
The Essentials

- In order to comply with the Renewable Energy Standard and Tariff ("REST") rules formally passed by the Arizona Corporation Commission ("ACC") in 2007, affected utilities must provide
  - an annual report to the ACC that describes their intended implementation proposal to meet the REST requirements and
  - a follow-up compliance report explaining the utility's progress towards meeting its annual REST implementation requirements and targets for the previous year with the REST and intended future REST implementation plans.
- Each year, the ACC reviews the implementation plan of the affected utility for the following year
- The ACC then makes an official determination regarding the utility’s REST implementation plan which includes any amendments or changes that arise during the review process.
- The ACC also reviews the utility’s annual REST Compliance Report. After review, it is released to the public.

Policy details:
Pursuant to the Renewable Energy Standard and Tariff ("REST") rules, each utility regulated by the ACC (defined as an “affected utility” by the REST Rules) must file an annual proposal describing the utility's REST implementation plans for the next calendar year. The annual proposal must be filed by July 1st of the calendar year prior to implementation year. So the 2013 annual proposal must be filed by July 1, 2012. The affected utilities discussed in this brief sheet are: Arizona Public Service Co. ("APS"), Tucson Electric Power Co. ("TEP"), and UniSource Energy Services ("UNSE").

APS is the largest affected utility regulated by the ACC. APS is a subsidiary of Pinnacle West Corporation and serves more than a million customers in Maricopa County and beyond. TEP is a subsidy of UniSource Energy Corporation and serves more than 400,000 customers in the Tucson metropolitan area. TEP is the second largest affected utility regulated by the ACC. UNSE is also subsidiary of the

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1 REST is one of the acronyms used to describe the Renewable Energy Standard, sometimes the same rule will be called a Renewable Energy Standard "RES or RE standard," a Renewable Energy Portfolio Standard "RPS", or a Renewable Energy Portfolio Standard “REPS.” Generally all the abbreviations and terms mean the same thing.

2 A.C.C. R12-3-1813
UniSource Energy Corporation. UNSE provides electric service to more than 237,000 customers in Mohave and Santa Cruz counties; it is the third largest affected utility regulated by the ACC. Salt River Project ("SRP") serves more than 935,000 electric customers in the Phoenix metropolitan area, but does not meet the definition of an "affected utility" and is not regulated by the ACC. Thus, SRP is not mandated to submit annual implementation plans and will not be discussed in this brief sheet; however, SRP has voluntarily implemented a 2025 goal of 15 percent of retail sales derived from renewable energy.

The renewable energy requirements of the REST require affected utilities to provide a certain percentage of their total sold electricity from renewable energy. As of 2012, 30 percent of the new renewable energy must come from distributed renewable energy sources ("DE"), which is built on customers’ properties.\(^3\) Half of DE sources must be residential installations, and the other half of DE sources must be non-residential installations. The customer may have outright ownership of the DE source, or the customer may have a lease or a Purchase Power Agreement ("PPA") with a third party owner of the power source.\(^4\) The utility may not own the DE system.\(^5\) The remaining renewable energy comes from larger, centralized, installations owned by the affected utility.

The increase is performed in an upward ladder-like function, as shown by Figure 1.

**Figure 1: Requirements for ACC Regulated Electrical Utility**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Renewable Energy Requirement</th>
<th>Distributed Energy Requirement*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.5 %</td>
<td>20.0 %</td>
</tr>
<tr>
<td>2011</td>
<td>3.0 %</td>
<td>25.0 %</td>
</tr>
<tr>
<td>2012</td>
<td>3.5 %</td>
<td>30.0 %</td>
</tr>
<tr>
<td>2013</td>
<td>4.0 %</td>
<td>30.0 %</td>
</tr>
<tr>
<td>2014</td>
<td>4.5 %</td>
<td>30.0 %</td>
</tr>
<tr>
<td>2015</td>
<td>5.0 %</td>
<td>30.0 %</td>
</tr>
<tr>
<td>2020</td>
<td>10.0 %</td>
<td>30.0 %</td>
</tr>
<tr>
<td>2025</td>
<td>15.0 %</td>
<td>30.0 %</td>
</tr>
</tbody>
</table>

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\(^3\) Sometimes a “DE” is called a “DR” (for Distributed Renewable), or a “DG” (Distributed Generation). the terms may be used interchangeably.

\(^4\) Solar Lease: a third party lease where the property owner will lease the system from the third party pursuant to an agreement and the property owner pays a set rate for the energy from the system, over an agreed period of time.

PPA: a financing mechanism that allows a third party to finance the installation and maintenance of a photovoltaic (“PV”) generating system on a PV user’s property.

