

**Arizona Public Service (APS's) Track and Record  
for Renewable Energy Credits Proposal brief sheet**

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***The Essentials***

- In its 2013 REST implementation plan submitted to the Arizona Corporation Commission, Arizona Public Service (APS) proposed eliminating all incentives for distributed generation (DG) renewable energy systems.
- Under the REST, regulated utilities such as APS are required to obtain a certain amount of Renewable Energy Credits (RECs). One REC is created for every megawatt hour generated, and is the property of the owner of the distributed generation system.
- APS currently purchases its RECs by offering cash incentives to DG owners. Without incentives, APS will be unable to obtain the required amount of RECs.
- APS proposes severing the relationship between generation of energy and ownership of RECs. Instead, APS proposes demonstrating compliance with the REST by tracking and recording all distributed energy production that is interconnected within its service territory.
- Critics argue this would violate the REST and constitute a government taking of private property.

***Policy details***

*RECs and their relationship with distributed generation incentives from utilities.*

A Renewable Energy Credit (REC) is created for every one megawatt-hour (MWh) of electricity generated by a renewable energy system.<sup>12</sup> Under the Renewable Energy Standard and Tariff (REST), RECs were established as accounting mechanisms for renewable energy generation. The [REST § R-14-2-1804\(A\)](#) provides that

A. In order to ensure reliable electric service at reasonable rates, each Affected Utility shall be required to satisfy an Annual Renewable Energy Requirement by obtaining Renewable Energy Credits from Eligible Renewable Energy Resources.

[RECs constitute a property right](#) over electricity generated from renewable energy sources, but are separate from the actual electricity generated. Under the current REC accounting system in Arizona, owners of rooftop solar installations, for instance, retain ownership of these RECs as their systems generate electricity that feeds into a utility's grid.

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<sup>1</sup> Please [click here for our brief sheet on Renewable Energy Credits](#).

<sup>2</sup> [One REC is created for every 3,415 British Thermal Units \(BTUs\) created by a heat-producing system.](#)

### *What can you do with a REC?*

Distributed generation owners can sell their RECs to their electric utility. Utilities purchase the RECs via their distributed generation incentives programs to achieve compliance with their annual REST requirements, which require that utilities own a certain percentage of RECs each year.

Also, states with renewable energy standards have trading markets where REC owners can sell their RECs for profit. REC markets allow businesses, organizations and individuals to support renewable energy generation even when owning or leasing their own distributed generation system is not feasible.

### *The “Track and Record” proposal*

In January 2013, the Arizona Corporation Commissions (ACC) [approved APS’s plan](#) to end all DG incentive programs for the commercial/non-residential sector and to significantly reduce the residential incentive program for 2013.<sup>3</sup>

APS noted that without its incentives programs it would not be able to acquire sufficient RECs to remain in compliance with the REST. To solve this dilemma, [APS suggested completely restructuring REC ownership](#) (see p. 4 of the linked document). Under the proposed “track and record” method, the utility would own the RECs created by renewable energy systems that are interconnected into their service grid. REC ownership would no longer be coupled with the MWhs generated; instead, REC ownership would be tied to whoever operates the interconnecting electrical grid.

### *Potential issues raised by “Track and Record”*

Critics of the “track and record” proposal argue implementing it would raise [two large, potential legal issues](#):

- 1) The proposal conflicts with the REST: A.A.C. R-14-2-1804(A) (see above for language) explicitly requires regulated utilities to obtain RECs from eligible resources.
- 2) Transferring RECs from DG owners to the utilities without just compensation constitutes a government taking of private property.

The Department of Defense (DOD) further noted that a Track and Record program [would interfere with its ability to comply](#) with the federal mandate requiring the DOD to obtain a certain amount of RECs each year. If RECs are given to the utility, the DOD would have to solve its own REC compliance dilemma. Giving RECs to the utility would not solve the REC compliance issue, it would merely shift the problem to the distributed generation owners (in this case, the DOD). The DOD also argued

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<sup>3</sup> Download our brief sheet on the [ACC’s decision here](#).

that giving transforming the REC program in this way would hinder future project financing.

The [Renewable Energy Markets Association](#), the [Western Resource Advocates](#) and the [Vote Solar Initiative](#) support market-based mechanisms such as auctions to maintain APS's REC compliance while also retaining DG owner's private property rights. They suggest that APS issue periodic, standard offers to purchase RECs from DG system owners and third party aggregators. The offers should start at a lower rate that increases as necessary to purchase the requisite amount of RECs.

***Learn more***

*Arizona REST standard: Title 14, Art. 18 of the Arizona Administrative Code, Renewable Energy Standard and Tariff*  
[http://www.azsos.gov/public\\_services/Title\\_14/14-02.htm](http://www.azsos.gov/public_services/Title_14/14-02.htm)

*What's a REC?*

<http://www.epa.gov/greenpower/gpmarket/rec.htm>

*To find the ACC e-docket for APS 2013 REST Implementation Plan*

Go to <http://edocket.azcc.gov/Default.aspx>

Search for: E-01345A-12-0290

***Latest update***

The ACC will hold a hearing on the Track and Record proposal; date to be determined (as of this publication).