of $3,594.00 or, for customers who received a direct cash incentive, up to an average of $3,594.00.

IT IS FURTHER ORDERED that Arizona Public Service Company, as part of its 2016 REST Plan filing, shall include a report on the feasibility, costs, benefits, and other aspects of this option and if Arizona Public Service Company wishes, an implementation proposal, as part of Arizona Public Service Company's REST activities. Arizona Public Service Company's analysis should include a comparison of this option with company-owned and customer-owned distributed generation options.
IT IS FURTHER ORDERED that a waiver to the REST requirements contained in R14-2-1804 and R14-2-1805 will be granted to Arizona Public Service Company if its forecasted Planning Reserve Margin\(^1\) is greater than or equal to eighteen percent (18%) each year for the next two years. To obtain this waiver, Arizona Public Service Company must file with the Commission documentation demonstrating that its forecasted Planning Reserve Margin exceeds eighteen percent (18%) for at least the next two years and if obtained, the waiver shall apply for each year that the forecasted Planning Reserve Margin exceeds eighteen percent (18%).

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

[Signatures]

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 31\(^{st}\) day of December, 2014.

[Signature]

JODI JERICH
EXECUTIVE DIRECTOR

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\(^1\) As defined by North American Electric Reliability Corporation ("NERC"), Planning Reserve Margin equals the difference in Deliverable or Prospective Resources and Net Internal Demand, divided by Net Internal Demand. 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.
SERVICE LIST FOR: Arizona Public Service Company
DOCKET NO. E-01345A-13-0140

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