The REST renewable energy requirements have successfully increased use of renewable energy technology by the 3 major affected utilities in Arizona, as shown in Figure 2. Part of this success can be attributed to the annual oversight of implementation and compliance plans by the affected utilities and the Arizona Corporation Commission ("ACC"). Oversight of the implementation plans ensures that renewable energy goals continue to be met, and the utilities continue to charge reasonable tariffs for renewable energy implementation.

Figure 2: The effects of the REST requirements- Arizona Renewable Energy Capacities (in MW) in 2010:

<table>
<thead>
<tr>
<th>Renewable Energy Technology</th>
<th>APS</th>
<th>TEP &amp; UNSE</th>
<th>SRP*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solar</td>
<td>65</td>
<td>41</td>
<td>22</td>
</tr>
<tr>
<td>Wind</td>
<td>190</td>
<td>-</td>
<td>128</td>
</tr>
<tr>
<td>BioMass</td>
<td>23</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>BioGas</td>
<td>3</td>
<td>5</td>
<td>22</td>
</tr>
<tr>
<td>Hydro</td>
<td>-</td>
<td>-</td>
<td>383</td>
</tr>
<tr>
<td>Low Impact Hydro</td>
<td>-</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>GeoThermal</td>
<td>10</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>288</strong></td>
<td><strong>46</strong></td>
<td><strong>590</strong></td>
</tr>
</tbody>
</table>

*SRP is not an affected utility and is not regulated by the REST. SRP has voluntarily implemented a 2025 Sustainable Resources Goal of 15% of all power derived from renewable sources.
**Submitting the Proposal:**
The affected utility’s plan (the “proposal”) is submitted to the ACC annually. Generally, the utilities will offer one to three proposals to the ACC. The proposals will include various changes to the affected utilities’ REST, like those in Figure 3 on the next page.

*The costs in Figure 3 are a generalization of the costs and requests that are included in the utility’s annual proposals. Affected utilities may, and often do, include other requests in their proposals.*

The proposal determines REST surcharge (i.e. the “T” in the REST rules, the “Tariff”). The surcharge is what utility customers pay on their monthly bill; it is a percentage of kilowatt hour (“kWh”) usage. The REST surcharge revenues permit the utility to meet their annual budget requirements.

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7 For the 2012 implementation period UNSE offered one proposal; APS offered three proposals; and TEP offered two.
School Implementation Plans: School programs equip selected high schools and middle schools with Renewable Energy systems
Customer Class Caps: the most the utility can charge a particular customer group in REST tariffs surcharges
UFI: an incentive that provides financial benefits to the renewable energy project upon installation
PBI: only available to non-residential customers, it pays the customer an incentive for the renewable project over time based on performance, and not up front like a UFI
New Incentive Trigger Mechanisms: when a DE incentive is met, the benefits received by a customer is “triggered” to lower the incentives
How the Implementation Plan process works (see figure below):

- The utility estimates the various customer surcharges to the ACC in the annual implementation plan proposal (by July 1st of the year prior to the proposal’s year).

- Interested parties will often formally intervene in the process so that they may file comments relating to the proposals and be involved in the review. Interested parties may range from consumer advocate groups, to energy advocate groups, to corporations, to individuals.

- After submission, the ACC Staff reviews the annual proposals and offers recommendations that are called the “Staff Options.”
  - The 2012 decisions for APS’s, TEP’s, and UNES’s, implementation plans all required the implementation of the Staff Options

- After the ACC Staff review, the ACC Commissioners review the affected utility’s annual proposals and the ACC Staff Options and recommendations; and then enters a decision and order for implementing the proposed plan

- Based on the ACC decision, customers receive a REST surcharge on their monthly bill

The ACC encourages public participation and government transparency in the REST implementation plan approval process by posting the intended plans on the ACC website.

The affected utilities must submit notices of partial compliance to the ACC as major portions of their annual plans are implemented. The utility must submit an Annual Compliance Report to the ACC showing how the annual plan was implemented.

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8 A.C.C. R14-2-1813
The 2012 REST Implementation Plans
On July 1, 2011 Arizona Public Service Company9 ("APS"), Tucson Electric Power10 ("TEP"), and UNS Electric, Inc.11 ("UNSE") filed their 2012 REST implementation plans.

APS:
APS filed its 2012 Implementation Plan ("APS Plan") on July 1, 2011. The APS Plan contained three proposed 2012 REST Budgets. The APS Plan’s contained proposed budgets items that would enable APS to achieve its REST goals, similar to those in Figure 3.

After ACC’s staff review, several Open Meetings and Procedural Conferences regarding the APS Plan’s REST implementation, the plan was approved on January 18, 2012 with ACC Decision No. 72737, which granted:

- APS a total 2012 REST budget of $110 million to allocate to REST programs.12
- A REST surcharge of $0.009588 per kWh for 2012,

TEP:
REP filed its 2012 Implementation Plan ("TEP Plan") on July 1, 2011. The TEP Plan contained two proposed 2012 REST Proposals with requests similar to those represented in Figure 3.

After ACC Staff review; ACC Staff presented three alternative options for TEP’s Plan. The TEP Plan was approved on January 13, 2012 with ACC Decision No. 72736. The ACC Commission adopted the third Staff option for TEP, called “Modified Staff Option 2.”13

- The adopted TEP plan budget granted TEP a total 2012 REST budget of $29,976,306.
- The decision mandated a REST charge of $0.007182 per kWh for 2012

Included in TEP’s annual plan was a proposal for encouraging non-residential DE installations between 2013 and 2015. TEP was concerned that the new, smaller increments of DE requirements would slow non-residential renewable energy installations and cause a “dip” in demand.

12 APS Plan, pg. 36
13 TEP Plan, pg. 39
The overall REST requirements for 2010 to 2018 are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Overall REST Requirement</th>
<th>DE Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.5%</td>
<td>20%</td>
</tr>
<tr>
<td>2011</td>
<td>3.0%</td>
<td>25%</td>
</tr>
<tr>
<td>2012</td>
<td>3.5%</td>
<td>30%</td>
</tr>
<tr>
<td><strong>2013</strong></td>
<td><strong>4.0%</strong></td>
<td><strong>30%</strong></td>
</tr>
<tr>
<td><strong>2014</strong></td>
<td><strong>4.5%</strong></td>
<td><strong>30%</strong></td>
</tr>
<tr>
<td><strong>2015</strong></td>
<td><strong>5.0%</strong></td>
<td><strong>30%</strong></td>
</tr>
<tr>
<td>2016</td>
<td>6.0%</td>
<td>30%</td>
</tr>
<tr>
<td>2017</td>
<td>7.0%</td>
<td>30%</td>
</tr>
<tr>
<td>2018</td>
<td>8.0%</td>
<td>30%</td>
</tr>
</tbody>
</table>

In the red highlighted area, one can see how the DE Requirement could slow during 2013 and 2015. In ACC Decision No. 72736, ACC Staff reported “The solar industry’s big concern is that the DE component’s percentage of overall requirements stops growing before the overall REST component starts growing at the 1.0 percent rate, resulting in a smaller increment of DE requirements from 2013 to 2015”.

Due to concern over the potential dip in non-residential/commercial installation of renewable energy projects, the ACC authorized a mechanism that capped the installations at 8000 kWh and reduced up-front installation incentives for 2012. But, the ACC wanted to continue to encourage non-residential DE installations. The ACC then authorized a Performance Based Incentives (“PBI”) fund. The PBI fund authorizes TEP to collect more money from ratepayers when the PBI commitment is made (i.e. project installation or commencement). Then, TEP will place the additional revenue collected in the PBI fund, and allocate that money to PBI incentives for non-residential DE products between 2013 and 2015. This way, there will still be incentives for renewable energy installations beyond compliance to prepare for the “dip” years.

But, Freeport-McMoRan Copper & Gold Inc. (“F-MCG”) and Arizonans for Electric Choice and Competition (“AECC”) requested a rehearing of the January decision. The AECC and F-MCG alleged that the PBI Legacy fund was in violation of Arizona law and ACC prior decisions and policy. The ACC granted the rehearing request on February 16, 2012, an open meeting was held on that day. In that open meeting the ACC Commissioners ordered TEP to file a brief in response to F-MCG and AECC request for rehearing. TEP was given 30 days to file their responsive brief. F-MCG and AECC were then ordered to file a responsive brief after TEP’s brief. TEP filed its response on March 19, claiming that the PBI Legacy fund was not in violation of Arizona Law and requested that the ACC deny the request for rehearing of the 2012 TEP Plan. Thus, the TEP plan is still making its way through the approval process due to these rehearing requests.

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14 TEP Plan, pg. 21
UNSE:
UNSE filed its 2012 Implementation Plan ("UNSE Plan") on July 1, 2011. After ACC Staff and Commissioner review, the UNSE REST implementation Plan was approved on January 18, 2012 with ACC Decision No. 72738, which granted:

- A total 2012 REST budget of $7,673,222 to allocate to REST programs.\(^\text{15}\)
- A REST charge of $0.008887 per kWh\(^\text{16}\)

**Read more:**

*APS's REST 2012 Implementation Plan, E-Docket #:
E-01345A-11-0264*

*APS's Renewable Energy Projects Interactive Map:*
http://www.aps.com/main.green.choice.interactive-map.html#

*APS's REST 2011 Implementation Plan:*

*TEP's REST 2012 Implementation Plan, E-Docket #:
E-01933A-11-0269*

*UNSE's REST 2012 Implementation Plan, E-Docket #:
E-04204A-11-0267*

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\(^{15}\) UNSE Plan, pg. 24 *et seq.*
\(^{16}\) UNSE Plan, pg. 25
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